



Romania's economic and social development - an essential objective of integration into the European Union

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I. Conceptual issues on economic and social development

Conventional wisdom defines the development of a state by the ability of its economy to generate a high level of income per capita

- **From the perspective of a developing country, achieving a high level of income per head of population requires a sustainable process of economic convergence, namely a higher economic growth than that of those already in the developed stage**
- **Supporting such a long-term alert advance in the context of current globalization implies a corresponding increase in potential GDP in order to catch-up with developed economies, without affecting the macrostability;**
 - **this requires continuous accumulation of financial and human capital, the improvement of multi-factor productivity and, implicitly, the enhancement of competitiveness based on ensuring fair competition, stimulating innovation, functioning of solid institutions, infrastructure development, increasing the qualification of the labor force, improving the health and education systems, etc.**
- **Social sustainability is presumed to be implicit, assuming the trickle-down process, which would result in the widespread distribution of welfare, without the intervention of the authorities**

Unconventional approaches dispute the accuracy of the income per capita method in capturing all dimensions of development

- The development of a state is expressed by the ascendant movement of the welfare of the whole social system, namely the improvement of the living conditions and the socio-economic structure of the country, corroborated with institutional and technological progress, reflected in positive evolutions of the incomes and wealth of the population.
- Although it is considered a necessary condition for the development of a state, GDP growth does not really show how well people live and how good the quality of the environment is (Eurostat – *GDP and beyond*).

Unconventional approaches dispute the accuracy of the income per capita method in capturing all dimensions of development (2)

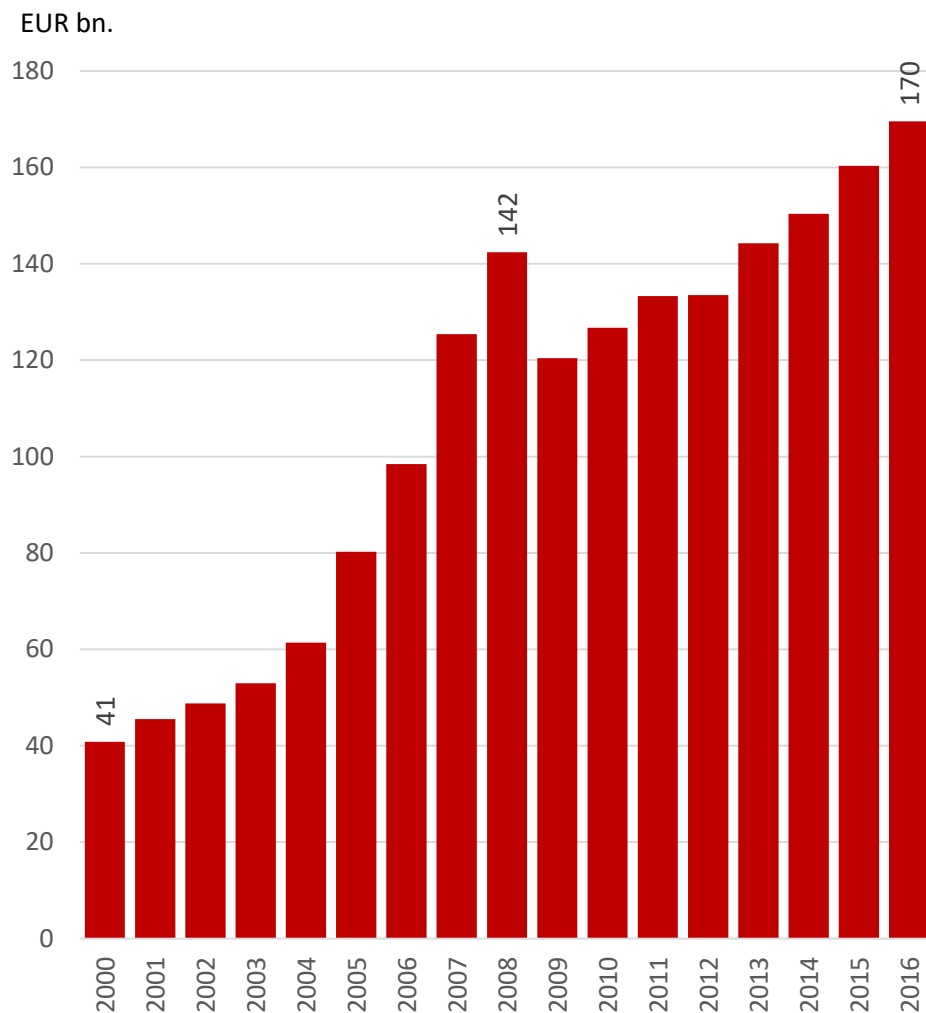
- **There is a discrepancy between the usual economic indicators, such as GDP per capita, on the one hand, and welfare and social progress, on the other, and this seems to increase (Stiglitz et al., 2009)**
 - **focusing on GDP growth has shifted away the attention from debt problems before the 2008 financial crisis**
- **Housing, jobs, health, education, the environment, life satisfaction, safety and the balance between work and personal life are considered, in unconventional approaches, as important milestones in measuring the state of development of a country**

The necessity of quantifying as precise as possible the economic and social development

- **It is useful to value the gross domestic product per capita at purchasing power parity for development assessment purposes, but this macroeconomic indicator needs to be examined through:**
 - 1) the balance of income flows in relation to foreigners; this would result in a more accurately assessment of the new value created by a state on the basis of gross national income**
 - 2) the features of the income repartition process between the following phases:**
 - a) Primary distribution between labor and capital**
 - b) Redistribution through the general public budget**
- **This type of analysis is needed to assess how gross domestic product created at the level of society leads to increased purchasing power of citizens and to improving public services, especially health and education, as well as infrastructure**

II. Evolution of development parameters in Romania

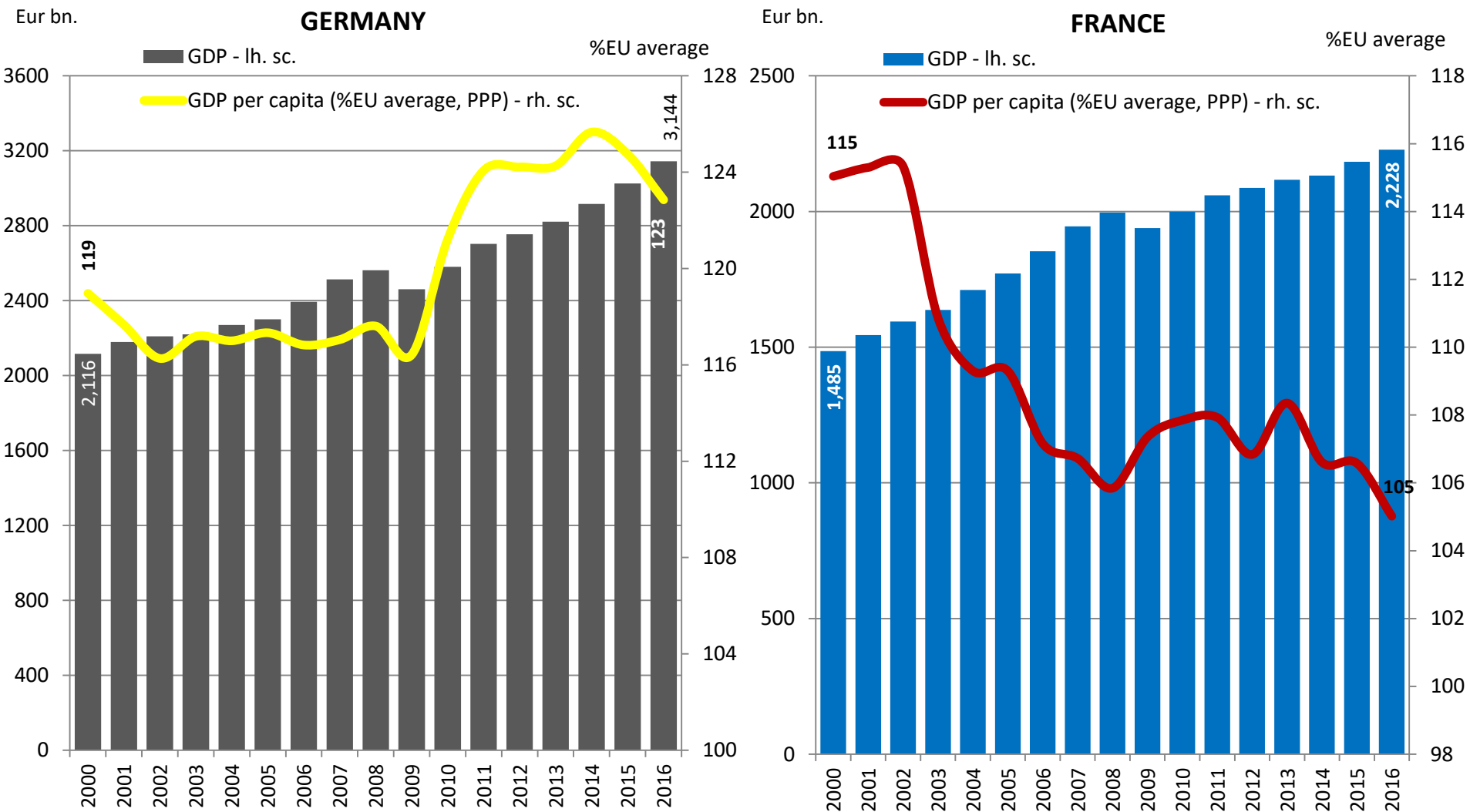
Rapid economic growth of Romania in the last 16 years...



