

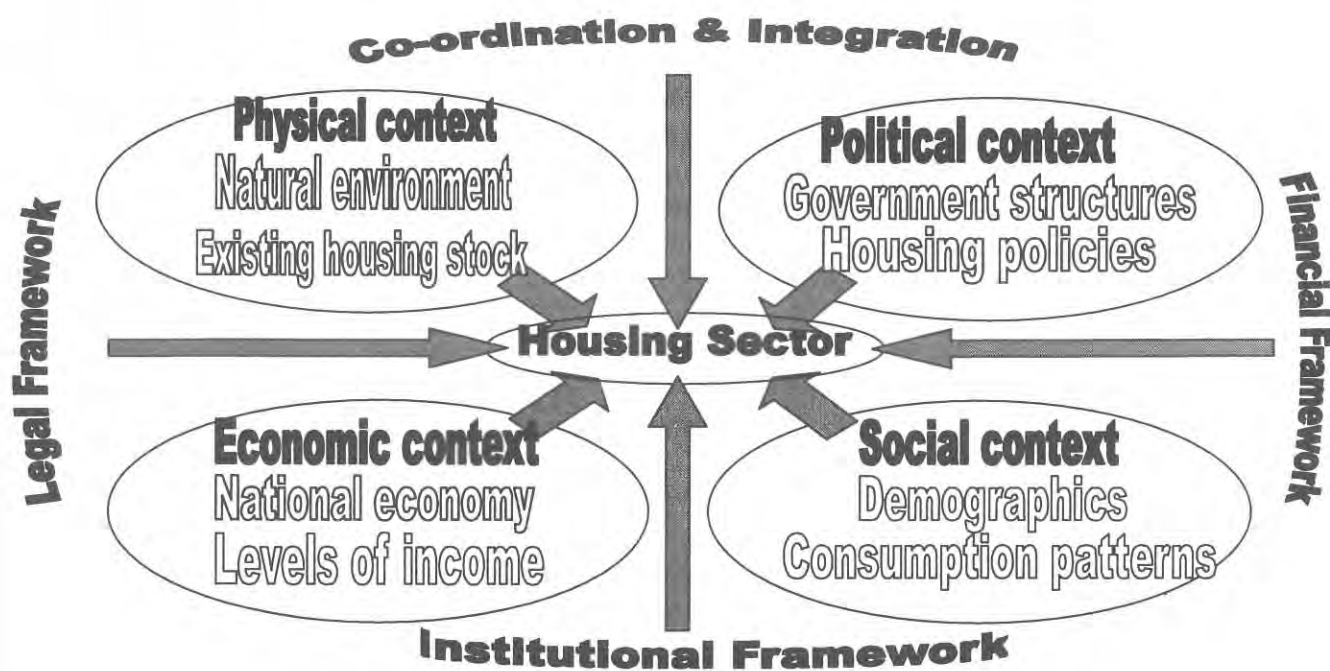
I. FRAMEWORK FOR THE HOUSING SECTOR

Introduction

The framework for analysing the housing sector in Romania (fig. I) consists of the four elements conditioning its housing sector today. These are the political, economic, social and environmental factors that impact directly on housing. They are governed by the specific institutional, legal and financial context of the housing sector, which is discussed in detail in chapters III, IV and V respectively. Coordination and integration - or their absence - is a common factor, which is addressed in the conclusions and recommendations of this report.

This chapter commences with a presentation of the main facts about Romania and its physical features. Separate sections follow to deal in turn with the political, economic and social context of Romania in relation to housing. This chapter is therefore intended to be 'navigational', in that it lays the foundations for a comprehensive and systematic description of the challenges facing the housing sector in Romania. It also introduces some of the key themes which are analysed in greater detail in each of the four following chapters. The resultant core and purpose of the report are the conclusions and recommendations (set out at the beginning) for consideration by those most directly involved in the housing sector in Romania.

