After a period of political turmoil, Romania is building on its strengths and looking outwards for investment to stimulate growth.

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Last year, Romanian politics was rocked with infighting between the country's Prime Minister, Victor Ponta, and President, Traian Basescu. **Clara Volintiru** *writes that the country has largely moved on from its political squabble, and is now positioning itself as an attractive target for investment compared with its neighbours in Central and Eastern Europe. Whether this strategy will bring the growth needed to restore Romanians' confidence in their political leaders remains to be seen, however.*

On the 15th and 16th of July, the managing director of the IMF, Christine Lagarde made an official visit to Romania, meeting with the Prime Minister, Victor Ponta, the National Bank Governor, Mugur Isarescu, women entrepreneurs, the president Traian Basescu, and representatives from academia, the private sector, and civil society. Her visit followed other high profile visits from the president of the World Bank, in May, and the president of the European Bank for Reconstruction and Development (EBRD), in June. This series of meetings boosted international confidence in the political and economic path that Romania is currently pursuing.

Christine Lagarde at the National Bank of Romania Credit: IMF (Creative Commons BY NC ND)

After a long period of political turmoil, with a gradual, difficult, and still partial change of power, Romania is now reclaiming its stability and is attempting to address structural and economic challenges. While the economic indicators show a somewhat healthy situation—compared to other South East European economies, the general level of welfare is still unsatisfactory for most Romanians. In 2011, 40.3 per cent of the population was at risk of poverty or social exclusion—a lower level than the 2007 number of 45.9 per cent, but still double the EU average of 24.2 per cent. The Romanian monthly minimum wage is the lowest in the EU, at €157.20.

In her public speech, Christine Lagarde addressed the regional and national context of Romania while stressing the importance of preserving and taking advantage of its ties with the European Union. Romania remains strongly connected to the EU project, and popular sentiment is positive towards Brussels. However, it has not managed to take full advantage of its position, having the lowest EU funding absorption rate in Europe. She also reminded the audience that between 1995 and 2007, Eastern Europe grew faster than all other emerging market regions, with the exception of only China and India. Average yearly incomes in Romania have tripled in the past two decades, from about $3,000 in 1993 to more than $10,000 today, but they remain still well below the EU average. Thus, as most of the countries in the neighborhood have returned to growth, Romania is recording generally positive progress and there is much untapped potential for further economic growth.

Departing from her official speech, Lagarde also commented on the high quality of human capital in Romania. This is a highly significant point in the current context. As several million Romanians are currently living abroad, there is much anguish both at home and in the countries of destination. From Romania's point of view it is a brain drain crisis. From foreign points of view, it is a crisis of immigration. While one side deplores the loss of expertise and talent, the other is concerned with the social burden of low-skilled work. In fact, the nature of the single market allows for both categories of people to work abroad. Still, while the data is somewhat contradictory at the moment, it isn't the brain drain that is an imminent economic threat to Romania, as much as the untapped potential of local professionals. Many Romanian graduates from prestigious foreign universities find it harder to find jobs at home than abroad. The public system is plagued with patronage and clientelism, while start-ups and SMEs aren't developing in a systematic manner—over 70 per cent of the self-employed in Romania are in the agricultural sector, and over 65, not young entrepreneurs.

Romania is still one of the main destinations for foreign direct investment (FDI) in the Central and Eastern region of Europe (following Poland, Czech Republic and Hungary). And, as opposed to other nearby countries, the actual number of FDI projects is bigger than the perceived attractiveness of the country. If political stability is maintained throughout the next electoral year (European Parliamentary elections in the spring of 2014 and presidential elections in the autumn of the same year), Romania may provide a good contrast from other countries in the region, and capitalize on this attractiveness for foreign investment. New legislation on public/private partnerships is currently being fast-tracked for the European Commission's approval, so that more predictable and functional conditions can be created for foreign investors willing to develop public works in Romania. This is especially important for such areas as infrastructure or energy.

The main driver of the positive growth figure expected for 2013 is still domestic demand, and it would be desirable to rely more on the competitiveness of Romanian exports in the near future. The only reason Romanian exports have played a marginal contribution to current growth is that imports have fallen too. Like most EU countries, Romania's main trade partner remains the European Union (the source and destination for more than 70 per cent of Romanian exports and imports). Following the economic crisis, which has affected most of Europe, the Romanian government has begun to acknowledge the growth potential of improving trade relations with other regions as well. This approach was reflected in the recent tour of Central and Eastern Asia conducted by Prime Minister Ponta, in search of new investments and strategic partnerships. While no substantial deals have been brokered so far, the approach is on the same page with other Central and East European development strategies, with Poland, Bulgaria, and Hungary, already having more exchanges with China than Romania (including higher import shares). Experts explain that Romania's relationship with China has been traditionally strong (especially during communism) and it is only because of an unfounded political estrangement of the last decade, that it is currently behind other European countries.

Finally, equally significant to the economic strategy of Romania is for public institutions to recapture popular trust. Lagarde also alluded to that when mentioning the need for "fair burden sharing". She explained that when you decide to do fiscal consolidation and maintain macroeconomic stability as a framework, the burden has to be fairly shared, or the political acceptability and credibility of those promoting these policies is likely to be in jeopardy*.* With inequality on the rise over the past decade, Romanians have gradually lost faith in the representative function of their institutions capacity to deliver effective and predictable performances. While efforts are being made to remedy such disparities (for example new legislation on public wages), it is unclear whether progress will be enough to create actual, palpable results in a time of general economic scarcity. Still, only one year after its political imbroglio

Romania shows real signs of improvement.

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