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Editor's Choice

Romania's paradox: fastest economic growth and the highest rate of poverty and social exclusion in the EU. European Commission harshly criticises lack of reforms

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Over the last 10 years, Romania has recorded the fastest growth in GDP per capita at purchasing power parity in the European Union, reaching 78% of the EU average, up from 55% a decade ago. However, at the same time, 1 in 3 Romanians is at risk of poverty and social exclusion, the highest proportion in the EU. This paradox reflects the complexity of the economic convergence process on the one hand and social inclusion on the other, clearly indicating that the benefits of economic growth are not evenly distributed.

On the one hand, the Council of the European Union issued several recommendations in 2023 to combat poverty and social exclusion, stressing the need for effective public policies. The effective implementation of these measures is extremely important to turn economic progress into real benefits for all Romanians.

The European Commission recently issued its toughest stance in years on Romania's lack of reforms, recommending that the Council of the European Union adopt a formal conclusion highlighting that "Romania has not taken effective action" in response to the 2021 recommendations on budget deficit reduction. This could lead to the suspension of EU funding for Romania, which would underline the urgency of implementing structural reforms.

Rich Romania *versus* poor Romania or vice versa

June brought two pieces of news about Romania from Eurostat (European Statistical Office). One good and one bad. Or rather the other way around, according to the timeline.

The bad news is that *almost a third (32%) of Romanians were at risk of poverty and social exclusion, which is by far the highest proportion among EU member countries in 2023*, according to data published in June 2024 by Eurostat.

From here, one understands that Romania has the highest percentage of vulnerable people, compared to the other EU member states.

The good news is that *over the last 10 years, Romania has recorded the fastest rate of economic convergence in the European Union, as measured by GDP/capita at the purchasing power standard*, according to data published by Eurostat, also in June. In other words, Romania has recorded the fastest growth in GDP per capita at purchasing power parity of all EU Member States. Romania's GDP per capita is now 78% of the EU average, compared to 55% a decade ago. Growth has been driven by investment, economic development and integration into the EU internal market.
From this we understand that Romania has made significant progress in narrowing the economic gap with other EU Member States.
We can already speak of a paradox. A Romanian paradox. About a Romania of extremes. The explanation is as simple as it is complicated: although Romania has made significant economic progress, the benefits of this growth are not evenly distributed to the entire population in all regions of the country. In terms of poverty risk, they are at the opposite pole.
In concrete terms, Romania has developed unevenly, with significant economic disparities between regions. According to Hotnews*, Bucharest, for example, has reached more than 260% of the EU average in terms of purchasing power parity, reflecting a high degree of economic prosperity and development. In contrast, Vaslui county, the poorest county in Romania, has a standard of living about 7 times lower, highlighting deep regional inequalities.*

Causes of regional disparities

- *Concentrating investment.* Bucharest and several large cities have benefited from the majority of foreign and domestic investment, attracting multinational companies and developing the necessary infrastructure for business and housing (a map of local investment can be found in the Recorder database).
- *Infrastructure*. More developed regions have better infrastructure, including roads, transport networks, and access to quality public services, which supports economic development.
- *Access to education and health*. Big cities offer better access to quality education and health services, which contribute to a more skilled and healthier workforce.
- *Internal migration*. Many people from rural and poorer areas migrate to big cities in search of better work and living opportunities, thus aggravating regional disparities.
- *Lack of implementation of public policies*. The lack of effective and well-coordinated public policies for regional development has perpetuated and even accentuated these inequalities.

The good news from the bad news is that, also at EU level, in the case of Romania, the share of people at risk of poverty and social exclusion decreased from 34.4% in 2022 to 32% in 2023 .

What is poverty risk?