Source: AMECO

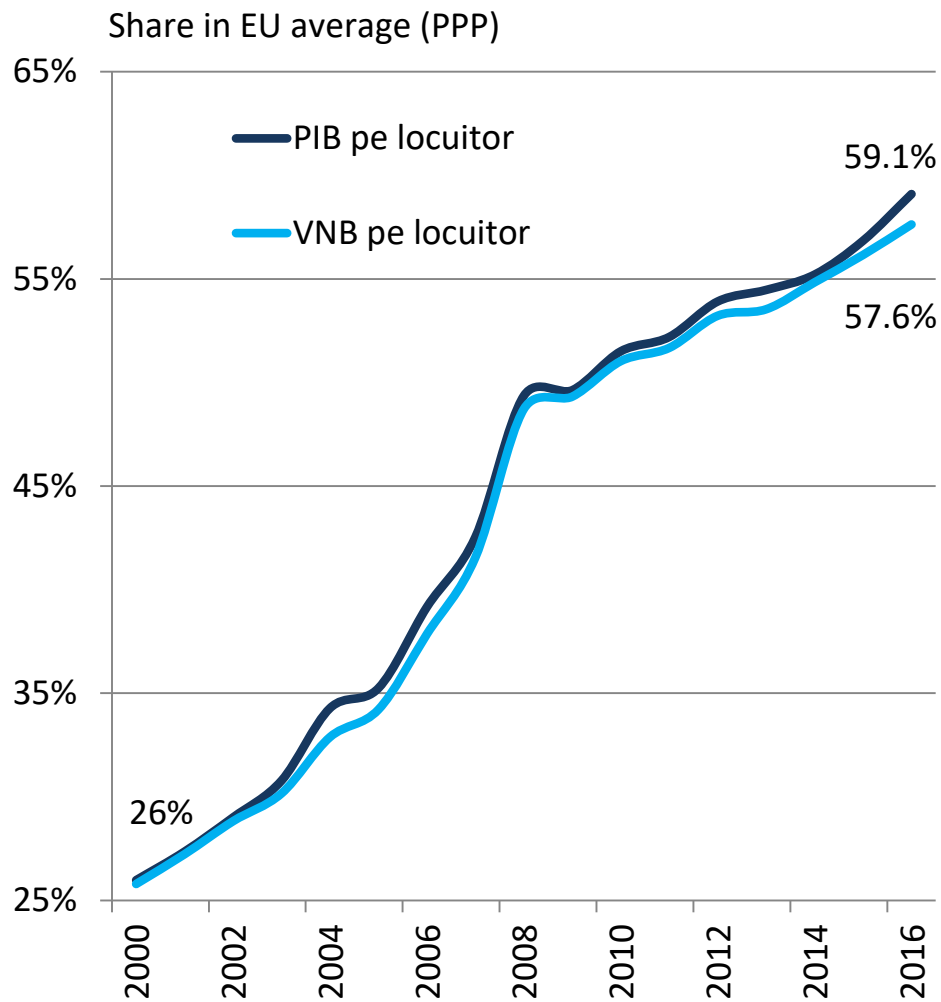
- **GDP has risen 4.15 times, from € 41 billion in 2000 to € 170 billion in 2016;**
- **However, the annual real GDP growth was highly volatile, as very strong growth rates before 2008 (at around 8%), were followed by a deep economic downturn in 2009 (-7%)**

... more dynamic than in the main European economies



Source: AMECO, author's calculations

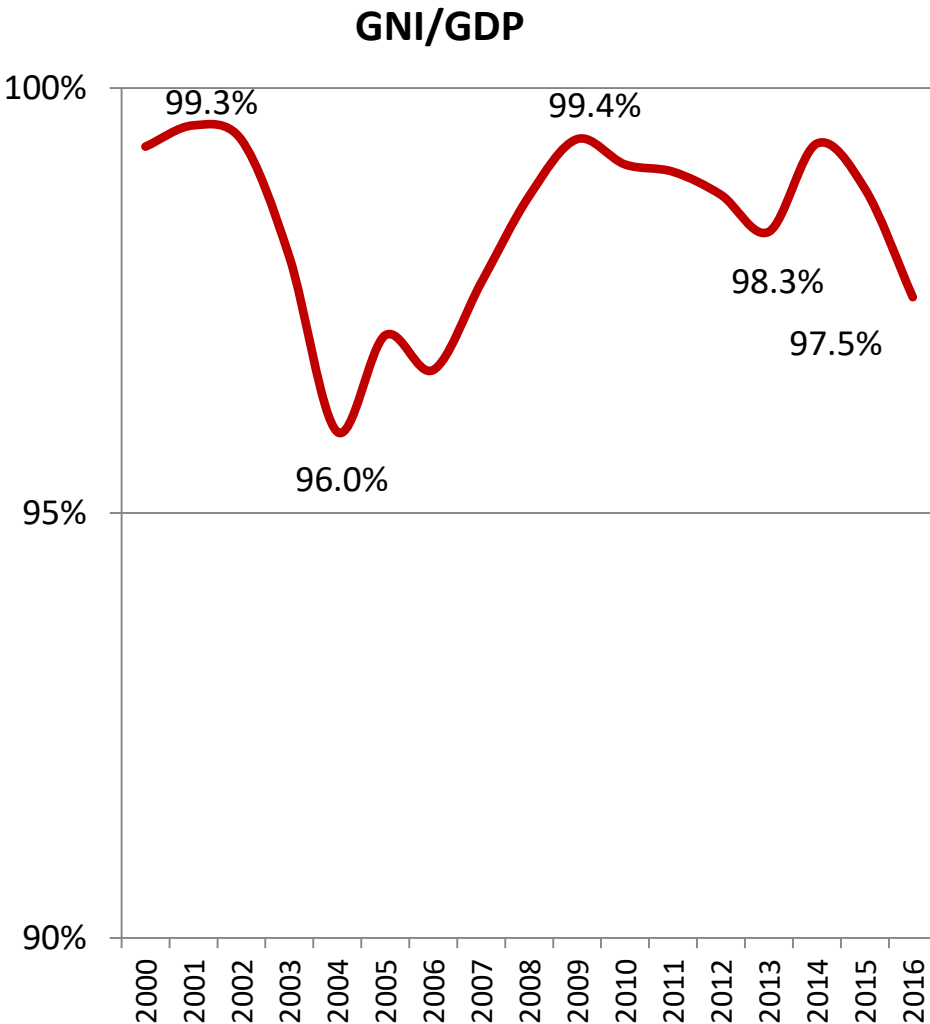
The economic gap with the countries of the European Union has diminished ...



- Over the last 16 years, convergence in terms of GDP per capita (PPS) has cumulated 33 pp (from 26% of the EU average in 2000 to 59% of the EU average in 2016)
- Romania's estimated economic catching-up pace (+2 pp/year in terms of share in the EU average) would allow us to achieve a level of 70% in approximately 5 years

Source: AMECO, author's calculations

... but the ratio between gross national income and GDP has deteriorated

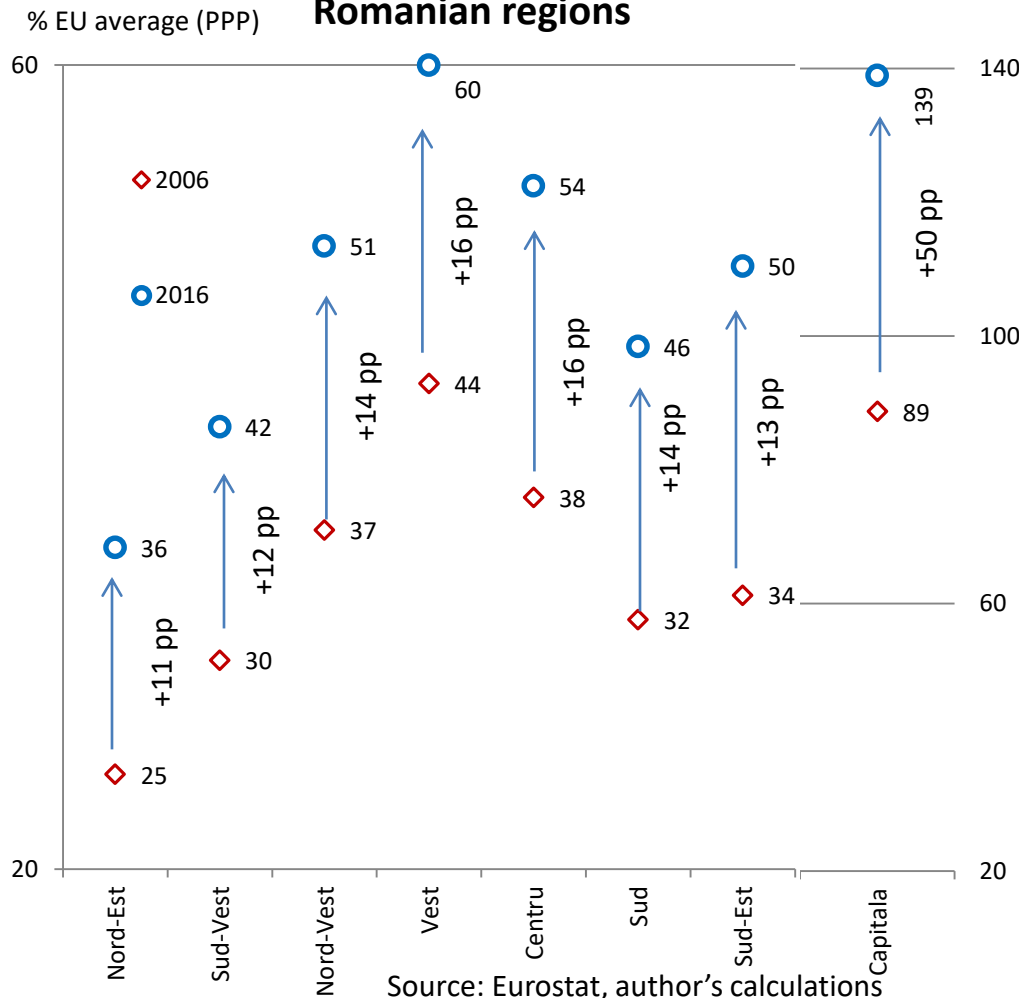


- The ratio of the gross national income, which represents the value added generated by Romanians both in the country and abroad, and GDP, which expresses the gross added value obtained in the country by both Romanians and foreigners, decreased by 1.9 pp, from 99.4% in the year 2000 to 97.5% in 2016 –the negative difference in absolute terms between GNI and GDP increased by EUR 4.8 billion

Source: Ameco, author's calculations

Moreover, economic convergence has not been homogenous across the country's regions

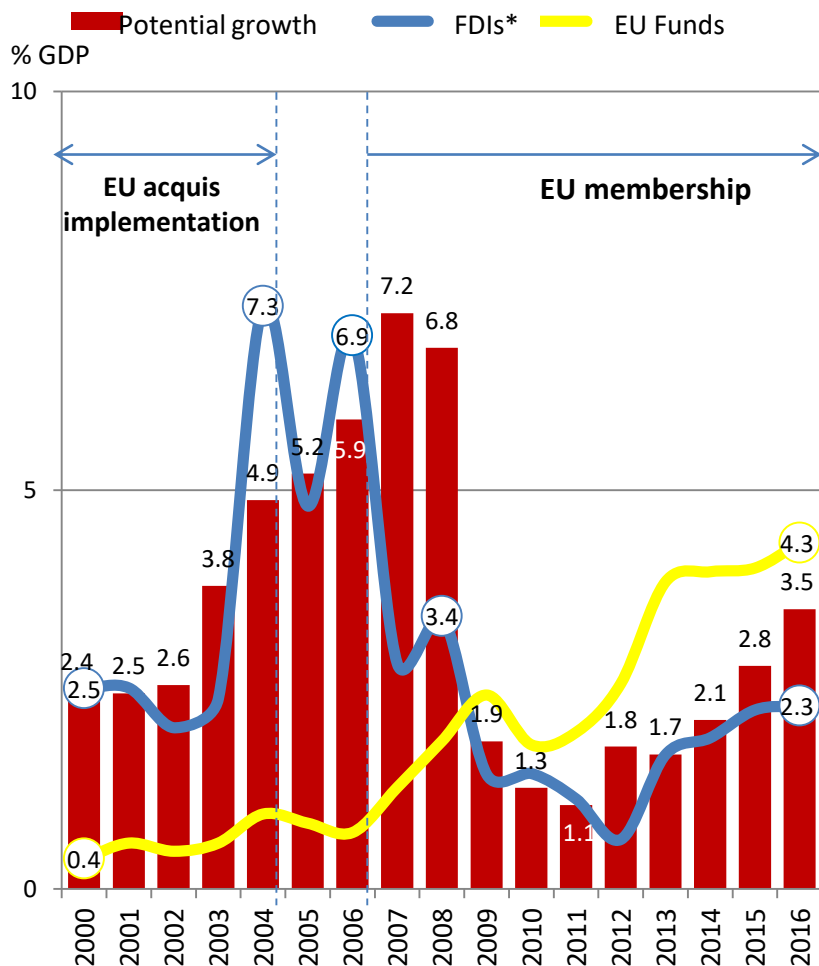
GDP per head of population across Romanian regions



