Country Essentials

Romania

Spring 2013

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TABLE OF CONTENTS

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Romania (Romanian: România) is a republic in Europe that extends from the Pannonian lowlands to the Black Sea. It borders (clockwise from the south) on Bulgaria, Serbia, Hungary, Ukraine, Moldavia and again on Ukraine. Romania is a member of the United Nations, NATO and the European Union.

Form of government:	Democratic Republic		
Administrative organisation:	9 regions		
Area:	238,391 km^2		
Population:	22,408,000; density: 94 inhabitants / km^2		
Official language:	Romanian		
Local currency:	1 New Romanian Leu (RON) = 100 Bani		
Capital:	București	1.9 million	inhabitants
Major cities and population:	Constanța Cluj-Napoca Timișoara Brașov Brăila Bacău Sibiu	340,000 333,000 328,000 312,000 232,000 209,000 169,000	inhabitants inhabitants inhabitants inhabitants inhabitants inhabitants inhabitants
Ethnic groups:	89.5% Romanians, 6.6% Hungarians, 2.5% Roma, 0.4% Tartars, 0.3% Germans, 0.3% Ukrainians, 0.2% Russians, 0.2% other groups		
Religion:	86.7% Romanian-Orthodox, 4.7% Roman Catholic, 3.2% Reformed, 1.5% Pentecostal, 0.9% Greek Orthodox, 0.6% Baptists, 0.3% Muslims, 2.1% other		
Natural resources:	Oil, natural gas, coal, salt, iron, bauxite, copper, tin, gold, silver		
Most important sectors:	Textiles, automobile subcontracting, foodstuffs		
Membership in international organisations:	EU, UNO, WTO, NATO, IMF, CEFTA		

Coface Country Assessment

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Weak recovery driven by public investment

After a modest recovery in 2011 driven by exports and exceptional harvests, activity slowed in 2012. Exports, 50% of which go to the eurozone in recession, contracted. The summer drought resulted in poor harvests (-20%) which cut GDP by 1.2 points. Consequently, inflation began to rise again in late 2012, due to rocketing agricultural prices. The effect is expected to continue until September 2013. A domestic demand recovery, though moderate, could take inflation above 5% in mid-2013. But the stagnation of energy prices will prevent a price surge. The central bank will therefore have limited means for sustaining activity. Household consumption will drive growth in 2013 because of a rise in disposable income.

Public sector wages rose 7.4% in December 2012, following a 8% increase in June. Consumption will also be driven by a fall in unemployment to 7%, below the EU average. Credit activity is, however, expected to expand only gradually due to banks deleveraging because of the deterioration of their assets. The banking system is under pressure, due to a high proportion of non-performing loans (19.9%). Moreover, the eurozone banks, weakened by the sovereign debt crisis, hold 80% of Romanian bank assets. They could be compelled to significantly reduce their exposure to Central Europe countries in view of the new Basel III liquidity requirements. Romanian banks are dependent on loans from their parent companies because of the inadequacy of their deposits (loan to deposit ratio at 114%). Public investment will also act as a growth driver, in a context where transport infrastructure needs remain very important. Co-financing by European structural funds will play a key role in this respect.

Uncertainties concerning funding of the current deficit

Moreover, improved use of European structural funds will continue in 2013 and make it possible to limit the increase in the current account deficit. In 2012 the absorption rate exceeded 50% (EUR 9 billion) in the agricultural sector, which is enabling the sector to modernise further, increase its competitiveness and improve farmers' working conditions. The trade deficit will widen slightly in 2013 due to weak European demand and the slight recovery in domestic demand, which will stimulate imports. The need for external financing (20% of GDP) remained high in 2012 due to the persistent current account deficit and the scale of external debt repayment, the outstanding balance of which amounts to over 70% of GDP. Direct investments, like bank financing could shrink, while the returns demanded by the markets have increased in the wake of the deepening eurozone crisis. So, though Romania regained access to the market in 2010-2011, continued multilateral financial support and European structural fund finance will remain essential for the country's financial stability. In this context, the leu's volatility needs watching.

Ongoing fiscal adjustments

The country signed a 24-month Precautionary Stand-By Arrangement with the IMF for a modest amount (EUR 3.5 billion) in March 2011. This agreement expires in April 2013. However, a two-year extension is expected to be signed. This agreement will strengthen investor confidence in the country's ability to continue applying the fiscal adjustment measures. This fiscal adjustment has been significant thanks to VAT increases and is continuing by means of privatisations, particularly in the energy and transport sectors, where state owned enterprises are in arrears and whose balance sheets are out of control. The flat-rate tax system could be made progressive. The effectiveness of this change will depend on the tax ceiling, which, unless reassessed relative to the flat rate, could result in less tax collection. Meanwhile, the wealth flight to an informal economy (around 25% of GDP) continues to affect public revenues.