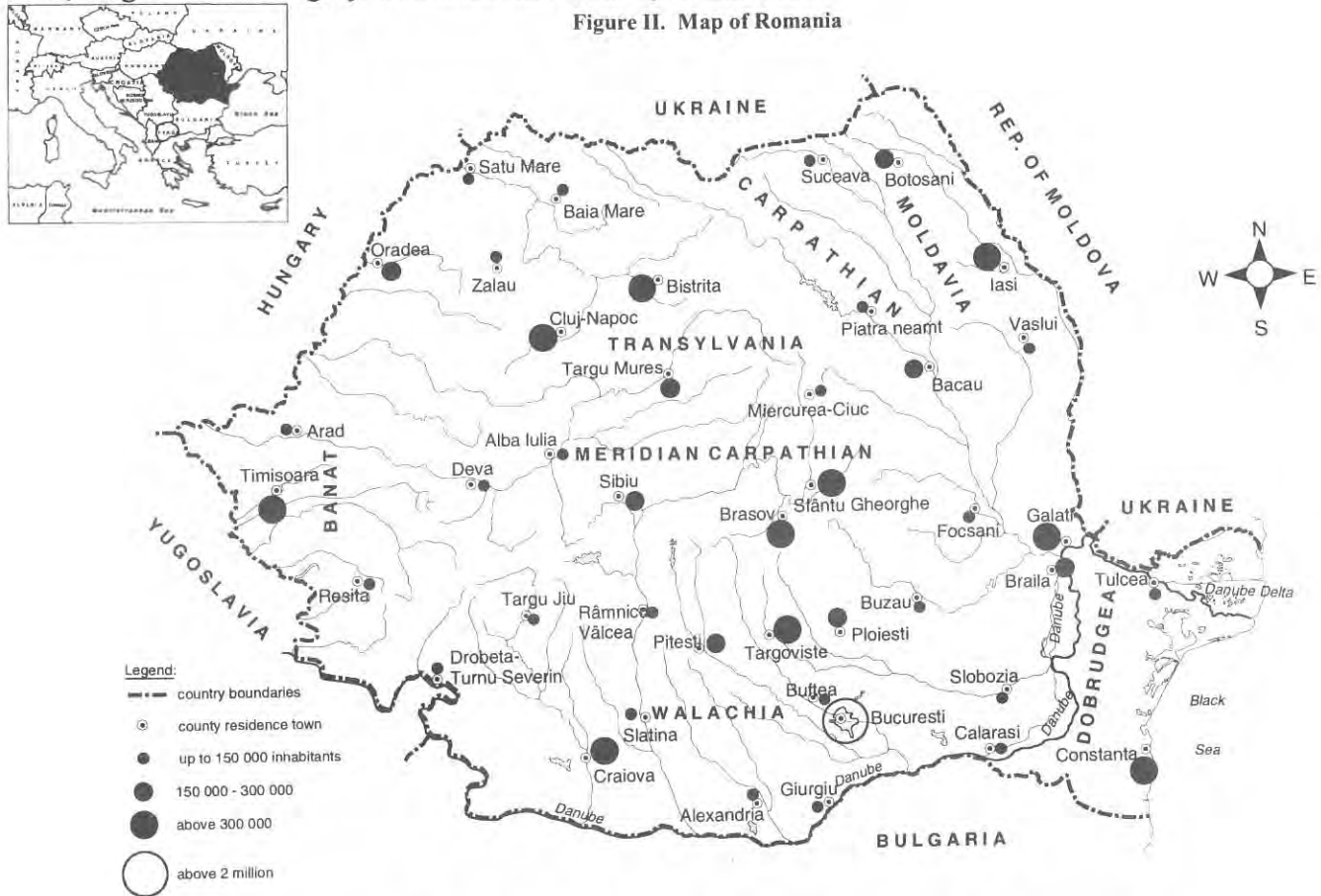
Figure I: Framework for the analysis of the housing sector in Romania



A. Physical context

A medium-sized country of 237,500 km², Romania is located in the south east of central Europe. It is bordered to the north by Ukraine (see fig. II), to the east by the Republic of Moldova and to the south-east by the Black Sea. To the south lies Bulgaria and to the south-west, Yugoslavia. Hungary is situated immediately to the west.

Figure II. Map of Romania



The boundaries shown at this map do not imply the official endorsement or acceptance by the United Nations.

Environment

Romania has a varied topography (fig. II). The Transylvanian Basin occupies central Romania, with the Carpathian Mountains to the north and east. Romania's most important river is the Danube, which demarcates part of its eastern boundary with Yugoslavia, and most of its boundary with Bulgaria. Forests cover 28% of the country, arable land 39%, and meadows and grazing land 20%. This is a landscape of enormous natural beauty, and the country also enjoys a continental climate. As a result, Romania has great potential as a destination for both summer and winter tourists – a development which would have implications both for the general economy and for the provision of accommodation.

The physical resources of Romania provide a wealth of building materials – timber, cement, stone, aggregates, oil-based products, etc. – which have been exploited throughout history and continue to be available to support industries involved in housing construction, modernization and repair.

Environmental risks

The greatest environmental risk affecting housing in Romania is earthquakes. The zone of highest earthquake risk follows the south-east elbow of the Carpathian Mountains (see annex). Many residential buildings still require renovation after major earthquakes in 1977, 1986, and 1990. In Bucharest, the older housing stock is not very resistant to earthquakes, and an estimated 4,700 apartments are in danger of collapsing. The Municipality conducted studies on about 2,500 buildings "at risk", and found, 300 five-storey structures, built before 1940, to be seriously damaged. In 1998, the Municipality allocated 1.2 billion lei for studies and structural upgrading, but found it difficult to house families during the repairs.

There have also been significant cases of flooding in recent years. The Government is well aware of these risks, not least to residential buildings, and surveys have been carried out to help target the resources dedicated to repairing earthquake and flood-damaged housing.

The record of the Romanian Government's attempts to preserve the environment has been marred by a number of incidents, the most recent of which was a large spill of cyanide into the Danube in January 2000. A more detailed report on the environment by the United Nations Economic Commission for Europe (UN/ECE) (Environmental Performance Review of Romania) should be published in December 2001.

General condition of the housing stock

Although a number of local studies have been undertaken, the overall state of Romania's housing stock has not yet been surveyed, and the cost of repair, remodelling, refurbishment and renovation¹ remains unquantified. There is certainly no national work programme to rectify the obvious structural or qualitative defects of the housing stock.

Furthermore, the challenge for housing appears to be compounded by the poor condition of the infrastructure that services housing - for example, the utility services, including energy and water distribution, district heating systems, sewage and refuse collection. These are all part and parcel of the housing system in Romania, and appear to be facing similar difficulties as they struggle to provide services which both adequately meet consumer needs and are "market-oriented".

The position is compounded by long-term under-investment in the nation's housing stock. Given the economic hardships of the past ten years, it is not surprising that only a nominal amount of public or private funds have been invested in the housing stock in general. A large segment (nearly 40%) of urban housing, as can be seen in the following chapter, is prefabricated panel buildings, and is served by ageing infrastructure and utility services which are in need of new and urgent investment. A further share of housing in rural areas (less than 50% of rural housing is constructed with concrete or bricks) is also believed to require significant investment in modernization.

The physical state of housing therefore represents a serious political (as well as social and economic) challenge to Romania. Yet it does not appear to be as a high priority for the Government; although this is perhaps not surprising since it is vying politically with other urgent issues for national attention.