- We didn't manage to ensure the same pace of convergence across all the Romania's regions
- While the Capital region increased its GDP per capita by 50 pp, the North-East and South-West regions grew only by 11 pp

III. The effects of joining the European Union and the quality of economic policies

Once legislative and institutional harmonization with EU standards progressed, foreign capital flows entered, boosting economic potential



- Potential growth increased from 2.6% in 2002 to 4.9% in 2004 as Romania's accession to both NATO and European Union became clear to foreign investors
 - Statistical data shows strong correlation of Romania's potential growth with foreign direct investments
- However, in the years 2015 and 2016, the potential growth significantly outstripped the FDI inflows in the context of offsetting a lower FDI flow through substantial EU fund absorption, which amounted to more than 4% of annual GDP

Source: Ameco, NBR, MPF
 * Equity (intra-group loans excluded)

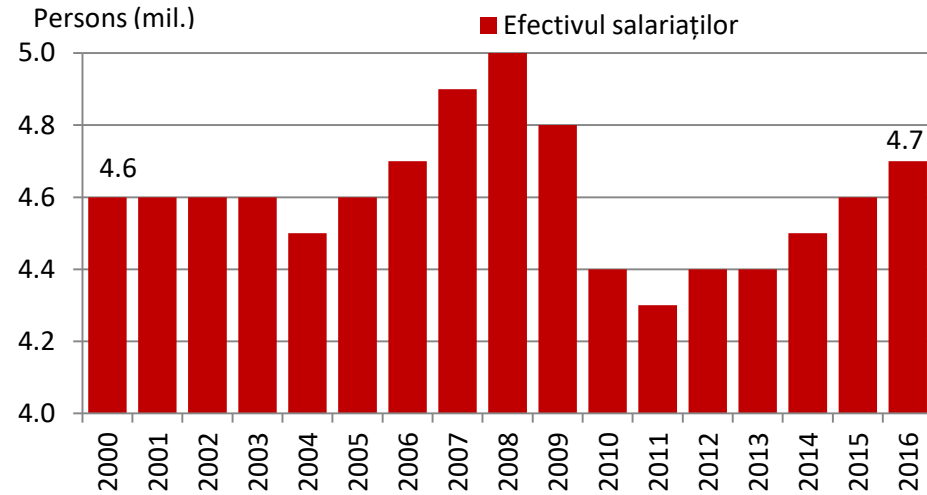
However, FDIs did not land evenly across the regions

	FDIs (bn. EUR)	% FDIs
Total (2016)	70.1	100
Capital	42.0	59.9
Centre	6.4	9.1
West	5.6	8.0
South	4.9	6.9
North-West	4.1	5.9
South-East	3.5	4.9
South-West	2.1	3.0
North-East	1.6	2.3

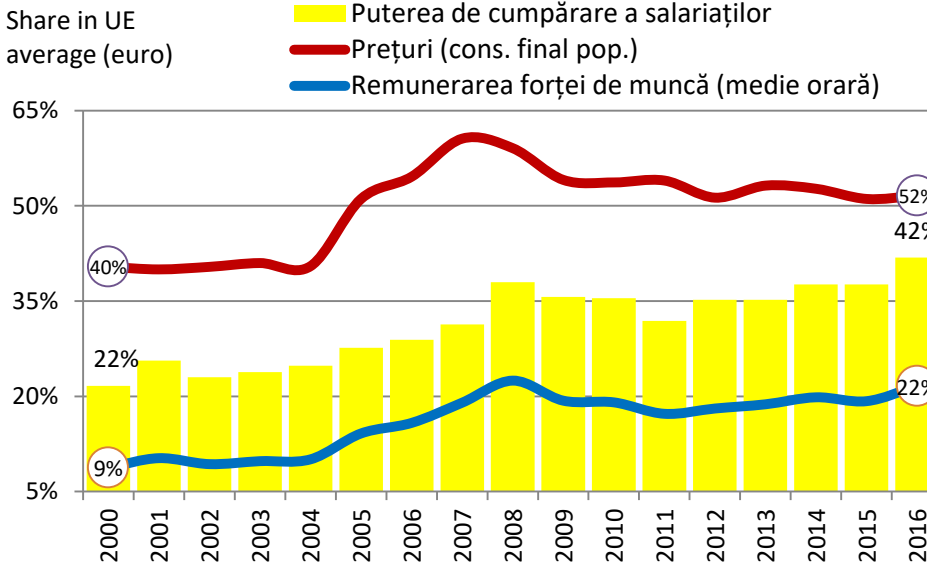
Source: National Bank of Romania

- **FDIs distribution across Romania's regions has been highly concentrated, as the Bucharest region received 60 percent of the total amount;**
 - **The least developed regions, namely North-East and South-West, received jointly less than a tenth of that amount**
- 
- **Western and central regions have registered significantly higher amounts of FDIs than eastern ones**

The robust progress recorded on the volume of economic activity has been characterized by a relatively modest degree of inclusion



- Real convergence was only marginally reflected in the increase in the number of employees and partly in their purchasing power gains
 - The number of employees increased between 2000 and 2016 with only 2.2% (+100 thousand persons), from 4.6 million to 4.7 million people
 - The purchasing power of employees increased by 20 percentage points (from 22% in 2000 to 42% in 2016), compared to over 30 pp in terms of volume of activity, as:
 - labor compensation increased from 9% of the EU average in 2000 to 22% of the EU average in 2016 (+13 pp), and
 - the price level evolved from 40% of the EU average in 2000 to 52% of the EU average in 2016 (+12 pp)



Source: Eurostat, Ameco, author's calculations

At the distribution stage, work is less well paid than capital in Romania, compared to both the main developed economies and the former socialist states

Evolution of labor compensation - international benchmarks

Share of labor compensation in	Romania		Germany		France		USA		Bulgaria		Poland	
	2000	2016	2000	2016	2000	2016	2000	2016	2000	2016	2000	2016
Gross domestic product	39%	34%	53%	51%	51%	52%	57%	54%	36%	42%	41%	38%
Net national income	50%	43%	64%	60%	58%	62%	66%	62%	42%	49%	48%	45%
Net value added	56%	48%	72%	70%	68%	73%	71%	68%	48%	58%	55%	49%
Net value added adjusted with mixed income	86%*	57%	78%	76%	77%	83%	76%	72%	59%	70%	71%	57%

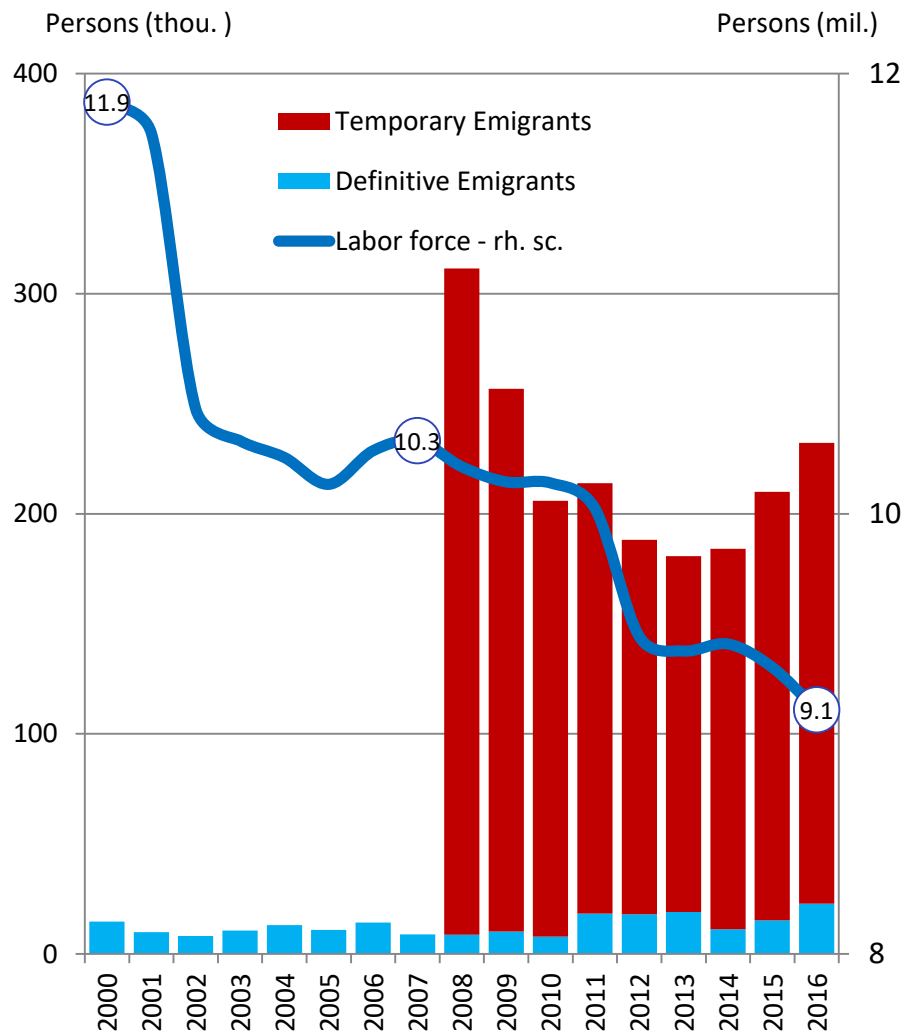
Source: Ameco, author's calculations (*2002)

- **In Romania, the share of labor has diminished significantly both as a share of GDP and in net national income and net value added compared to 2000**
 - This parameter is substantially lower than in the developed countries (Germany, France, the United Kingdom and the US) and has lower values compared with former socialist states such as Poland and Bulgaria

At the same time, labor has been staggered...

