

ROMANIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: ROMANIAN LEU (RON)

POPULATION AND GEOGRAPHY

Area: 238 391 km²
Population: 19.644 million inhabitants (2017), a decrease of -0.6% per year (2010-15)
Density: 82 inhabitants/km²
Urban population: 54.8% of national population
Urban population growth: -0.2% (2017 vs 2016)
Capital city: Bucharest (9.3% of national population)

ECONOMIC DATA

GDP: 522.1 billion (current PPP international dollars) i.e. 25 578 dollars per inhabitant (2017)
Real GDP growth: 7.3% (2017 vs 2016)
Unemployment rate: 4.9% (2017)
Foreign direct investment, net inflows (FDI): 5 953 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 22.6% of GDP (2017)
Human Development Index: 0.811 (very high), rank 52 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Romania is a parliamentary republic with a semi-presidential regime. Executive functions are shared between the President, Head of the State who is directly elected for a five-year mandate, and the Government, which is headed by a Prime Minister, nominated by the President after consultation with the Parliament. The bicameral Parliament is composed of the Chamber of Deputies (*Camera Deputatilor*), which includes approximately 329 deputies, and by the Senate (*Senatul*), which includes around 136 senators. All members of the Parliament are elected for four-year terms by direct universal suffrage, according to the system of proportional representation. Romania has been a member of the European Union since 2007, after joining the Council of Europe in 1993.

Romania is a unitary state with two tiers of subnational governments: counties; and a municipal level composed of communes, towns and municipalities. The decentralisation process started with the first post-independence Constitution in 1991, which laid out the principles of local autonomy and the decentralisation of public services. Law no. 215/2001 added the financial component to the local autonomy. In 2006, a new major step towards decentralisation was taken with the adoption of the new framework law on decentralisation 195/2006 which transfers new responsibilities to SNGs, along with the 273/2006 Act on local public finances and the Public Services Act (51/2006). The law 195/2006 in particular defined a set of principles, rules and steps to be followed in the process of transferring new responsibilities to SNGs.

Subnational governments have self-governing bodies, namely county councils (*Consiliul Judeţean*) and local councils (*Consiliul Local*). According to Law no. 67 for the election of local public administration authorities (2004, amended in 2008), county councillors are elected directly in local elections for four-year terms, and are responsible for electing the president of the county council. While, in principle, counties and local councils have no hierarchical link between them, counties coordinate the activities of communal, town and municipality councils. The communes, towns and municipalities each have their own local council (deliberative authority), also directly elected, and a mayor (executive authority), elected for a four-year term by members of the council. In Bucharest Municipality, there is a General Council of Bucharest Municipality as well as a General Mayor of the capital, and each sector of the city has its own local council and mayor. The latest general local election was held on June 2018.

The national government has the right to issue legal acts that are compulsory for the local authorities. A prefect is appointed by the central government in each county, as a representative of the government at the subnational level, which has the right to control the legality of acts issued by the local authorities.

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 as such by the Constitutional Court, but a new decentralisation project is being implemented based on a new General Strategy for Decentralisation. Greater decentralisation and regionalisation remain key objectives of the government in order to improve the quality of public services and to stimulate local development. In its National Reform Programme 2018, new transfers of competences, accompanied by the corresponding resources, from the central government to SNGs are planned. An action plan implementing General Strategy for Decentralisation has been developed under the monitoring of an Inter-ministerial Technical Committee for Decentralisation (CTID).

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	103 municipalities (<i>municipii</i>) 217 towns (<i>orase</i>) 2 861 communes (<i>comune</i>)		42 counties (<i>judete</i>) incl. Bucharest	
	Average municipal size: 6 990 inhabitants			
	3 181		42	3 223

OVERALL DESCRIPTION. Romania has a two-tier system of SNGs with no hierarchy in between. According to Art. 3 of the Constitution, the territory is divided into counties at the intermediary level, and towns and communes at the local administrative level, without subordinate relationship. Some towns are declared municipalities, according to the provisions of the law.

The municipal level comprises 320 towns (*orase*) and municipalities (*municipii*) and 2 861 communes (*comune*). In addition, there are 12 957 villages at the sub-municipal level. Within urban areas, municipalities differ from towns as they have major economic, social, political and cultural roles, and also administrative

functions in most cases. Communes are established in rural areas and comprise one or more villages. Overall, municipalities are quite small by international comparison, although their average size is just above the EU28 average (5 900 inhabitants). The median municipal size is, however, half the average EU28 size (3 110 inhabitants) and 75% of municipalities have fewer than 5 000 inhabitants (and 22% have fewer than 2 000 inhabitants).