B. Political context

Action and policies of the Government

From a recent political and a historical perspective, there were two distinct stages leading to the current housing situation in Romania. The first was the policy of the former communist government, which saw housing as one of the main ways to achieve urban expansion and rapid industrialization. This policy commenced in the 1970s and continued into the 1980s. It was the period that witnessed the dramatic growth of urban settlements through massive State-led housing programmes. Despite this large-scale activity, by 1990 the public sector's share of the housing stock in Romania had increased to only 32.7% - i.e. two thirds was still in private hands.

The second stage occurred between 1990 and 1993, when the new post-communist government pursued a policy of mass privatization of the State-owned housing stock. State-owned housing was offered to the sitting tenants at a price based on the age, structure, category and size of the dwelling. A 10% down payment was required, combined with a soft loan offered by the State to cover the remainder. High inflation in the early to mid-1990s quickly eroded the real cost of loan repayments to the further benefit of the buyers. Nevertheless, those revenues which did accrue to the State as a result of the wholesale transfer of residential property were ploughed back into the completion of the many buildings in Bucharest and other regional cities which were left unfinished at the time of the revolution in 1989, when work on them came to a halt.

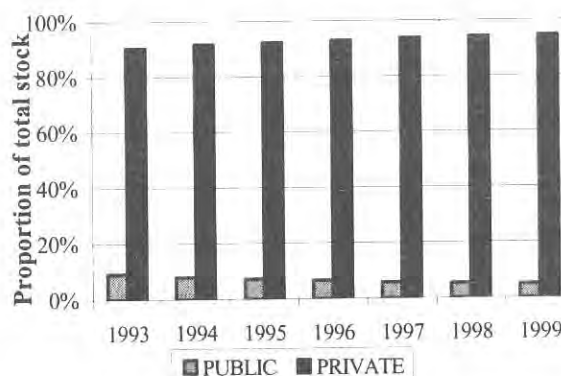
Mass privatization resulted in an increase in private housing from 67.3% in 1990 to over 90% in 1993. By the end of 1999, private sector stock had reached 94.6% of all housing in Romania. The political control of a large share of the national housing asset had therefore been relinquished by the State. Furthermore, since most properties were purchased at heavily discounted prices, few of the homeowners would necessarily have calculated or appreciated the true value of the asset which they had acquired. Furthermore, even fewer of the new owners would have been aware of the need to budget for the repairs and maintenance which many of these properties required and for which responsibility had also been transferred to them.

Table 1. Existing housing stock by number and ownership, 1993-99

Year	Total ('000)	Public	Private	Other	Annual increase
1993	7,710	707	6,971	31	0.5%
1994	7,749	609	7,110	30	0.5%
1995	7,782	565	7,186	31	0.4%
1996	7,811	515	7,266	30	0.4%
1997	7,837	449	7,357	31	0.3%
1998	7,861	412	7,416	33	0.3%
1999	7,883	390	7,460	33	0.3%

Source: National Commission for Statistics, Romania.

Figure III. Ownership of housing stock, 1993-99



Where are thus both advantages and disadvantages in such a massive privatization. The main advantage, to both State and occupiers, is relatively short-term. Since the price of their home was relatively low for former tenants, household income could be spent on other essential

or non-essential commodities. It is widely reported that this 'housing policy' together with the strong family ties which fostered the transfer and exchange of food and other consumables from the rural to the urban population actually enabled many Romanians to survive the hardship of the past decade.

Chief among the consequences of this wholesale transfer are:

- The apparently precarious state of a large part of the housing transferred to individual private owners.
- The precarious socio-economic circumstances of the new owners – and, in particular, their capacity to invest (more than slightly) in their new home.
- The reduced ability of the Government to provide for those segments of the population in genuine social, economic, or other special need of housing, due to its reduced stake in the housing stock.

Ultimately, political responsibility for housing rests with the Ministry of Public Works, Transport and Housing (MLPTL), which, however, has not yet adopted a national strategy for housing. Clear goals and priorities have certainly been set, but they remain essentially aspirational and have not yet been put into practice. Work is currently being undertaken by one of its central agencies, the Urban Project, to broaden and promote the policy agenda for housing in Romania, and one of the aims of this housing profile is to help inform and to contribute to the development of a comprehensive national policy on housing, housing development and housing management.

Currently and throughout the 1990s, Romanian housing strategy has been almost entirely reliant on market forces and, after privatization, prioritized the development of a market for new housing. There is, however, within MLPTL and elsewhere, evidence of a growing awareness that the current housing situation is much more complicated than this, that Romania is not yet able to rely on market forces to solve the problems and that the privatization of most of the stock does not relieve the Government of responsibility for the health of the housing sector. An effective overall national strategy for the housing sector, therefore, requires a review and a redefinition of the challenges facing the sector.

In developing its housing strategy, MLPTL has so far centred attention on the following priorities:

- Relieving genuine housing emergencies, for example the reconstruction or relocation of dwellings damaged by natural disasters, in particular, earthquakes and floods;
- The completion of a large number of previously uncompleted pre-revolution structures
- The creation of a national housing agency to 'kick-start' the housing construction sector and promote the market supply of new housing; and
- Establishing the legal framework as a foundation and prerequisite for the operation of a housing sector based on market principles.

As well as these four focuses, there is also an increasing concern within MLPTL that more attention needs to be paid to three more fundamental housing issues:

- Policies and incentives to encourage investment in improvements in the overall condition and quality of the mass of privatized housing in Romania;

- Policies and standards to improve householders' access to transparent, accountable and well run utility companies, homeowners' associations and housing management services;
- Policies and mechanisms to promote more efficient and mature primary and secondary housing markets throughout the entire country.