- Which is reflected by:
 - 1) instability - uncertainty about the continuity of work;
 - 2) lack of individual or collective control over working conditions, remuneration, working hours, etc.;
 - 3) insufficient protection against workplace abuses (discriminatory practices, abusive dismissal, etc.) as well as an insufficient level of social protection (access to pensions, health services, unemployment benefits, etc.);
 - 4) insecurity regarding the remuneration of work - insufficient, irregular income, etc. (Guga, 2016)

...and emigration has increased substantially

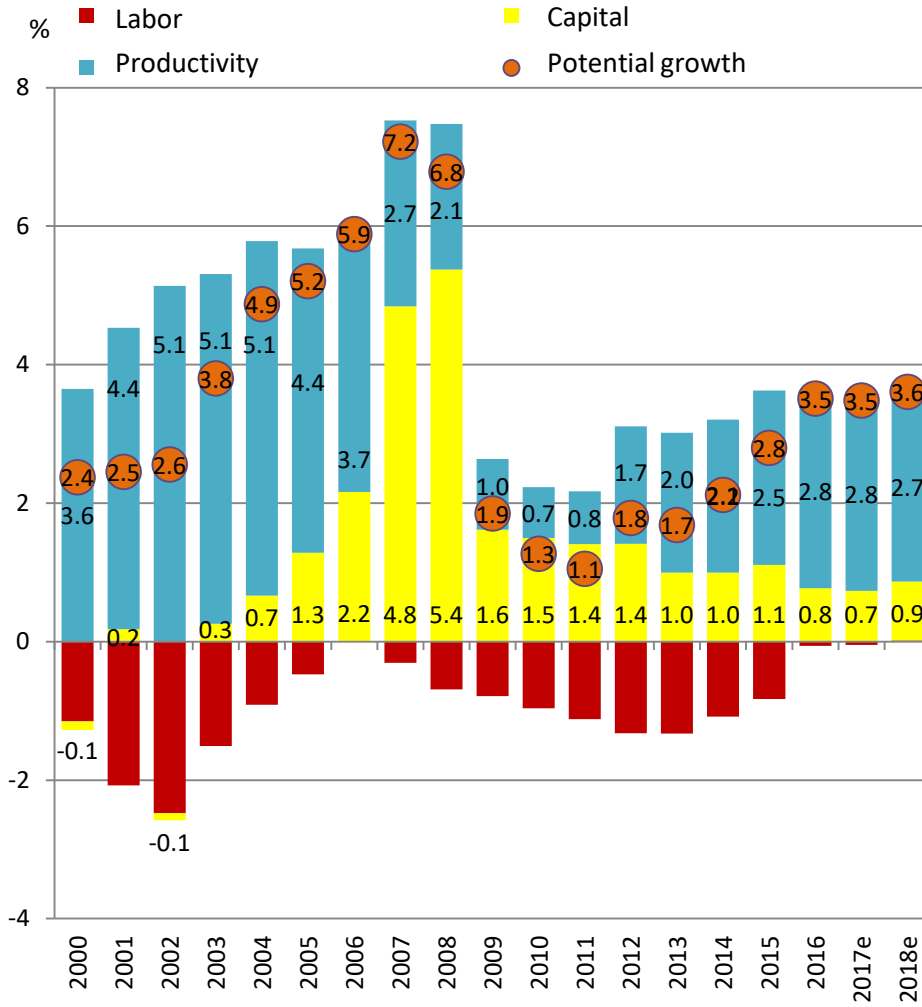


Note: data on temporary emigrants is not available prior 2008

Source: National Institute of Statistics

- **Labor force decreased by 24% (-2.8 mil. persons) between 2000 and 2016, from 11.9 mil. pers. to 9.1 mil. pers.**
- **Estimates on emigration show that more than 3 mil. Romanians have left the country, most of them for southern EU member states**

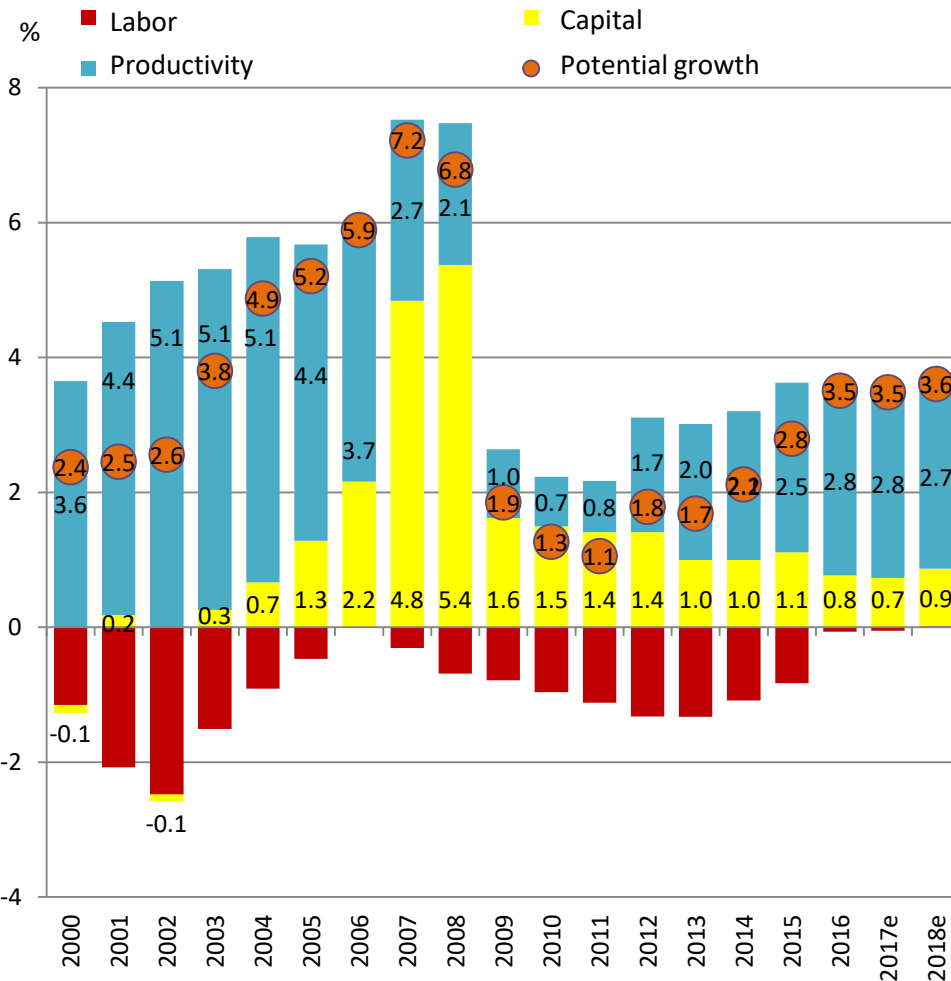
Emigration towards some EU member states and other unfavorable demographic developments have significantly affected potential growth



Source: European Commission

- The contribution of labor to potential growth has been, generally, negative, its average value being around -1 pp; hence, potential growth was lower by 1 pp due to emigration
- Therefore, the contribution of capital to potential economic growth is overwhelming in the case of Romania;
 - The direct contribution of the capital to potential growth had increased over the period 2000-2008, with an average contribution of 73% of potential growth in 2007 and 2008; after the crisis, the direct capital contribution decreased, reaching 22% in 2016.

The engine of real convergence and economic development of the country is represented by capital

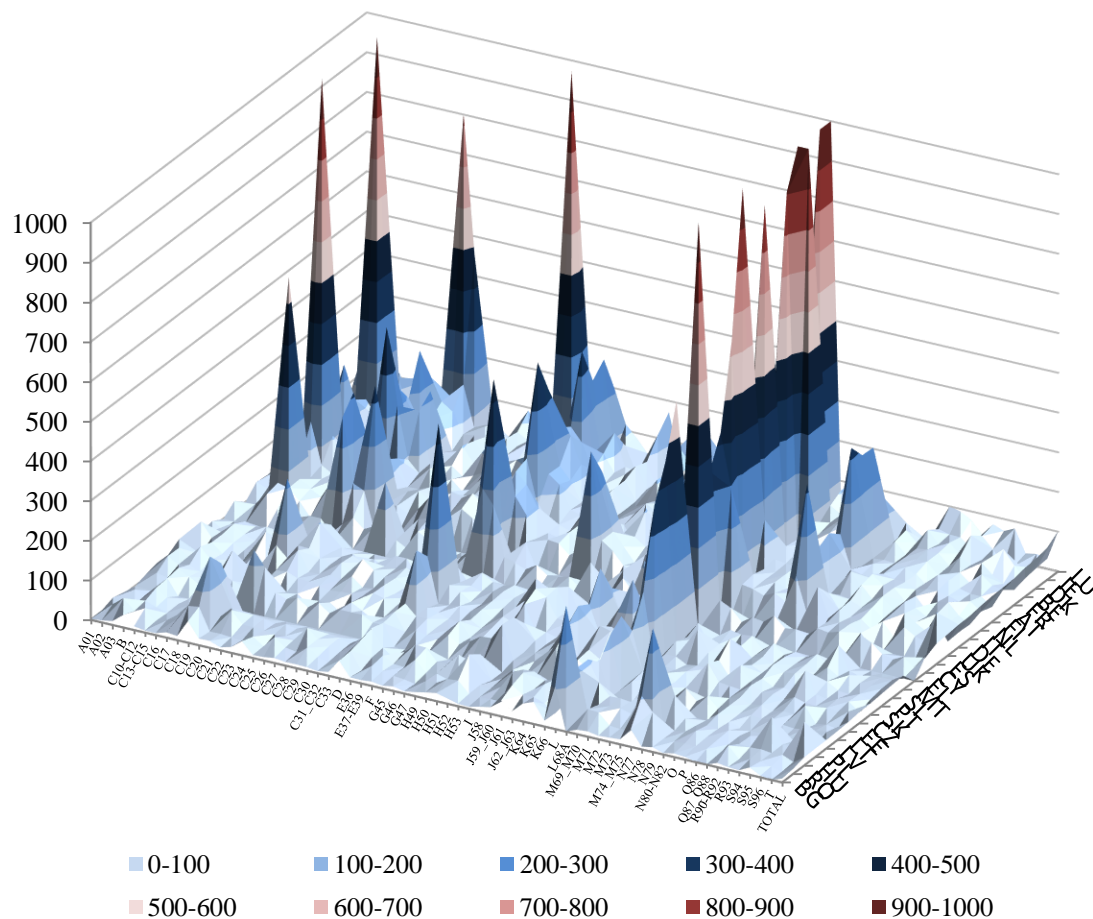


Source: European Commission

- The indirect contribution of capital (through the total productivity factor) has become the main driver of potential economic growth (with a weight of 80% in 2016)
- Improving the structure of gross fixed capital formation through a more focused orientation of investments in the "equipment" category compared to the "construction" group and, at the same time, in sectors with a medium-high technological level compared to the previously low-tech level, will generate also favorable conditions for increasing the return on capital invested by entrepreneurs and productivity, which allows for higher production with relatively the same number of employees.