At the regional level, the Romanian territory is organised into 42 counties (including Bucharest Municipality). Counties (judete) represent traditional administrative-territorial units in Romania, including towns and communes, depending on geographical, economic and social-political conditions and population cultural and traditional relations. The municipality of Bucharest, which has a special dual status (municipality and county), is organised into six administrative sub-divisions called sectors. There is a plan to create a Metropolitan Area following the 2001 law, which gave cities the possibility to associate themselves on a voluntary basis.

STATE TERRITORIAL ADMINISTRATION. The central government established 41 prefectures, which oversee the deconcentrated public services of the central public administration in each county.

There are also eight development regions, created for statistical purposes, the supervision of regional development and for the management of EU funds. Their regional councils are composed of the presidents of county councils. The Regional Development in Romania Act (no. 315/2004) establishes the institutional framework for regional development policy in Romania.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The framework Law no. 195/2006 on decentralisation suggests that subnational responsibilities can be divided into three categories: exclusive, shared and delegated by the central government. The central government may decide to decentralise certain services based on geographical criteria and potential economies of scale.

Since 2010, local authorities have been devolved new responsibilities in the fields of education, healthcare (operating of 368 hospitals out of a total of 373) and local police.

As listed in Art. 21 of the Decentralisation Law, local governments are generally responsible for the financing of the provision of public services, housing and community amenities, local transports, social welfare, most of the costs related to pre-school, primary and secondary education, as well as primary and secondary healthcare in the case of counties. Increasingly, county councils are also in charge of the overall coordination of the efforts and actions of local councils.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

REGIONAL LEVEL		LOCAL LEVEL
1. General public services		Management of State domain; Population records (shared)
2. Public order and safety		Public safety (shared)
3. Economic affairs /transports	Management of local airports; County roads; Country infrastructure network (shared)	Local public passenger transport; Local roads
4. Environmental protection		Waste management; Sewerage and treatment of wastewater and pluvial waters
5. Housing and community amenities		Urban planning and urbanism; Water supply; Public lightning; Sanitation; Building of social housing (shared)
6. Health	Public health units (primary and secondary healthcare)	Local public health units
7. Recreation, culture & religion	Cultural institutions	Local cultural institutions
8. Education	Special education (shared)	Pre-school and primary education; Secondary and adult education
9. Social protection	Child and disability allowances; Social services and specialised services for victims of domestic violence; Elderly and for the disabled (shared); Medical and social assistance (shared)	Social services and specialised services for victims of domestic violence; Child protection; Elderly; Medical and social assistance (shared)

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: counties, municipalities, town councils and communes, as well as local non-market public companies, and local organisations (schools, kindergartens, canteens, hospitals and thermal baths).	SNA 2008	Availability of fiscal data: High	Quality/reliability of fiscal data : High
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GENERAL INTRODUCTION. The Governmental Ordinance (GO) no. 15/1992 and law no. 27/1994 introduced the concept of local taxes and clarified the sub-national government financing system. The new Law on Local Public Finance enacted in 2006, defined further the intergovernmental transfer system, and particularly the equalisation grants, the shared taxation system, and the municipal debt issues. It increased local governments' control over their own revenues and allowed local councils to administer their own taxes. In addition, councils receive financial investment resources from the national government and are responsible for distributing these resources to the regions, municipalities and communes.

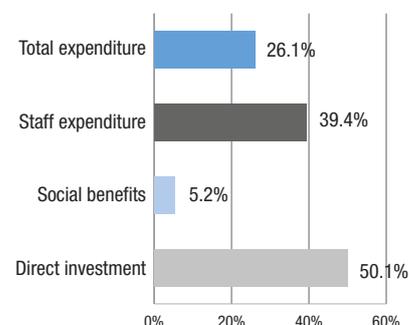
The frameworks for ensuring stability and predictability of income sources for subnational governments, including control standards for services to be decentralised, are being developed. The adoption of the Code for Local Public Finances could address some issues by setting a minimum level of budget revenue per inhabitant or adapting local budget mechanisms.

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SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	2 081	9.0%	100%	
Incl. current expenditure	1 572	6.8%	75.5%	
Staff expenditure	808	3.5%	38.9%	
Intermediate consumption	498	2.2%	23.9%	
Social expenditure	137	0.6%	6.6%	
Subsidies and current transfers	108	0.5%	5.2%	
Financial charges	17	0.1%	0.8%	
Others	2	0.0%	0.1%	
Incl. capital expenditure	509	2.2%	24.5%	
Capital transfers	91	0.4%	4.4%	
Direct investment (or GFCF)	419	1.8%	20.1%	