There is still little evidence of any political action that considers housing issues in the context of their interrelation with issues outside the sector - for example, with the general economy, employment, health, education, social and community development, and so on. Arguably, any strategic thinking about housing issues which does not take these interrelationships into account is destined to fail.

Housing in the context of the general administrative structure of government

The Constitution of Romania was approved by referendum on 8 December 1991. It provides for a multi-party system, a free market economy and respect for human rights. Legislative power is vested in a bicameral parliament, which is made up of a 341-seat Chamber of Deputies and a 143-seat Senate. Members of Parliament are elected by universal suffrage using proportional representation, for four-year terms.

Public administration devolved to territorially-based administrative units is based on the principle of local autonomy and the decentralization of public services, and is written into the Constitution. Romania is divided into 41 counties plus the Municipality of Bucharest, and 2,688 communes. 80 of the larger towns are classified as municipalities. There are also eight development regions.

Figure IV. Administrative boundaries



Source: MLPTL, UNECE.

The boundaries shown on this map do not imply official endorsement or acceptance by the United Nations.

Legislation grants wide-ranging decentralized powers to local authorities, including responsibility for housing matters. The municipal and communal councils have become the landlords of the previously State-owned housing that has not been privatized. They maintain housing waiting lists, are responsible for investment in the existing stock, and collect rent from their tenants. Whilst local authorities are competent to raise finance for building projects to develop new ‘social’ housing for residents in genuine need, only a handful of schemes have actually been developed to date. Nevertheless, the provision does exist and could be applied if conditions or incentives to local authorities were more favourable.

Responsibility for the management of some of the local utility companies – above all district heating - rests with the local authorities. Where these are underperforming, due primarily to a lack of investment over many years, the local authorities are at pains to maintain their operation. They recognize that they do not have the necessary management skills for their restructuring and direction in a competitive free-market environment. While the privatization process will gradually affect these former State-owned industries, the financial burden of supporting the operating deficits of these firms is in the meantime borne by the local authority budget.

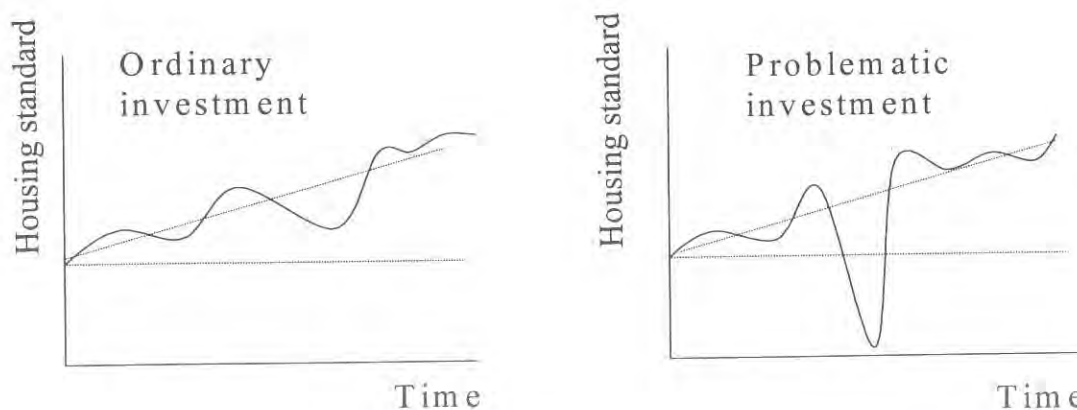
Public investment in housing

The sustainable approach to investment in housing requires the State to enable individual homeowners to maintain their properties themselves. This requires both political support for

intervention and the financial resources for dealing with the most pressing difficulties. The Government, understandably, does not wish to have to find resources again for a potentially

expensive problem which it considered it had resolved (through privatization) ten years previously. Yet the rationale for early investment in housing is clear - not simply for its social or political benefit, but for sound economic reasons, as illustrated in **figure V**.

Figure V: Ordinary and problematic investment in housing



Source: UNECE 'Implementation of human settlements policies on urban renewal and housing modernisation – Evaluation of four case studies July 1999.

The first graph in **figure V** indicates investment in the maintenance and repair of housing over time. When investment is timely, the price of housing tends to increase in line with the value of that investment and with the prices of commodities and products in society generally. The second graph illustrates a scenario where investment in housing maintenance and repair has fallen off dramatically. Housing which does not benefit from systematic investment over time will deteriorate, often rapidly, and the economic life of the building be shortened. Furthermore, the cost of renovating the housing stock to restore it to its market value increases at a greater rate over time. As a simple illustration: if a leaking roof is not repaired when it should be, it soon becomes necessary to completely re-roof part of the building. Any further delay may result in the need for even more expensive repairs due to weather penetration causing damage and endangering the structure.

The second graph illustrates the situation in Romania. Not only does it begin with the situation where the housing stock erected between 1970 and 1989 is acknowledged to be of poor-quality construction, but it has not received any significant investment for at least the past ten years, perhaps in some cases never at all. To bring the housing stock up to a reasonable condition - more in line with standards current in the rest of Europe - very significant and urgent investment is required.

Landownership and property restitution

Restitution is considered to be one of the hallmarks of the transition process in relation to land, property and housing. In Romania, by the end of 1998 more than 84% of arable land and

72% of total agricultural land was in private hands. 78% of landowners who had applied for land restitution had received back their original land, or had been compensated. Notwithstanding the achievements, anecdotal evidence suggests that the transition process is plagued with difficulties over claims that can be registered to the title of land, including a potential lengthy legal process. Similarly, whilst legislation exists for former owners of property to recover that which was previously theirs, there is an unduly strong presumption in favour of the rights of the sitting tenants, which appears to oblige the former owner to find suitable alternative accommodation for them. These legal issues are dealt with in greater detail in chapter IV.