Victor Ponta's policy strengthened by results of the legislative elections

The December 2012 legislative elections have broadly confirmed (57% of the votes) Victor Ponta and the ruling centre-left coalition. However, this relative stability, stemming from the electoral strength of a coalition of centre-left and centre-right, could prove very fragile if Mr Basescu, the Romanian president, should stand down or be ousted. The major risk in Romania is linked to the fragility of the political stability. A referendum was organised in July 2012 on the initiative of the Social Liberal Union coalition to begin a procedure to oust Mr Basescu. Due to an insufficient participation rate (47%), the result (86.5% in favour of ousting him) was not validated by the constitutional court. The country had three different governments in 2012. The World Bank's governance indicators underline this political deterioration, as Romania has dropped ten places in terms of political freedom (87th), political stability (106th), and government efficiency (112th). Regulatory quality (54th) and corruption (96th) have improved slightly.

FOREIGN TRADE & ECONOMIC KEY DATA

Romania's Top 5 trading partners

Imports in MEUR	2009	2010	2011	2012
EU 27	21,642	26,914	29,789	31,582
Germany	6,727	7,818	8,579	9,514
Italy	4,572	5,420	5,740	5,993
Hungary	3,255	4,061	4,395	4,881
France	2,395	2,771	2,934	3,102
China	1,902	2,557	2,375	2,086

Exports in MEUR	2009	2010	2011	2012
EU 27	21,642	26,914	29,789	31,582
Germany	5,466	6,735	7,846	8,376
Italy	4,470	5,159	5,379	5,446
France	2,384	3,103	3,149	3,151
Turkey	1,451	2,563	2,558	2,454
Hungary	1,263	1,782	2,317	2,377

Source: Romanian Statistical Institute.

Economic Key Data

Key Data	2010	2011	2012 (e)	2013 (f)
Real GDP growth (%)	-1.6	2.5	0.8	1.2
Inflation (%)	6.1	5.8	4.1	4.6
Public sector balance (in % of GDP)	-6.4	-4.1	-2.2	-1.8
Current account (in % of GDP)	-4.4	-4.5	-3.9	-4.2
Public debt (in % of GDP)	31.2	33.0	34.6	34.5

(e) estimate

(f) forecast

Source: Coface.

Top 5 sectors
Other personal services
Other services, provided mainly to enterprises
Post and telecommunications
IT sector
Health care and social security

Flop 5 sectors
Constructions
Real estate transactions
Hotels and restaurants
Recreational, cultural and sports activities
Transportation

Insolvency Law & Insolvency Procedures

Conditions to be met to promote claims under Law 85/2006:

- Claim against the debtor's assets must be certain, liquid and due more than 90 days;
- The minimum amount of the debt required for the creditor's request to be inserted, is RON 45.000, this amount represents the threshold value required by law to be admitted as a creditor's claim;
- The extent to which the insolvency procedure is opened, the debtor company's activities are conducted under the strict supervision of the insolvency administrator;
- The Insolvency administrator is appointed by the syndic judge by sentence for openining insolvency proceedings;
- Under the provisions of Law 85/2006, the insolvency administrator is obliged to make the notification of all creditors of the opening of insolvency proceedings against a specific company;
- All pleadings made during the proceedings are published, for enforceability against third parties, in the Bulletin of Insolvency Proceedings.

The following table shall summarize relevant information for investors and exporters.

Corporate law	■ Minimum capital for a stock company: RON 2,500.00 (approx. EUR 552.00 based on the exchange rate in 06/2013) ■ Minimum capital for a limited liability company: RON 200.00 (approx. EUR 44.00 based on the exchange rate in 06/2013)
Tax law	■ 24% VAT ■ 16% flat rate for personal and corporate income tax ■ 10% tax on dividends paid to domestic companies ■ 16% withholding tax ■ New double taxation treaty with Austria as of 1.1.2007
Investments	■ Foreign investors may establish any legal form of business entity ■ No specific approvals required ■ Ownership of up to 100% of Romanian companies is possible
Foreign exchange	■ No restrictions on the purchase of foreign currency ■ Accounts with foreign banks require official approval
Labour law	■ Average gross wage RON 2,059 (approx. EUR 555.- based on the exchange rate in 06/2013) ■ Law is very strict on working time ■ Easing of restrictions on fixed-term contracts ■ Nationwide collective agreement
Customs	■ VAT on imports ■ Member of Customs Union since EU accession
Travel and residence	■ Since accession no restrictions for EU citizens

Corruption

Romania was 66th in The International Corruption Perceptions Index 2012, ranking at the same level as Saudi Arabia and Kuwait. The country achieved an average grade in international comparison, but is one of the lowest rated countries in Europe. In comparison, Germany and Austria were rated 13th and 25th. The Corruption Perceptions Index is issued by Transparency International, and lists countries according to the perceived level of public sector corruption. This perception is based on surveys of managers and experts, and related solely to the public sector.
The Doing Business Index (www.doingbusiness.org) issued by the World Bank expresses the ease of doing business in a particular country. Romania was rated 72nd in 2013, same placelike in the year before. Germany and Austria were rated 20th and 29th. This index consists of ten different sub-indexes that determine whether laws or other regulations exist in certain areas and whether or how they are applied. For example, the sub-categories deal with the payment of taxes, hiring of staff and the founding and closing of companies.

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