Poverty risk refers, according to the World Bank, to the probability or vulnerability of an individual, group or community living below the poverty line.
The poverty line is often defined in terms of income, but can also include other dimensions of well-being, such as access to education, health and adequate housing. In simpler terms, at-risk-of-poverty indicates the extent to which people are exposed to economic and social conditions that may prevent them from meeting their basic needs and leading a dignified life.
Among the main sources of poverty risk are low income, unemployment and the rising cost of living. Lack of stable employment or insufficient income from economic activities can lead to poverty, especially for people working in the informal sector or on low wages. Lack of stable and quality job opportunities is also a major source of risk, and long -term unemployment can lead to depletion of savings and accumulation of debt. Inflation and rising prices for essential goods and services such as food, housing and energy can deepen poverty.
Social factors such as poor education, discrimination and social exclusion also play an important role. Lack of access to quality education can limit long-term employment opportunities and income, thus contributing to the risk of poverty. Vulnerable groups, such as ethnic minorities, people with disabilities and women, can be exposed to discrimination and social exclusion, reducing their chances of escaping poverty. Single-parent families or those with many children are often more vulnerable to poverty because of limited financial resources and multiple responsibilities .

Demographics and health are other significant factors. Older people and children are often more vulnerable to poverty because of their dependence on others for financial support and protection. Health problems and lack of access to healthcare can lead to high costs and loss of income, increasing the risk of poverty.
Inadequate economic policies and weak institutions also contribute to the risk of poverty. Economic policies that do not support inclusive economic growth and inequality reduction can worsen poverty. Corruption and inefficient public institutions can reduce the effectiveness of social assistance programmes and limit access to resources for the most vulnerable. The lack of an effective social protection system, including unemployment insurance, pensions and healthcare, can leave people exposed to economic and social risks .

What is social exclusion?

Social exclusion is, also according to the World Bank, the process by which certain individuals or groups are marginalised and excluded from full participation in the economic, social, cultural and political life of the community to which they belong. It can be caused by a variety of factors, including poverty, lack of education, discrimination, unemployment and limited access to services and resources.
Extreme poverty and income inequality can prevent access to resources and opportunities, contributing to *social exclusion*. Lack of stable employment or working in precarious conditions can lead to economic and social marginalisation. Discrimination based on race, ethnicity, gender, sexual orientation, disability, religion or other personal characteristics can exclude individuals or groups from full participation in society. Lack of access to quality education can limit opportunities for employment and personal development, and health problems and lack of access to adequate health services can lead to marginalisation and exclusion.
Inadequate public policies and corrupt or inefficient institutions can also contribute to exclusion. Public policies that do not promote social inclusion and the lack of an effective social protection system can leave vulnerable individuals at risk. Cultural norms and values that promote discrimination or stigmatisation of certain groups can also contribute to social exclusion. In addition, immigration and cultural diversity can lead to exclusion if not managed through effective integration policies .

How Eurostat defines them

Poverty risk and social exclusion are interlinked and can influence each other. People living in poverty are more likely to experience social exclusion because of limited resources and reduced access to opportunities. At the same time, socially excluded people are more likely to live in poverty because of multiple barriers that prevent them from participating fully in economic and social life.

The risk of poverty and social exclusion is defined by Eurostat as exposure to at least one of the following three situations:

1. *Income below the national average*. This means that a person's disposable income is below 60% of the national average. It is an indicator of income inequality and a person's ability to afford basic necessities.
2. *Severe material and social deprivation*. This refers to the inability to afford at least four of a set of nine items considered necessary for an adequate living, such as paying the rent, heating the home, buying meat or protein on a regular basis, an annual vacation, etc.
3. *Very low labour intensity household*. This indicator measures the proportion of adults (18-59 years) in a household who work less than 20% of their total work potential in the last 12 months. It is a sign of labour market problems such as unemployment.

Recommendations of the Council of the European Union for combating poverty and social exclusion

In 2023, the Council of the European Union adopted a series of key recommendations for Member States to combat poverty and social exclusion. The initiative aims to promote a high level of employment and ensure adequate income support.

1. *Strengthening social safety nets*. The Council stresses the importance of combining income support, through a minimum income and other cash benefits, with benefits in kind. It is also vital to ensure access to essential and facilitating services for people who lack sufficient resources. This creates a robust safety net that protects vulnerable citizens.
2. *Determination and periodic adjustment of minimum income*. The recommendations include setting the level of the minimum income through a transparent and robust methodology involving relevant stakeholders. It is crucial to take into account overall income sources, specific household needs and purchasing power. The Council also underlines the need for regular adjustment of the minimum income level in order to maintain its adequacy, in particular during economic downturns.