The branch structure of Romanian economy reveals a low level of gross value added per employee

GVA per employee on main economic branches in 2016



Source: Eurostat, AMECO

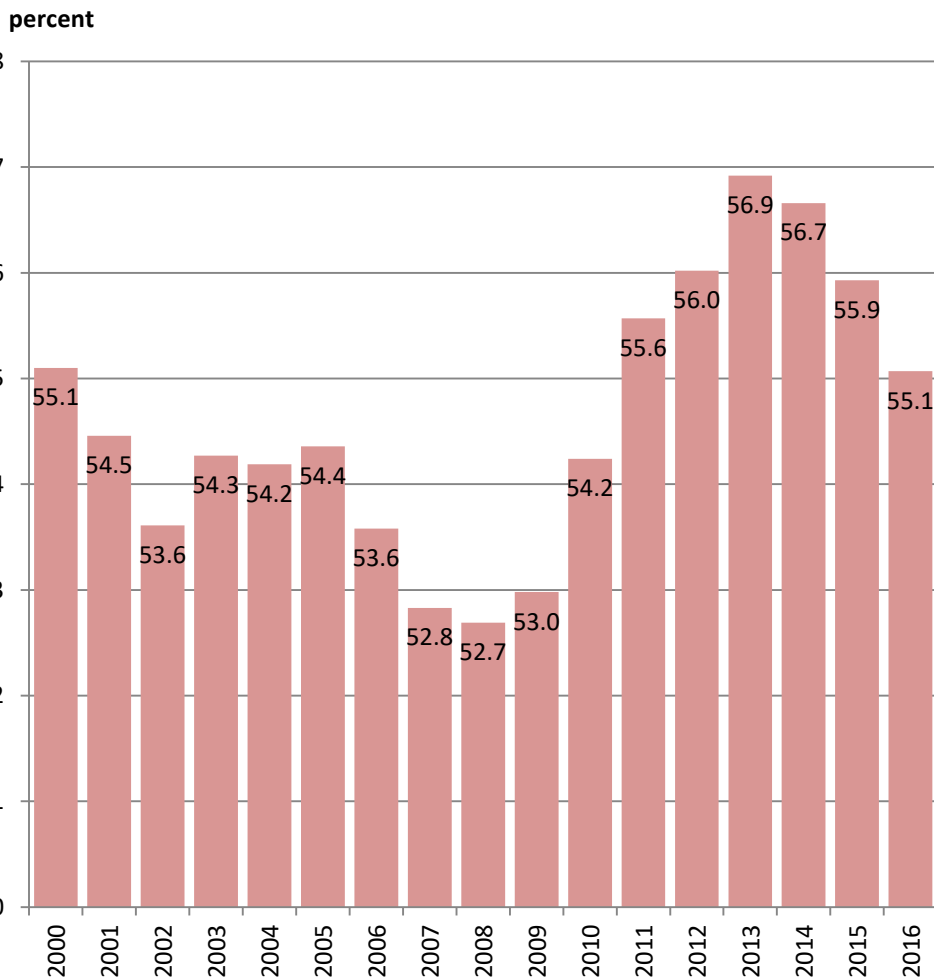
- **EU Top (2016)**

- Ireland (EUR 124.800)
- Luxembourg (EUR 114.700)
- Sweden (EUR 84.100)
- Denmark (EUR 83.500)

- **Romania (EUR 18.000) – second-last position in EU** → relatively low productivity compared with the rest of the member states

- Weak technically-equipped agriculture
- Industry with a low level of processing
- Reduced contribution in terms of GVA per employee in services sector relative to manufacturing

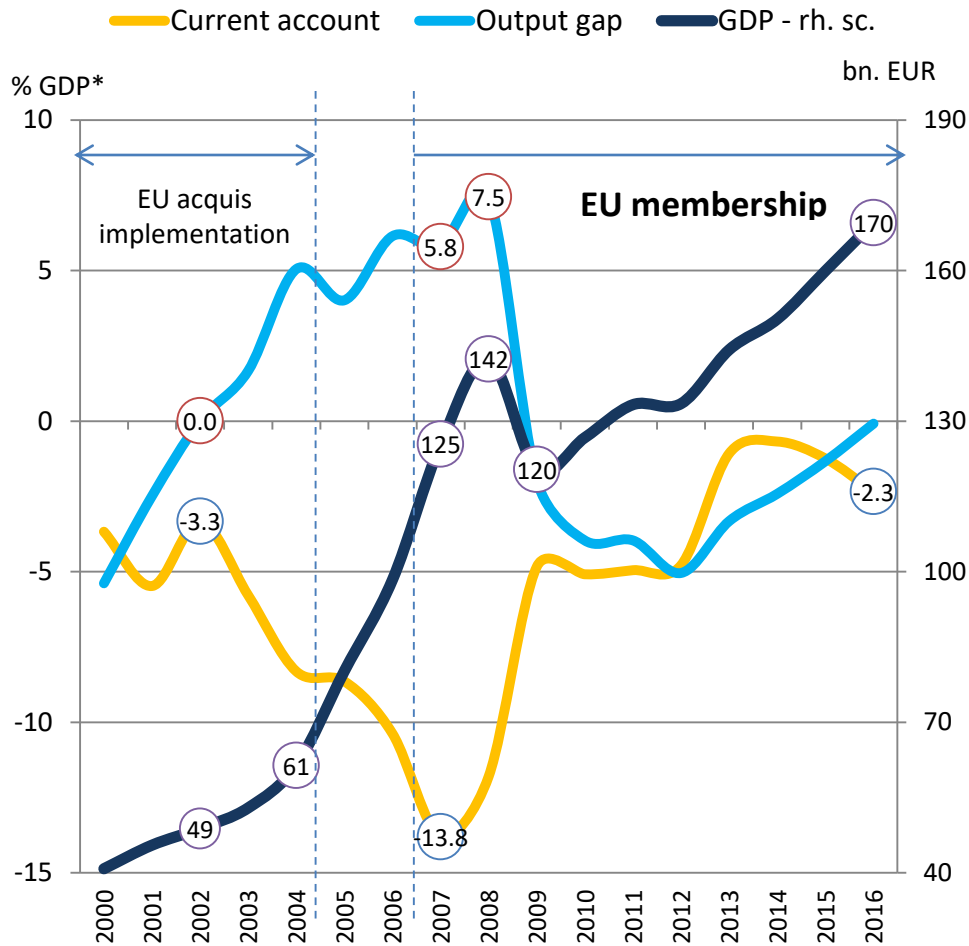
Intermediate consumption grew faster than the output, which resulted in lower gross value added and GDP growth



Source: NIS

- In 2016, share of intermediate consumption in the value of production (55.1%) was 2.4 percentage points higher than in 2008 (52.7%), when the economic crisis started in our country.
- This negative development indicates a relatively low level of economic complexity, a loose fiscal framework, as well as financial indiscipline, which is materialised through price transfer actions and subjective expenses of firms, as can be seen from the numerous findings of the state's specialized agencies
- The share of intermediate consumption in output is around 50% in developed countries

Preserving the macroeconomic stability while growing economically has represented the key challenge



Source: Ameco

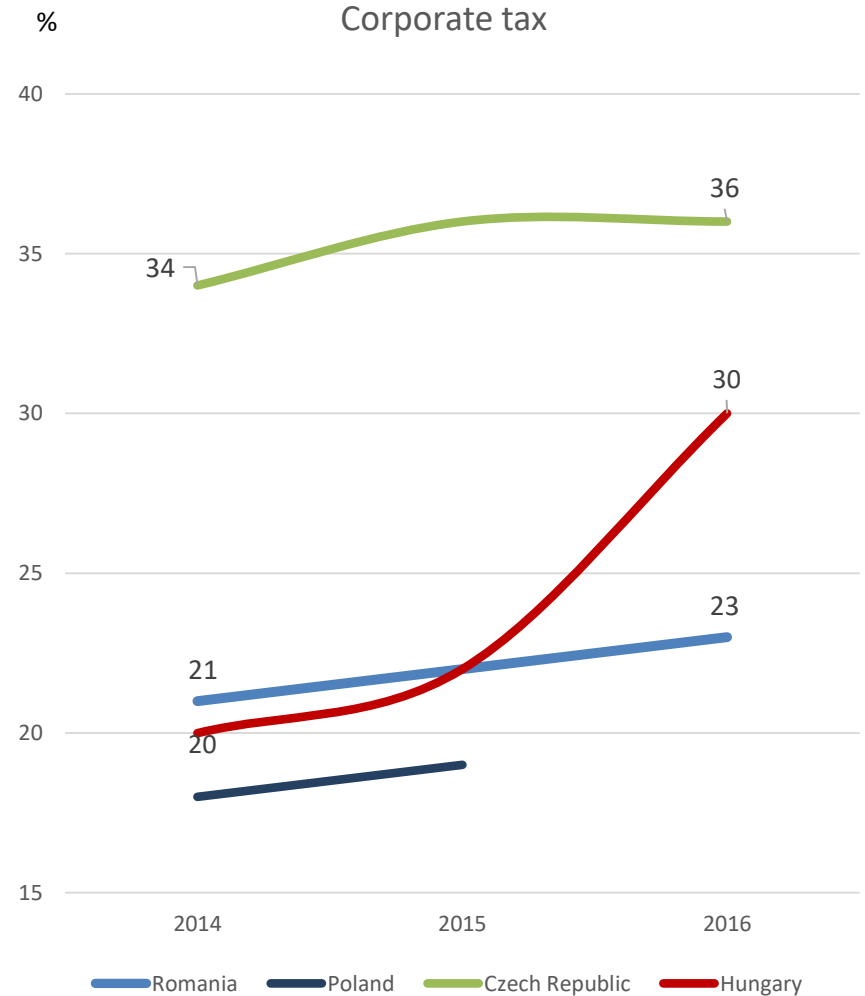
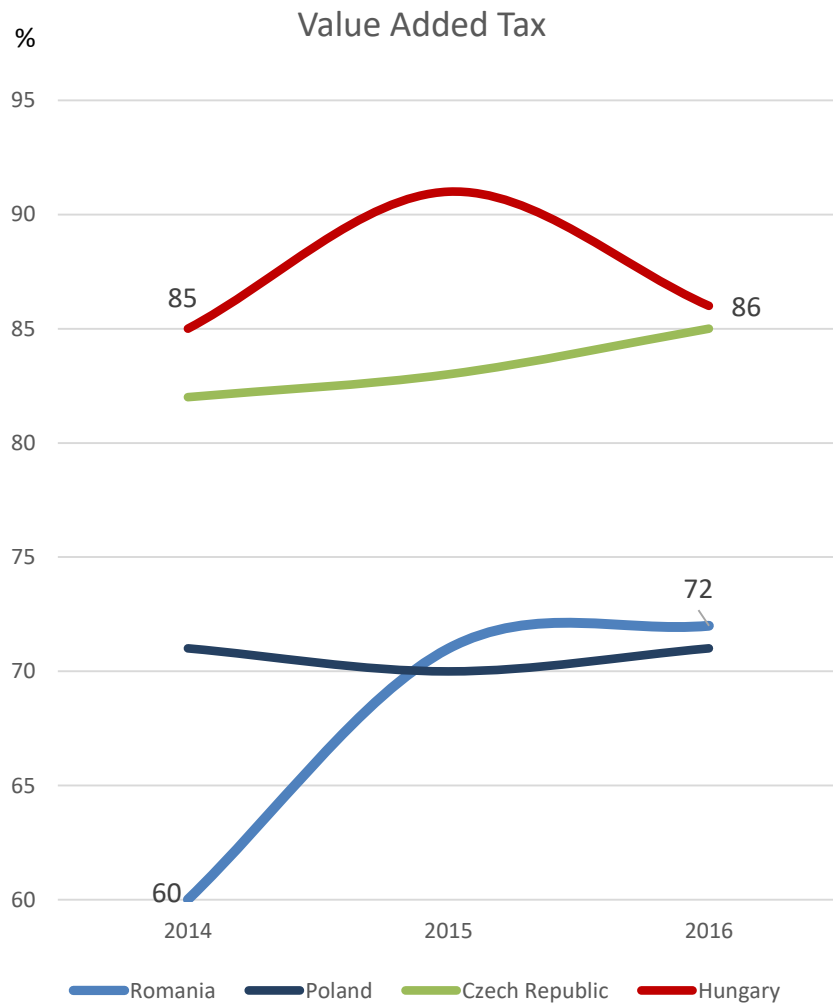
* - potential GDP in the case of output gap