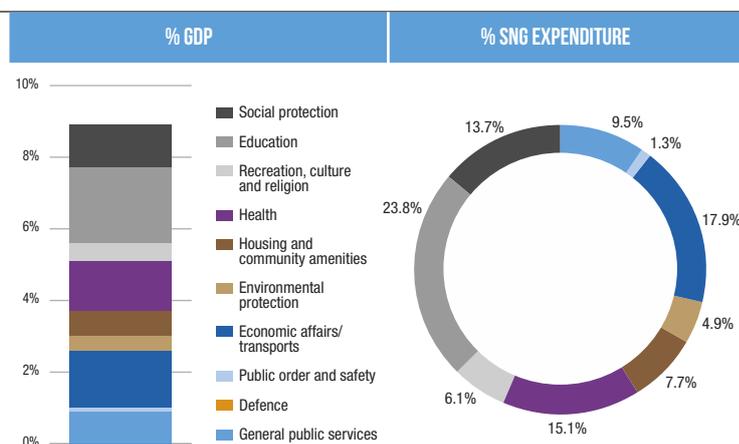


EXPENDITURE. The level of Romanian SNG spending as both a percentage of GDP and a share of general government expenditure remains below the OECD average (16.2% and 40.4% in 2016) as well as below the EU28 average (15.3% of GDP and 33.5% of public expenditure). Overall, local authorities lack the funding, the administrative capacity and the human competences to provide high-quality public services. This is especially the case in urban areas where services are very fragmented. Local authorities often act as spending agents on behalf of the central government. The share of SNG staff expenditure in total staff expenditure is high in relative terms, resulting from the fact that SNGs are in charge of paying the salaries of teachers, nurses and doctors.

DIRECT INVESTMENT. SNG investment represented half of total public investment and 1.8% of GDP, in line with the average of EU28 countries (respectively 50.9% and 1.4%). Investment is a key function of SNGs in Romania, representing 20% of their expenditure (vs. 8.7% in the EU28 in 2016), yet this share is decreasing (decrease of 4 percentage points since 2013, and further decrease in 2017). SNG investments are primarily dedicated to transport infrastructures and roads (47.3% of SNG investment in 2016), followed by housing and community amenities (18.3%). Romania has one of the highest investment ratios in the EU but the quality of investment is not improving, constrained by management deficiencies, frequently changing priorities and difficulties in absorbing EU funds. As a result, high public spending is not reflected in the country's infrastructure.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

The primary area of SNG spending is education. This includes operating and maintaining school facilities, and paying the salaries of teachers and administrative staff on behalf of the central government. SNGs have no control over staffing numbers or wage levels in the education sector. The second spending area is economic affairs, in particular local roads and infrastructure. Health and social protection sectors are also major spending sectors, especially since the decentralisation of health in 2010. SNG are also responsible for 70% of expenditure for environmental protection and 43% of spending on housing and community amenities (in particular water supply), whereas on the other hand they spend less than their EU counterparts on general public services.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	2 117	9.2%	29.0%	
Tax revenue	216	0.9%	5.3%	10.2%
Grants and subsidies	1 771	7.7%		83.7%
Tariffs and fees	95	0.4%		4.5%
Property income	33	0.1%		1.6%
Other revenues	0	0.0%		0.0%

OVERALL DESCRIPTION. 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. SNG finances rely heavily on central government transfers, which constitute the bulk of their revenue while own revenues, composed of taxes and fees, are still limited. Communes and municipalities have more fiscal power and autonomy than counties.

Tax collection at the local level is still incipient, representing 10.2% of SNG revenue, one of the lowest values of the EU countries and well below the EU28 average in 2016 (41% of SNG revenue). It is important to note that shared taxes (PIT, VAT), which were previously considered SNG taxes, have been reclassified to the 'transfers' category since the new 2008 SNA methodology was implemented in 2014.

TAX REVENUE. SNG tax revenues accounted for only 0.9% of GDP and 5.3% of public tax revenue in 2016. These were also among the lowest percentages of the EU countries, and well below the EU28 average in 2016 (6.4% of GDP and 24.0% of public tax revenue). Taxes are levied and collected both by the counties and municipalities.

The main local tax, providing 37% of SNG tax revenue and 3.8% of total SNG revenue, is the property tax on buildings and the tax on land, which the municipalities charge on both legal entities and individuals. The property tax on buildings is calculated depending on the location of the property, the type of building (residential or non-residential) and its value, with minimum and maximum of the gross value of the property set by the tax code. The exact value is established by county and local councils where the property is situated. The tax on land is calculated based on the surface of the land, its location and its category as established by county and local councils. Reference rates are fixed by law, but each local or county council can adopt, since 2016, a rate up to 50% higher or lower than the reference rates (instead of 20% before 2016). However, both taxes amounted only to 0.4% of GDP in 2016, well below the OECD average (1.1% of GDP).

Other local taxes are the tax on transport (8%) and various taxes on stamps, transactions and issue of certificates and licences.

GRANTS AND SUBSIDIES. The system of intergovernmental transfers in Romania comprises a system of equalisation grants (within and across counties) and a system of conditional and earmarked grants. It pursues several objectives: vertical and horizontal equalisation to compensate for poorer SNGs for their lower capacity to raise revenue; financing for delegated responsibilities; and contributions to local investment. Current grants accounted for 89% of total grants and subsidies in 2016 while capital grants accounted for 11%.