C. Economic context

The overall economic climate of a country has a marked effect on its housing. An enterprising and well governed economy is the locomotive of prosperity for a nation and one of the chief determinants of its population's demand for housing. Income generated from economic activity fuels expenditure across a range of products and services, primary among them being the need for each family to purchase, or have access to, suitable, safe and secure housing.

A summary of ten years of transition in Romania¹

The ten years of transition have not brought about an improvement in average living conditions in Romania. By 1999, GDP was still at just 74% of its 1989 level, although GDP per capita was around 80% of the 1989 level. Progress in the transition to a market economy has been slow, particularly when compared with Romania's near neighbours in eastern and central Europe. There are three main reasons for this:

1. The legacy of President Ceausescu's policy in the 1980s to pay back foreign debt had left the economy very weak; and there was no debt-funded capital replacement or investment during this period.
2. The impact on Romania's trade of the United Nations trade embargo on Yugoslavia in 1992-95.
3. Inconsistency in domestic economic policy, combined with a culture of industrial unrest, which has complicated the implementation of reforms.

From 1990 to 1996 the Government included members who were opposed to implementing the structural changes in industry, agriculture and the financial sector that were required to develop a competitive market economy in order to make full use of the country's potential. The coalition Government that took power after the election in November 1996 announced its intention to initiate the economic policy that had been drawn up in consultation with the International Monetary Fund. However, failure to reach a consensus on the Government's economic policy prevented implementation of many of the reforms. A second recession affected Romania between 1996 and 1999, resulting in GDP falling a further 16% in real terms.

By 1999, there were some preliminary indications that industrial restructuring was finally taking effect. Reductions in energy consumption contributed to a narrowing of the current account deficit, and some major privatizations helped to facilitate foreign direct investment in key sectors, including telecommunications and car production. However, the need to attract foreign capital for restructuring industry, public utilities and the financial sector remains a major

¹ Economist Intelligence Unit Limited, Romania 2000 – p. 23

prerequisite for sustained economic recovery. Economists have predicted that it is likely to be the second half of this decade before Romania returns to 1989 output levels.

Romania's economic journey through the 1990s can be charted by reference to a number of key economic indicators. The Government's mid-term economic plan shows a more stable economic climate developing over the next five years. This is as vital for housing as it is for other sectors of the economy. Briefly, for the 1990 to 1999 period, GDP growth remained negative and average inflation reached a peak of 256% in 1993, although fell back to an average of 45.8% in 1999. The Romanian currency, the leu, was devalued in October 1990 to an official rate of 35 leu for US\$1; but, by June 2000, the currency had depreciated to 20,000 leu for US\$1. By December 1999, real wages had declined by 64.2% since 1989, and foreign direct investment per capita was a fraction of that in other large central and east European countries.

Table 2. Main economic indicators, 1999

Real GDP growth (%)	-4.8
Unemployment rate (year end %)	11.5
Consumer price inflation (av. %)	45.8
Current-account balance (% of GDP)	-4.1
Exchange rate (Sept. 99 leu: dollar)	16,300

Sources: National Statistics; IMF; EIU.

Structure and performance of the economy

Industry and agriculture have contracted in real terms as a percentage of GDP since the onset of the transition in 1989. Industry's share of GDP fell from 57% in 1989 to an estimated 40% in 1999, and its share is expected to go on falling as restructuring accelerates. The share of agriculture and forestry has also declined, despite the proportion of the population employed in agriculture having increased from 27.5% in 1989 to 41.2% in 1999. Its contribution to GDP is expected to steady at about 20%. Services, at around 40% of GDP in 1999, lag behind those in other countries in transition, but are expected to grow over the longterm. The 'shadow' or 'informal' economy is reportedly making a rising contribution to annual GDP: according to the National Accounts, it was estimated to be 16.6% in 1995, and 19.9% in 1998.

Major industries

Romania is among the world's 50 most industrialized countries. However, the rapid industrialization during the communist era has left Romania with a concentration of metallurgical, heavy engineering and chemical industries in which it has little comparative advantage. Because of accelerated foreign debt repayments in the 1980s, the capital stock was not renewed, with the result that most industrial plants use technology that is 15 to 20 years behind the European Union average. Restructuring has been generally slow in the industrial sector. Those industries producing consumer durables and light-industry consumer goods are seen as having the greatest potential.

Communism also left Romania with excessive industrial consumption of energy and overstuffed, inefficient primary energy production systems. The modernization of the energy sector was held up until the late 1990s by the continuation of State-owned monopolies, high levels of consumer subsidy, and resistance to privatization of the coal, electricity and gas

industries. Government measures to tackle these fundamental problems began in 1997, but have been slow and costly. However, by 1999 their positive impact was beginning to be felt.

Romania also has large oil and gas reserves, which are attracting the interest of foreign investors. A major new discovery of crude oil under the Black Sea was announced in 1999. A 20-year programme to revitalize the oil and gas industries is under way with the support of the World Bank.

Transport and communications

Road and rail networks and the general communications infrastructure in Romania are among the least extensive in Europe. Major transport projects aimed at upgrading the strategic transport infrastructure are under way with World Bank and EU assistance. Romania's outdated communications network is also receiving a large injection of international and domestic funds, and former State-owned monopolies in the sector are being restructured for genuine market competition.

Construction

A spate of large projects towards the end of the communist era gave the construction sector an artificial boost, leaving Romania with the highest per capita cement consumption in the world. Schemes included the campaign to house large numbers of the rural population in apartment blocks in urban areas, and the reconstruction of large areas of central Bucharest.