- **Romanian GDP almost tripled between 2002 and 2008 (from 49 bn. Euro to 142 bn. Euro)**
- **At the same time, the current account deficit rose by more than 4 times, from 3.3% to 13.8%**
 - **Economic overheating became substantial, as output gap reached +7.5% in 2008 from zero in 2002**

The redistribution phase has many dysfunctions

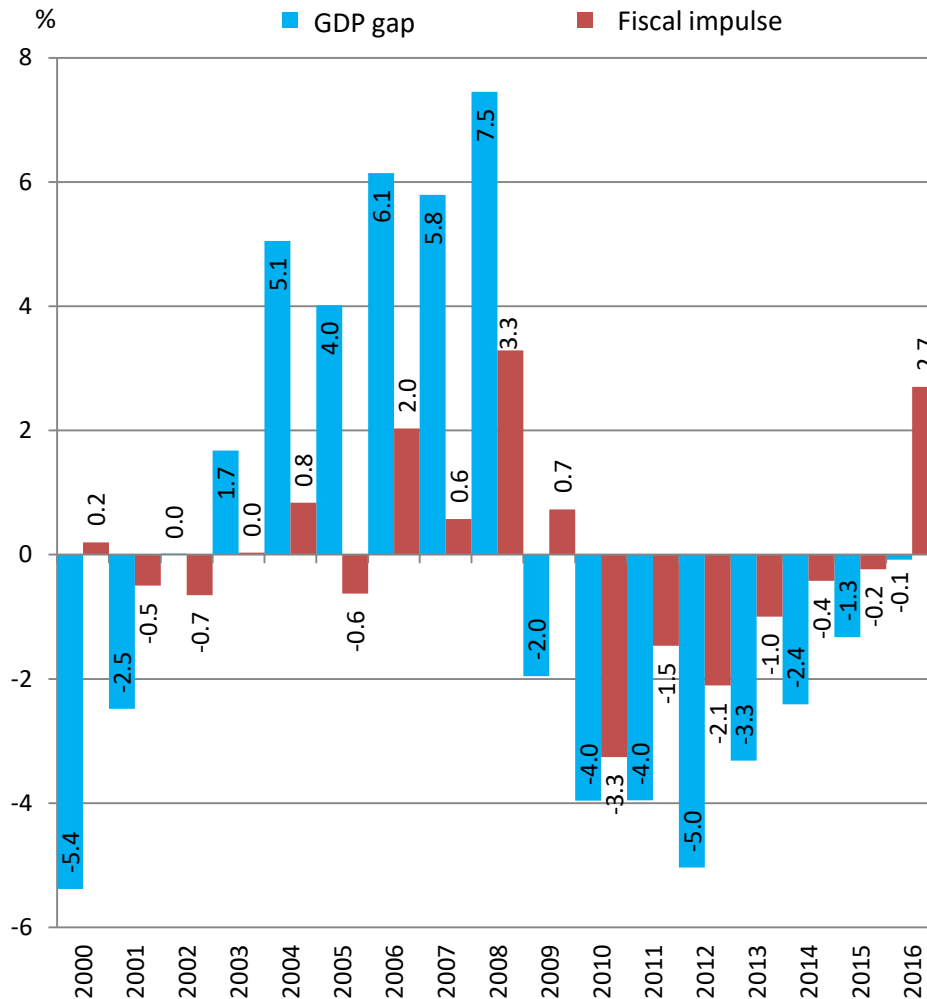
- The degree of budgetary revenues' collection is relatively low due to financial indiscipline and tax evasion
- The use of collected budget funds is realized with a weak efficiency because of:
 - The poor prioritization of public investment
 - Reduced efficiency of capital expenses, as a result of non-compliance with legal procedures

With a small net income reported by firms, the state achieves a poor degree of efficiency in collection



Source: Fiscal Council, Annual Report 2016

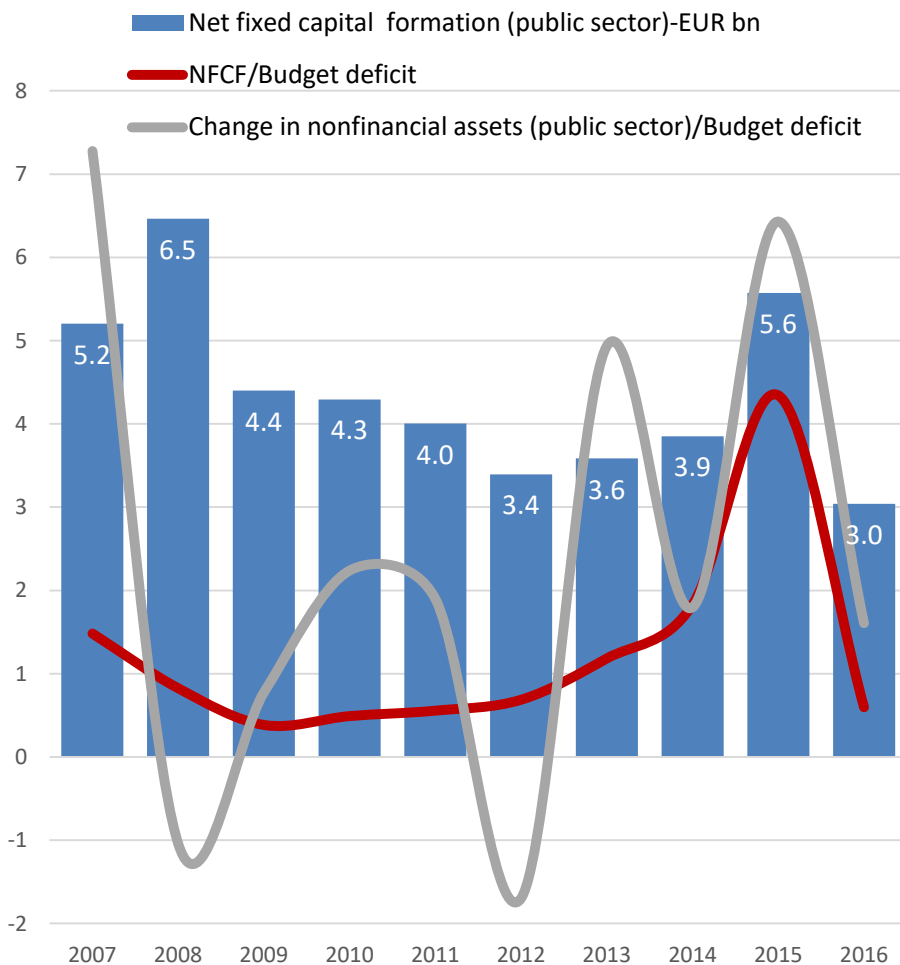
Macroeconomic imbalances have been amplified by pro-cyclical fiscal and revenue policies



Source: Ameco, author's calculations

- Fiscal impulse, including salary increases in the budgetary sector, was the main factor of excess demand
- This reached 3.3 percentage points in 2008, while the economy already evolved well above its potential (+7.5%)
 - Against this backdrop, once the crisis started, painful economic adjustments were made, with the fiscal policy remaining, in this context, pro-cyclical

Budget expenditures inefficiency → the accumulation of fixed capital at the public sector level was generally lower than the budget deficits



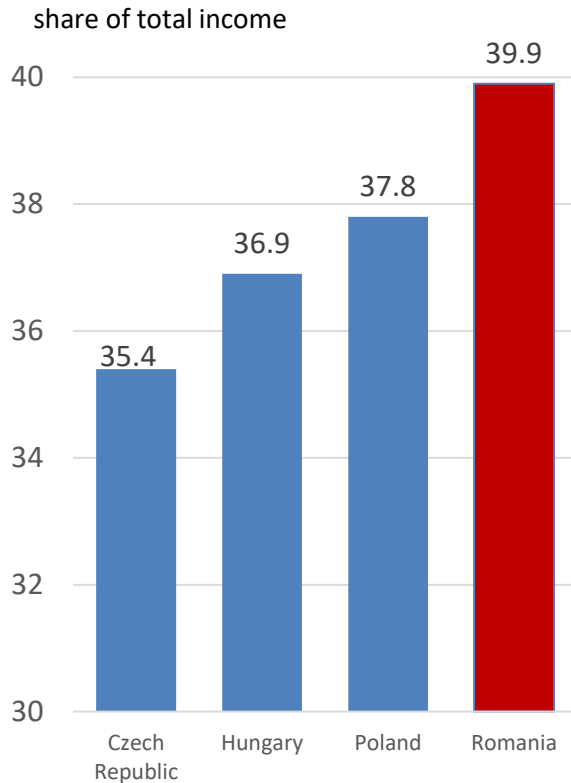
Source: Ameco, author's calculations

- While budget deficits have cumulated about 55 billion EUR in 2007-2016, net fixed capital formation at the level of the government sector totaled only 80% (EUR 44 billion) of this amount in the analyzed period
 - Only 50% of the 87 billion EUR increase in the value of non-financial assets of the public sector (from 78 billion EUR in 2006 to 164 billion EUR in 2016) was supported by net fixed capital formation, the other half being the result of the stock of assets' revaluation