3. *Impact of minimum income*. Minimum income contributes to exit strategies from poverty and exclusion and supports sustainable economic recovery. Strong social safety nets provide sustainable social and economic benefits, creating more equitable, cohesive and resilient societies. These measures are essential not only to protect the most vulnerable members of society, but also to create more cohesive and resilient societies across the European Union.
4. *Promoting gender equality and economic independence*. Another important aspect is to ensure that the minimum income can be granted to individual household members, thus supporting women, young adults and people with disabilities. This measure aims to promote gender equality and economic independence for all citizens.

The European Union's recommendations reflect its continued commitment to social protection and the promotion of social inclusion in all Member States.

Challenges, public policies, but especially implementation

The analysis of the risk of poverty and social exclusion in Romania highlights a number of major challenges that require attention, solutions and implementation. Although small progress has been made in reducing the percentage of people at risk, Romania continues to face the highest rate of poverty and social exclusion in the EU.

Romania has, however, some particularities compared to many other EU countries, which means that, in addition to the recommendations of the Council of the European Union, in order to effectively combat poverty and social exclusion, Romania must solve other urgent problems. According to the Organisation for Economic Co-operation and Development (OECD), this requires:

1. *Fight corruption and improve the efficiency of public institutions* through transparent and effective economic policies that support inclusive economic growth and reduce inequality. Corruption and inefficiency in public institutions must be reduced to ensure that resources reach those in need.
2. *Reforms in education and quality health services in disadvantaged areas* by improving access and quality of education through lifelong learning programmes, reducing school drop-out and supporting education in disadvantaged areas. Educating the population is essential to increase long-term employment opportunities and incomes. At the same time, health services are needed in disadvantaged regions to create a skilled and healthy workforce.

3. *Develop transport infrastructure and improve access to quality public services* (education, health) to reduce regional disparities. These investments would stimulate economic growth in less developed areas.
4. Reducing unemployment, i.e. *new jobs, and increasing wages* to improve the financial stability of households.
5. *Efficient use of European funds* for regional development projects also aimed at reducing economic disparities.

Further recommendations can be found in the FEPS study Unequal Romania.

European Commission harshly criticises lack of reforms in Romania

The European Commission published on 19 June a critical stance on the lack of reforms in Romania, reports Economedia, recommending that the EU Council adopt a formal conclusion that "Romania has not taken effective action" to meet the 2021 recommendation on reducing the budget deficit.

Criticism: the government has been accused of failing to implement key structural reforms (pensions, special pensions, budget reform, administrative reform, reform of state-owned companies). At the same time, it has increased state spending on pensions and wages, constantly increasing the budget deficit.

Potential consequences, according to Economedia.ro:

- *Freezing EU funds*: Mateusz Szczurek, former Polish Finance Minister, said that an EU Council decision could lead to a freeze on part of the EU funds for Romania from 2025. Although the amount frozen could be small, the news could increase Romania's borrowing costs on financial markets.
- *Suspension of NRRP funds*: Szczurek mentions that the automatic suspension of EU funds for Romania is foreseen by the NRRP (National Recovery and Resilience Plan) Regulation.

Conflicting views, according to Economedia.ro: according to some European experts, an EU Council decision on Romania would not automatically lead to a freeze of EU funds. Rather, it would be a public signal to the state concerned, highlighting the urgent need for reforms and fiscal consolidation.

Conclusion

Romania is at a critical point in terms of poverty and social exclusion, worsened by the lack of structural reforms and the growing budget deficit. If the EU Council will adopt a critical decision regarding the lack of implementation of effective measures by Romania, this could have significant economic consequences and put pressure on Romania to implement the necessary reforms to avoid financial penalties and increased borrowing costs.

Solving these problems requires a combination of well-coordinated social, economic and education policies. It is essential that government, local administrations, the private sector and civil society work together to create a fairer and more prosperous environment for all Romanians. Romania needs to adopt an integrated and coordinated approach, including investment in infrastructure, education and health, incentives for investment and rural development, and the effective use of European funds. The implementation of cohesion policies for a fairer distribution of resources and economic opportunities between regions is crucial.

Because only through concrete and sustainable measures can Romania reduce economic and social disparities, improve the quality of life for all citizens and move towards a more inclusive and just society.

In other words, there is no point in having paper solutions and EU money if they are not implemented effectively and fairly.