The construction sector in the 1990s was badly affected by the decline in GDP, which led to cuts in government spending on infrastructure and a sudden and steep decline in house building. At the beginning of the 1990s, public sector developers dominated housing construction, but during the transition period, a large number of small privately owned construction firms have appeared in the market. By the end of 1998, there were 8,263 companies registered as having construction as their main activity. Of these, more than 96% were private, and 92% in the small or very small categories - i.e. with fewer than 50 employees.

By 1999, construction activity had fallen well below its 1989 level. The downsizing of the construction sector caused many construction workers to seek work abroad, with a consequent reduction in the immediate capacity of the sector. Predictions of a revival in construction work are, however, becoming more favourable as longer-term economic forecasts suggest that investment levels will rise as macroeconomic conditions become more stable. Prospects of a revival are also becoming more hopeful as the demand for commercial premises and hotels increases, particularly in Bucharest. This may well pose a serious challenge to the economy if the domestic construction industry cannot expand quickly enough to match predicted growth.

Financial and securities markets

Romania introduced a two-tier banking system in 1990. This consisted of a central bank, the National Bank of Romania (NBR), and approximately 40 commercial banks, including 12 branches of foreign-owned banks. Confidence in the financial sector was upset by a number of highly visible financial upheavals involving mutual funds and savings accounts. By the end of 1998, State-owned banks still accounted for more than 70% of all banking activity. Many of

these had large portfolios of non-performing loans. A number of major banks were privatized in 1998 and 1999, whilst two other major banks went into receivership. Tighter regulations and a

stronger prudential policy are intended to complete the current phase of restructuring in the sector. (See also chapter V.)

The Bucharest Stock Exchange reopened in 1995. This was followed, in 1996, by the launch of the Rasdaq, an electronic network for registering over-the-counter share sales.

Foreign direct investment (FDI) and international trade

Cumulative net FDI inflows between 1991 and 1997 amounted to 4.5 billion dollars - a low level by regional standards. Foreign investors were deterred by the outbreak of the war in Yugoslavia as well as by more general macroeconomic instability in Romania. In 1998, FDI inflows rose significantly to over \$2 billion, but in 1999 fell back again to under \$1 billion. Nevertheless, many State-owned companies which have not yet been privatized could still become major targets of capital inflows. The five leading foreign investors in Romania are France, Germany, The Republic of Korea, the Netherlands and the United States. Other major import/export partners include Italy, the United Kingdom, Hungary, Turkey and the Russian Federation.

Employment and wages across sectors

Romania's population is the second largest (after Poland) of the current east European applicants for EU accession; but the country's domestic market ranks sixth in terms of dollar GDP, and eleventh in GDP per capita at purchasing power parity.

The transition period towards a market economy has had a significant impact on the size and composition of the labour force. From 1989 to 1997 the active population fell by over 1.9 million to 9 million. The largest job losses have been in industry, where the number of workers fell from 4.2 million to 2.4 million over the same period. There has also been a marked reduction in wages.

Earnings in several sectors have changed considerably. They have increased most in the financial services sector, which has grown rapidly since 1989. Wages have also risen sharply in mining and energy; in the post office and telecommunications and in transport and storage companies they now stand at 25% above average. Wages in the construction and real estate sectors are some 6%-7% above average, while the worst paid sectors are education, health and the civil service.

Wages have diversified over the past ten years, and have also become more varied between regions. Rural wages are reported to be generally lower than urban wages, whilst in Bucharest wages tend to be higher than in the rest of the country due to a higher proportion of workers in the highest income bracket.

Income inequalities and consumer expenditure patterns

The post-1996 reforms have contributed to greater income inequality. Poorer households - traditionally hardest hit by high inflation - have also suffered disproportionately from above-

average increases in the prices of meat, vegetables, energy and services such as urban transport, water and post, due to the removal of subsidies.

Research by the Government's Quality of Life Institute revealed that an average family of two adults and two children earn barely a subsistence wage and is not able to afford a 'decent' standard of living without other sources of income.

Furthermore, family incomes given by interviewees in a sociological study conducted in November 1998 by the same Institute (with a national sample of 1,510 people) revealed a critical situation:

- In 37% of households, income only just pays for the absolute necessities. In a further 34%, household income cannot even cover this bare minimum.
- For 21% of households, income permits an acceptable standard of living.
- 7% of households are able to buy some more expensive goods, if they save elsewhere.
- 0.5% of households can afford whatever they need.
- Moreover the study revealed that:
 - 7% of families are able to save money every month.
 - 23% have some financial reserves.
 - 38% of households borrow money to pay their bills.

From the figures above, it appears that an alarming 71% of the population finds it difficult to meet its most basic needs. For those who are homeowners, this poses serious questions with regard to their ability to maintain their homes.

Food accounts for a large proportion of total expenditure. Non-food items account for one quarter of consumer expenditure, and services for one tenth. Most of the last two items represent quasi-obligatory expenditure on goods and services for basic needs (clothing, footwear, rent, transport).