IV. Pronounced social disparities

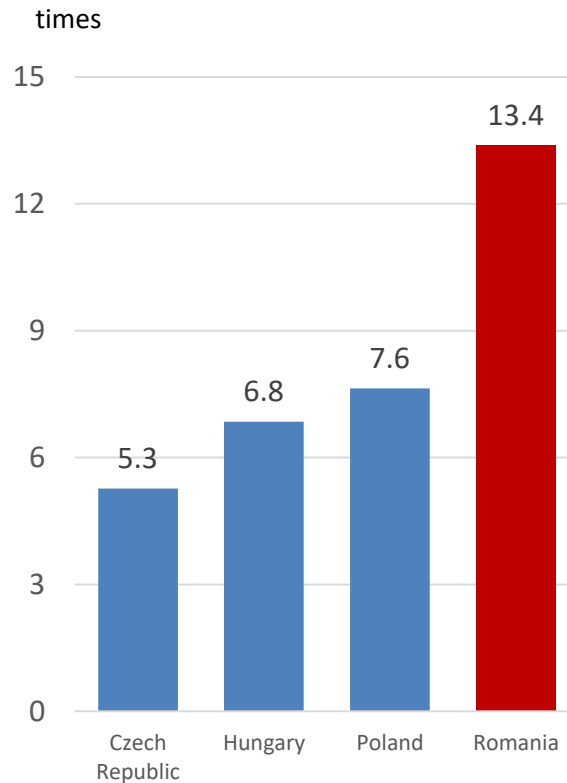
Increased inequities in the distribution of population incomes

Share of income of the richest 20% in total household income - 2016



Source: Eurostat

Ratio of the richest 10% and the poorest 10% by household income - 2016

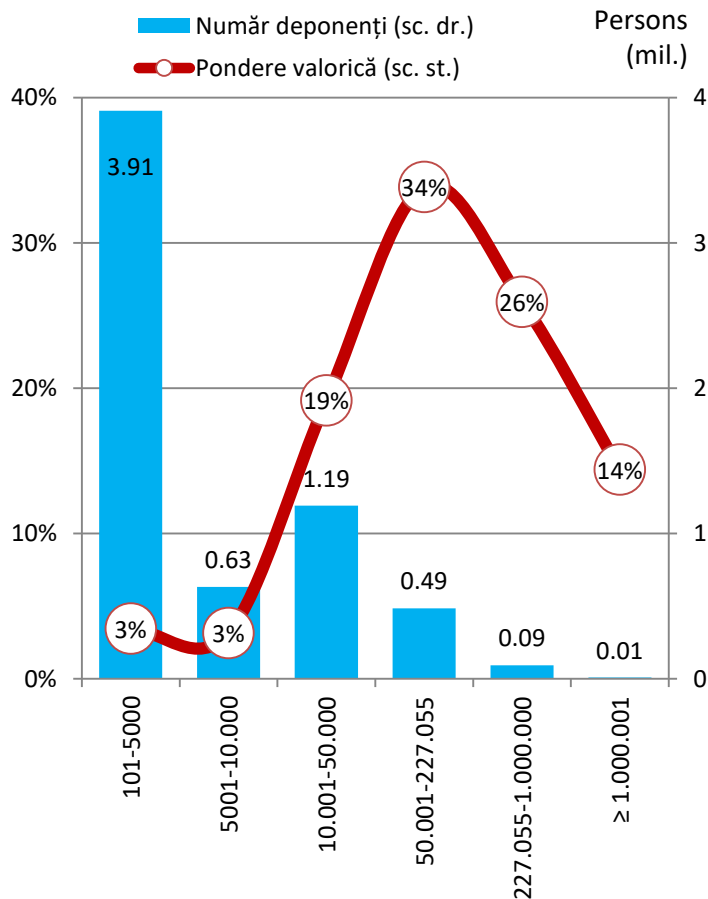


- The high degree of polarization of the Romanian income compared to other states in the region can be seen from:

- the fact that 20% of households own more than 40% of total income
- and especially from the report showing that the richest 10% households earn 13.4 times more income than the poorest 10% households

Savings distribution in Romania demonstrates the high degree of social polarization

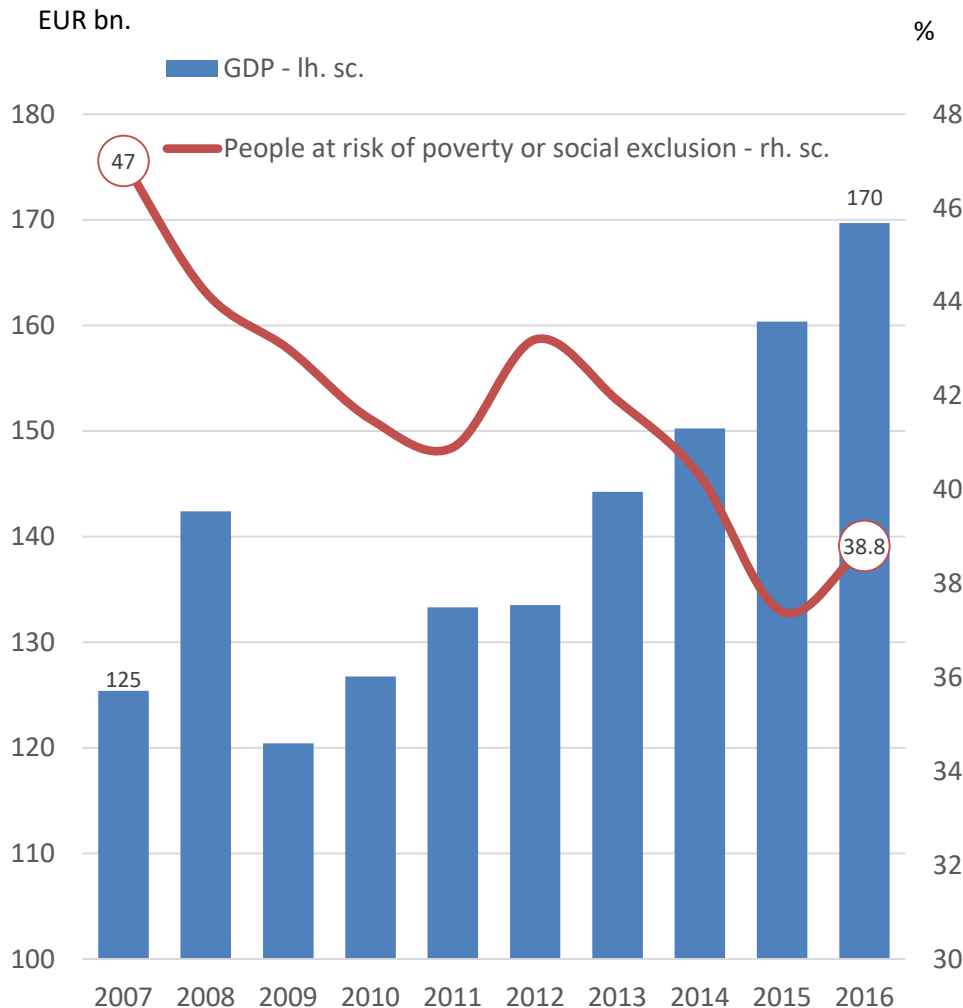
Distribution of depositors by deposit buckets (December 2016)



- By the end of 2016, the savings structure highlighted the following disparities:
 - 62% of depositors, respectively those with the smallest savings (3.9 million persons) hold only 3.45% of the value of deposits with banks (average deposit of 1.263 lei);
 - 8% of the depositors (0.5 million persons), representing the average saving category, have deposits ranging from 50 thousand lei to 227 thousand lei and hold 34% of the saving value (average deposit of 100 thousand lei);
 - 1.63% of the depositors (100 thousand persons), with very large amounts, hold 40% of the total savings of the population (average deposit of 570 thousand lei);
 - 0.13% of the depositors (about 10 thousand persons), with the highest amounts, have 14.4% of the savings (an average of 2.44 million lei / depositor), i.e. approx. 4 times more than the first group of small depositors, totaling 3.9 million individuals.

Source: FGDB, author's calculations

GDP growth was reflected only partially in the reduction in poverty



Source: Eurostat

- Romania has a poverty risk and social exclusion rate of **38.8%** in 2016, the second highest level in the EU (with an average of 23.5%)
- While GDP rose by 36% in 2016 compared to 2007 (from € 125bn to € 170bn), the risk of poverty and social exclusion fell by only 17.5%

V. European Union standards on development

The solutions adopted by major international institutions aimed at completing the conventional methodology with some additional criteria

- **Composite indicator**
 - **United Nations → Human Development Index (HDI), based on life expectancy and education level, along with per capita income**
 - values ranging from 0 to 1; a state is considered to be developed if the level of IDU exceeds 80%
 - uses the geometric mean as a method of aggregation;
- **Set of complementary indicators without aggregation mechanism**
 - **European Commission → not any increase in economic growth leads to long-term development → economic growth must be balanced, inclusive, environmentally friendly and smart → 100 sustainable development indicators grouped into 17 categories.**

Growth - development correlation in Romania

- While GDP grew 4.1 times and GDP per capita increased 2.3 times, the human development index increased by only 13.4% (from 70.7% in the year 2000 to 80.2% in 2015);
- Development in Romania is slower than the economic growth due to:
 - The relatively poor quality of growth (structural problems in the real economy, the main force for GDP creation)
 - Deficiencies in GDP repartition, hampered by obstruction of primary and secondary distribution channels as a result of financial indiscipline and illegalities in economy
 - in the **distribution** plan, there is a disproportionate ratio between wages and profit, in favor of the latter
 - in the **redistribution** plan, there are insufficient financial transfers and social assistance within the budget, due to poor tax collection

From the perspective of sustainable development indicators used by the European Commission, Romania still records weaknesses in basic conditions (1)

• Although considerable progress has been made, Romania is at the bottom of the European rankings on various aspects of poverty risk and health care:

- 24% of the population is severely materially deprived (-14 pp compared to 2007), three times higher than EU average (8%) → 27th place
- life expectancy at birth of 75 years (from 71 years in 2000), compared to 81 years in EU → 27th place

Category	Development indicator –selection–	Last available date(1)			Previous period	Evolution*
		Romania	EU average	Place in EU28		
1. Poverty	Severely materially deprived people (2)	24%	8%	27	38%	↑
	Population living in a dwelling with a leaking roof, damp walls, floors or foundation(2)	13%	15%	11	30%	↑
2. Good health and well-being	Life expectancy at birth (no. of years) (3)	75	81	27	71	↑
	Obesity rate (4)	9%	16%	1	8%	↓

* Up arrow indicates a favourable evolution. Down arrow denotes an unfavorable evolution.