The two vertical and horizontal systems are based mainly on the sharing of the personal income tax (PIT). Vertical equalisation operates through the sharing of the PIT receipts (as defined by the decentralisation law, as amended in 2011), of which 41.75% is redistributed to municipalities and 11.25% to counties, except in the area of Bucharest where the share is higher. It represents approximately 21% of local revenue. It is complemented by a sectorial block grant from the state budget, earmarked mainly for covering expenditure in education (in particular to pay teachers and staff salaries) and social services (21% of total local revenues in 2017). This shared has increased steadily since 2015 as a result of successive pay rises awarded in the Romanian public sector. Individual allocation to local governments is determined at county level (sector block grants) and central level (subsidies), based on quantitative criteria (population, etc.). A small share of the corporate income tax is also shared with county governments. 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 (particularly from VAT revenue), split between the county council (27%) and the municipalities (73%) according to a specific formula. The government determines the amount of the annual equalisation appropriation through the budget process, and has control over the PIT rate. The gap between wealthier and poorer municipalities is expected to widen in the coming years following measures adopted in 2017 (Emergency Ordinance 79/2017), which reduced the income tax rate from 16% to 10%, without clear compensatory measures for local budgets.

In addition, Romanian SNGs have - since 2010 - received earmarked grants for delegated functions from sectorial ministries (education for the payment of teachers' salaries, support for disabled people, orphans, fuel subsidies), earmarked grants for investment in infrastructure, as well as subsidies from the European Union. Earmarked grants represent a very large share of total grants.

OTHER REVENUES. Other revenues for local governments include local charges and fees (e.g., building fees and public transportation fees, etc.). With the decentralisation of hospitals in 2010, hospital fees from the National Health Insurance House and the Ministry of Health have become an important source of own-revenue, earmarked for expenditure related to hospital care. However, user charges and fees accounted only for 4.5% of subnational revenue in 2016, well below the EU28 average (11.6%). Revenues from assets (housing and land rentals, asset sales) represent a small percentage of SNG revenue (1.6%), slightly higher than the EU28 average (1.2%) for 2016.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	889	3.9%	8.0%	100%
Financial debt*	515	2.2%	5.6%	57.9%

* Currency and deposits, loans and bonds

FISCAL RULES. The Local Public Finance Law 273 of 2006, and subsequently revised, includes provisions related to the planning, approval, execution, and reporting of the local public finances. The Fiscal Responsibility Law, approved in March 2010 to strengthen fiscal discipline introduced eight new fiscal rules applicable to the general government sector and covering the budget deficit, the primary deficit, total expenditure excluding financial assistance from the EU, and other donors and personnel expenditure. These rules complement the budget balance and debt rules which were applied to the local government level in the past. As of 2013, SNG budgets, excluding loans to finance investment and debt refinancing, must be balanced. The Fiscal responsibility Law also created a Fiscal Council as an independent authority, to support the Government and the Parliament in designing and implementing the fiscal policy and to promote the transparency and sustainability of public finances.

DEBT. Local governments are able to borrow by taking out loans or issuing bonds, subject to the approval of a committee appointed by the central government. SNG debt must not exceed 30% of the SNG average revenue of the past three years. The Ministry of Finance oversees all the borrowing activities of sub-national governments through an inter-ministerial commission that must authorise every operation.

Romanian SNG debt remained low in 2016, at 3.9% of GDP. The financial debt represented 58% of local debt, split between loans (48%) and bonds (10%). The remaining 40% of SNG outstanding debt was made up of commercial debts and arrears. The local debt started increasing after 2004, in parallel with the increase of local authorities' own expenditure. The relatively flexible legal framework encouraged local authorities to borrow or guarantee local loans in order to face sub-national needs. Since the 2008 financial crisis, the municipal debt has grown at a slower pace while local governments' own revenues contracted.



Lead responsible: OECD
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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // Romania in figures

Fiscal data: Eurostat // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // IMF GFS // National Institute of Statistics, Romanian Ministry of Finance // OECD (2018) Key Data on Local and Regional Governments in the European Union

Other sources of information: European Commission (2018) Country Report Romania 2018 and National Reform Programme 2018 // NALAS (2018) Fiscal decentralisation indicators for South-East Europe // Kitchen, Hannah, et al. (2017) "The Romanian education system" // Ruano J.M. Proforioru M. (2016) The Palgrave Handbook of Decentralisation in Europe // European Committee of Regions (2016) Division of Powers // Moldovan O. (2016) Local Revenue Mobilisation in Romania, European financial and accounting journal // Ralyea J. Stepanyan V. Xu T. (2015) Romania Selected Issues, International Monetary Fund.