D. Social context

Demography

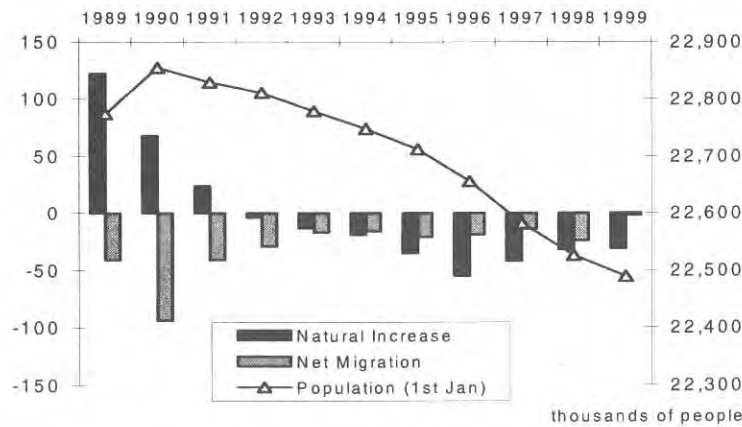
The population of Romania on 1 January 2000 was estimated at 22.455 million. Average population density is 94 persons/km², but this varies considerably. 54.9% of the population lives in the officially designated urban areas, where the average density is about 480 persons/km², while the overall rural density is only one tenth of this. The actual densities vary greatly between these two averages, the highest levels being reached in concentrated estates of multi-storey apartment blocks.

The size of the population, its growth and its characteristics are fundamental in assessing the overall need, types and location of housing. Chief among these are household formation rates and household characteristics, which themselves reflect birth, death, fertility, marriage and divorce rates, and also migration - internal, as well as in and out of the country. Recent migration patterns show fairly evenly distributed urban-rural and rural-urban flows and suggest that there are no areas with particularly high migration pressures.

The transition to a market economy has fuelled demographic changes (see fig. VI) of which the most important can be summarized as:

- Negative demographic growth for most of the 1990s. (In 2000, the population was 715,000 lower than in 1990; over 300,000 Romanians emigrated during the same period.)
- Faster ageing and increased pressure from the retired population on the active population.
- The number of marriages fell from 178,000 in 1989 to 140,000 in 1999, while the number of divorces fell only from 36,000 in 1989 to 34,400 in 1999.

Figure VI. Main demographic data



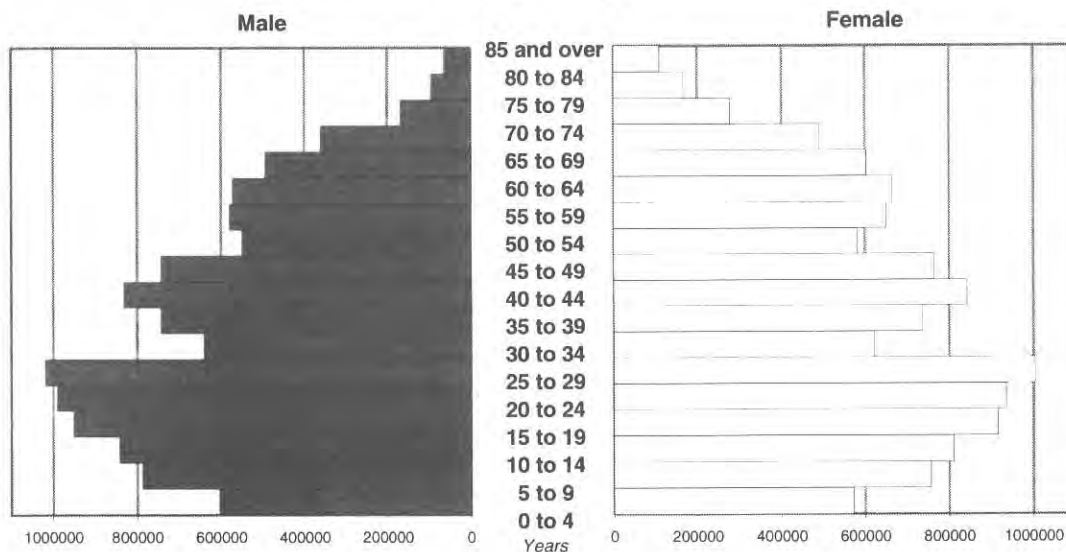
Source: National Commission for Statistics, Romania, 2000.

The main indicators for the general health of the Romanian population which affect the demographic trends are:

- Life expectancy at birth (average lifespan) has fallen from 69.78 years in 1990/92 to 69.71 in 1997/99.
- In the 1997/99 period, the median life expectancy of men was 66.05 years, compared to 73.67 years for women.
- Life expectancy in rural areas in the 1997/99 period was 68.66, compared to 70.58 years in urban areas.
- Romania has the second highest infant mortality in Europe, after Albania.

Figure VII shows the age-sex structure of the population. Romania has a relatively young population compared to that of western Europe, for example, in 1996 45.4% of the population was under 30 years of age. A key feature of Romania's population, however, is the declining proportion of the younger age groups, 0-14 years of age. If the declining birth rate continues as

Figure VII. Romania's population pyramid



Source: Official Statistical Yearbook, 1998.

forecast, the old-age dependency ratio (of retired people to active population) will increase, placing extra strain on the funding of pensions and publicly funded social security provisions, etc.

The general economic climate is considered one of the main causes of the fall in the birth rate. This has been compounded by the abolition in 1989 of the legal ban on abortion and the liberalization of contraception. The lack of affordable housing for young adults has also been suggested as a contributory factor to the lower number of marriages and subsequent fall in the birth rate over the past 10 years.

Clearly, the population group responsible for the fall in the birth rate over the past decade is the cohort now 30 to 40 years old. As a result of the economic hardship of the past ten years a large proportion of this group appears to have decided not to marry and/or have children. Current population forecasts do not account for the fact that this cohort is still young enough to have children. If economic conditions improve in the short term these projections will need to be carefully monitored and may need to be revised.

Household formation

These general population changes suggest broadly what housing requirements might be, but the key determinant will actually be the number of households. Households are created when existing households divide, or when young adults leave their parental home.

Up to the fall of the previous political regime, access to housing was allocated by the State upon marriage, or shortly afterwards. This was a mechanism to translate housing need - at least numerically - into effective housing demand, and any mismatch could be attributed to weaknesses in the administration of this system.