Note: 1) unless specified, the last available date is 2015 or 2016; 2) compared to 2007; 3) compared to 2000; 4) compared to 2008.

Source: Eurostat, Sustainable development in EU, 2017

- Better situations than the EU average we register at:
 - lower *obesity rate* (9% vs. 16%, the average for EU Member States) → first place in the EU
 - *living conditions* (13% of the Romanian population lives in a damaged home, compared to an average of 15%) → 11th place

From the perspective of sustainable development indicators used by the European Commission, Romania still records weaknesses in basic conditions (2)

•The education system in Romania has serious problems:

- the number of *early leavers from education*, although declining (from 23% in 2000 to 19% in 2016), remains above the EU average (11%) → 26th place
- 39% of the population has *shortcomings in reading*, almost double the other EU states (with an average of 20%) → 27th place
- Romania ranks last in the EU in terms of *tertiary education and adult participation in learning*

Category	Development indicator –selection–	Last available date(1)			Previous period	Evolution*
		Romania	EU average	Place in EU28		
3. Education	Early leavers from education and training(3)	19%	11%	26	23%	↗
	Underachievement in reading (3)	39%	20%	27	41%	↗
	Tertiary educational attainment (3)	26%	39%	28	9%	↗
	Adult participation in learning(3)	1,2%	11%	28	0,9%	↗
4. Sanitation	Population having neither a bath, nor a shower, nor indoor flushing toilet in their household (2)	31%	2%	28	42%	↗

* Up arrow indicates a favourable evolution. Down arrow denotes an unfavorable evolution.

Note: 1) unless specified, the last available date is 2015 or 2016; 2) compared to 2007; 3) compared to 2000.

Source: Eurostat, Sustainable development in EU, 2017

- The proportion of the *population without bath, shower or indoor toilet in their household* has decreased in recent years (to 31% in 2015, from 42% in 2007 to 11%), but remains the highest in the EU → 28th place

There are also problems for other major pillars of economic development

- Employment in high- and medium-high technology manufacturing sectors and knowledge-intensive service sectors remains well below European average (28% versus 46%, as of 2016) → 28th place

- The level of income inequality is at one of the highest rates in the EU:

- *Income share of the bottom 40 % of the population is of only 17% in Romania, with 4pp lower than EU average (21%) → 28th place*
- *Gini coefficient of disposable income raised to 37 in 2015 (from 29 in 2000), above European average of 31 → Romania occupies 27th place.*

Category	Development indicator –selection–	Last available date(1)			Previous period	Evolution*
		Romania	EU average	Place in EU28		
7. Industry, innovation and infrastructure	Employment in high- and medium-high technology manufacturing sectors and knowledge-intensive service sectors(4)	28%	46%	28	24%	↗
8. Inequality	Gini coefficient of disposable income (3)	37	31	27	29	↘
	Income share of the bottom 40 % of the population (2)	17%	21%	28	17%	↗

* Up arrow indicates a favourable evolution. Down arrow denotes an unfavorable evolution.

Note: 1) unless specified, the last available date is 2015 or 2016; 2) compared to 2007; 3) compared to 2000; 4) compared to 2008.

Source: Eurostat, Sustainable development in EU, 2017

The housing sustainability and the responsibility for production and consumption are relatively low

Category	Development indicator –selection–	Last available date(1)			Previous period	Evolution*
		Romania	EU average	Place in EU28		
9. Sustainable cities and communities	Overcrowding rate (2)	50%	17%	28	56%	↗
	Population reporting occurrence of crime, violence or vandalism in their area (2)	13%	14%	20	15%	↗
	Difficulty in accessing public transport (% high or very high), 2012	24%	20%	21	NA	NA
	Recycling rate of municipal waste (2)	13%	45%	27	0%	↗
10. Responsible consumption and production	Generation of waste excluding major mineral wastes (kg per capita) (5)	1037	1716	5	2311	↗
	Recycling and landfill rate of waste excluding major mineral waste (recovery rate) (6)	32%	55%	24	33%	↘

- Cities and communities in Romania have major deficiencies related to:
 - **overcrowding rate** → 28th place
 - **occurrence of violence** → 20th place
 - **difficulty in accessing public transport** → 21st place
 - **recycling rate of municipal waste** → 27th place
- Although the **volume of waste** is lower than European average (1 tone per capita, compared to 1.7, respectively the 5th place in EU), **recycling rate of waste** is significantly lower (32% compared to 55% → 24th place).

*Up arrow indicates a favourable evolution. Down arrow denotes an unfavorable evolution.

Note: 1) unless specified, the last available date is 2015 or 2016; 2) compared to 2007; 5) compared to 2006; 6) compared to 2011.

Source: Eurostat, Sustainable development in EU, 2017

VI. Final remarks

Final remarks (1)

- **Romania's economic and social development is slower than economic growth, as the overall favorable macroeconomic developments in recent years were only partially felt in raising the living standards of the population and improving the competitiveness of the economy**
 - **The relatively poor quality of growth (structural problems in the real economy, the main force for GDP creation)**
 - **Deficiencies in GDP repartition, hampered by obstruction of primary and secondary distribution channels as a result of financial indiscipline and illegalities in society:**

Final remarks (2)

- The relationship between economic growth and development + reducing poverty is fractured in Romania by a real economy with:
 - Performances below citizens' aspirations on living standards
 - Strong financial indiscipline of firms
 - Frequent occurrences of tax evasion and corruption, phenomena found both in companies and in the implementation of the consolidated general budget



- Significant disparities in income and population saving, materialized in a strong social polarization
- The unfavorable developments above occurred under the conditions of a weak state action
 - the idea of a minimal state in Romania has been erroneously promoted



- the objective need, in the market economy, of substantially reducing the role of the state as a shareholder and manager of commercial companies with public capital;
 - but, at the same time, the state must also manifest through strong institutions that develop effective economic and social strategies and sectoral policies
- and
- to issue appropriate rules and regulations, ensuring their firm application, to support the balanced economic and social development of the country and to ensure citizens' confidence in the market economy and democracy

Final remarks (3)

- **The entrepreneurial initiative in Romania is low**
 - the companies sector is underdeveloped in relation to the size of the domestic market and compared to other former socialist European countries → 2.2 SMEs per 100 inhabitants, compared to the EU average of 4.5 firms and 9.4 units in the Czech Republic; 7.5 in Slovakia; 6.4 in Slovenia; 5.4 in Lithuania; 5.3 in Hungary; 5.2 in Latvia; 4.4 in Bulgaria; 4.1 in Poland, etc.
- **The Romanian firms sector is dominated by small businesses, many of which have serious capitalization problems**
 - 44% do not comply with the legal capitalization requirements (276.5 thousand companies have their own equity level less than half of the subscribed share capital)
 - 42% have negative equity (268.5 thousand companies have debt higher than total assets)
- **A firm legislative framework is the most effective way to ensure payment discipline, and economic agents often need a "nudge" for higher self-control, as shown by Richard Thaler, the Nobel Prize-winner for the economy in 2017.**

Final remarks (4)

- **In addition to aligning Romanian economic legislation with the practices of advanced European countries, there is a need for a strong moral community in the society, in which the free market, which stimulates individual action, can operate with high efficiency (Akerlof and Shiller, 2016)**
- **Reforming post-communist kleptocratic states is a very different challenge from transition. Low level of civil society development leaves this transformation of the state unchecked, as population that is victim of exactions of the kleptocratic state remains relatively passive and fatalistic (Gerard Roland, 2017).**
 - **Reaction against kleptocratic state is not only about level of activity of civil society, it is also about culture and values inside society.**
 - **EU accession provided an external check on the formation of kleptocratic states. This effect was stronger before entry than afterwards.**
- **Entrepreneurship is likely to be discouraged in an environment in which firms with political influence earn rents at the expense of more efficient or more innovative firms that lack influence (World Development Report 2017).**
 - **By tilting the playing field, such capture can also make growth less inclusive**

Final remarks (5)

- **Transitioning from a growth model based on factor accumulation to a growth model based on productivity and innovation may require a different set of institutions (World Development Report 2017).**
- **Modernization is a prerequisite for development, as it aims at changing, through governmental initiative, the fundamental institutions of politics, economy and society, to resemble with those existing in western societies. Nevertheless, development is a process oriented towards increasing social welfare, identified by the quality of population consumption in areas ranging from housing to training for jobs with high productivity and income, and security of well-being both at younger ages and at the third age.**
- **Economic development is not a gift. This is achieved through the combined action of the private initiative and the public policies of the state. The existence of strong institutions is the best indicator of the structural development and of the capacity of a nation to create long-term well-being (Isărescu, 2016).**
- **Ensuring macro-stabilization as the economy recovers the gap compared to the developed countries was a major challenge in Romania (2004-2008) → maintaining the trend of GDP growth and GNI per capita was affected by the accumulation of macroeconomic imbalances, which were amplified by the pro-cyclical fiscal and revenue policies**
 - **There are reserves to improve the tax system and mechanisms to improve the settlement of the tax burden in relation to the contributing power and to increase the level of revenue collection for the budget**

Final remarks (6)

- **It should be underlined that the notion of sustainability should refer not only to economic and financial aspects but also to the social criterion**
 - **the development assumes, in advance, the formulation of a social project (Golding, 2016)**
- **The opportunity represented by the European funds, which is an important vehicle for the development and modernization of the country and for approaching to the economically advanced European states, was insufficiently exploited**
 - **The European funds used by Romania were localized to a low degree in gross fixed capital formation and, to a lesser extent, in the private economy (out of which, at a reduced level in industry, transport and construction)**
 - **To a very large extent, the European funds used in Romania have resulted in the financing of current expenditures for the realization of the projects within various programs, consisting in salaries, as well as in the purchase of goods and services related to them.**

Final remarks (7)

- The low quality and efficiency of public policies in Romania were reflected in the slow pace of infrastructure improvement, high income disparities in society, weak quality of health and education systems



- The assessment of Romania's level of development is closer to the results of the methodologies of the European Commission and the World Bank rather than to the model of the United Nations, which already includes us, unrealistically, in the category of developed countries



- Indicators that reflect not only the creation of GDP, but also its effective distribution for increasing the living standard of the citizens (wages, health, education, infrastructure, innovation), are the most appropriate to adequately assess the development level of a country.



Thank you for your attention!