Since 1990, however, an entirely new and evolving mechanism for matching households and dwellings, the housing market, has been in place. The State has now adopted a marginal role as a provider of housing and young adults and others wishing to create new households have had to turn to the fledgling new construction or existing - housing markets to satisfy their housing needs. It is suspected that most have encountered difficulties, either due to the lack of mortgage instruments, or to their generally depressed purchasing power. The overall need for housing is therefore significantly masked, since it can only be translated partially into effective market demand. Households may be formed, but forced to share with others ("enforced sharing"); others may feel unable to create independent households - e.g. through marriage - because they cannot afford a separate home (so-called concealed households). There is currently no practicable way to measure this unmet need, although there are clear indications of its existence in studies conducted by the National Quality of Life Institute.

Against this background, forecasting the future change in household numbers is difficult. The declining population suggests a forecast of declining household numbers, and the received wisdom in Romania reflects this. However, the picture is anything but simple, and caution is advisable. It is not practicable to give here a reliable forecast of future change in household numbers; nonetheless, several factors do indicate the direction for future monitoring and, possibly, research needs:

- The current, relatively small cohort of younger people will carry the effect of lower birth rates into a smaller number of households. However, if the recent lower birth rate proves to

have been a deliberate delay in having children, rather than a choice to have fewer or none – as in many western countries – there could be a significant rise in birth rates in the future, which would tend to halt the potential decline in household numbers. The general economic position and its forecast improvement will undoubtedly play a role in this.

- Increasing rates of divorce and/or greater life expectancy could easily lead to a significant increase in the number of households despite falling population numbers.
- The success of current economic policies could – if it results in a real increase in incomes – bring the sharing and concealed households referred to above into the market for separate dwellings.
- More significantly, a growing economy could easily lead to behavioural changes contrary to current demographic patterns and increase the number of households: earlier marriage, young people choosing to live alone as one-person households, generations of the same family no longer living together. The demand for dwellings could increase even without these demographic changes, since growing consumer buying power is already leading to a market for holiday and other second homes in Romania.

Overcrowding and household/dwelling mismatch

Even if a balance were struck between dwelling and household numbers, this would not of itself guarantee that the available dwellings were suitable for their occupants. Households allocated their homes under the previous regime, even if they were of a suitable size at that time, may find that changes in household size through normal family life cycles have changed the situation. Since 1990, only market mechanisms have been available to deal with the resulting mismatch, and provide appropriate dwellings for the vast majority of new households. Only where the household had the necessary purchasing power would it have been able to ensure that its home was of the appropriate size.

Although dwellings which are too large may represent a problem with heating costs, under-occupation is almost certainly a problem in Romania which, by its nature and extent, can be effectively ignored here. Overcrowding, which was mentioned in the United Nations Human Development Report for Romania (1999) is, however, a very different matter. It appears to present a problem, despite the population fall over the past ten years and the fact that the number of housing units exceeded the number of households by 184,000 in 2000. The Quality of Life Institute based in Bucharest appears to corroborate this fact, reporting the presence of a 25 to 35-year old son or daughter in over 10% of households. Overcrowding and accommodation mismatch are discussed in greater detail in the next chapter.

Homelessness

A particular manifestation of household/dwelling mismatch is homelessness. The National Commission for Statistics (NCS) reports that there is no evidence of homelessness, and homelessness is not yet considered to be a national issue. Nonetheless, homelessness was identified as a concern of local authorities, and a subject addressed in social security networks. Attention was drawn in researching the study to the possibility that homelessness may grow in the near future as a result of house repossessions through restitution, despite the provisions of the law, and as households fail to pay their regular utility bills, as privatization comes into force, or to pay the property tax, as the tax-free period following purchase comes to an end.

If it does grow, homelessness should find its place among the other social needs already officially recognized and monitored. Dealing with it would be no great problem for the country if the supply of suitable social housing were sufficient; however, privatization and the heavy restrictions on public spending in this area may exacerbate the situation.

Urban and rural disparities

There are considerable regional variations, as well as stark urban-rural inequalities in housing, both in terms of demographic characteristics, e.g. a far larger number of old people living in rural areas, and of the quality of the housing stock and its infrastructure.

Chapter II deals with this subject in greater detail. Here it may be worthwhile mentioning a few of the most salient points, for they have serious implications for housing, and they help paint the picture of the housing sector in Romania:

- Rural infrastructure is generally very poor. The 1992 census showed that only 15.7% of the rural population² had access to running (piped) water and drains. Over 90% of local roads in rural areas remain without all-weather surfaces.
- The rural population (45% in 1999) is clearly ageing. In 1999, 17.6% of the rural population was 65 years of age or over, compared to 9.6% in urban areas and 40% of the rural population (most employed in agriculture) were over 50.
- According to an integrated household survey in 1995, poverty³ is more common in rural areas: 30% compared to 17% in urban areas. 64% of all those living in poverty were found in rural areas.
- The average level of consumer spending is 15% lower in rural areas than elsewhere.

The Government is trying to alleviate the worst of the poverty, which is clearly more severe in rural areas. With assistance from the World Bank it is attempting to divert 10% of GDP to welfare. One of the first exercises has been to map the scale of the problem. A recent extensive study on the subject was published in 1999 entitled 'From Rural Poverty to Rural Development'. Measures to tackle poverty that have so far been introduced include higher child allowances, the full indexation of pensions and projects to reduce youth unemployment.

² The population living in villages.

³ Poverty – According to the national statistical methodology the poverty level is calculated by the poverty ratio, that is, the share of households living under the poverty threshold set at 60% of the average expenditure per capita.