



2016

ROMANIA COMPETITIVENESS REPORT



March 29, Bucharest

Event Agenda

- Welcoming Remarks – AmCham’s Mission
Daniela Nemoianu, AmCham Romania President
- Opening Keynote Address
Dean Thompson, Deputy Chief of Mission,
U.S Embassy
- Key Message of the President of Romania
Cosmin Marinescu, Presidential Advisor, Presidential
Administration
- Government Action Plan for Competitiveness
Costin Borc, Vice Prime Minister, Romanian Government
- A Modern Investment Agency for Romania
Manuel Costescu, State Secretary, DPISPP

- **2015 Romania Competitiveness Report**
 - *Report Methodology & Overall Romania’s Performance*
 - *Main findings and recommendations per Chapters: Energy, Public Administration, Infrastructure, Human Resources, Fiscal & Monetary Policy, Government & Public Service*
 - *Executive Survey & Key Policy Recommendations*
 - *Q&A Session*
- AmCham for Project Romania -**The Way Forward**
- Q&A Session

End

Welcoming Remarks *AmCham's Mission*

Daniela Nemoianu
AmCham Romania President

Opening Keynote Address

Dean Thompson
Deputy Chief of Mission
U.S Embassy

Key Message of the President of Romania

Cosmin Marinescu
Presidential Advisor
Presidential Administration

Government Action Plan for Competitiveness

Costin Borc
Vice Prime Minister
Romanian Government

A Modern Investment Agency for Romania

Manuel Costescu
State Secretary, DPISPP

Romania Competitiveness Report

Report Methodology & Overall Romania's Performance

Ileana Gutu, CFA, Senior Manager, PwC Romania

Sinziana Pardhan, Associate Director, Investment Services, Colliers International

Florin Deaconescu, Partner, PwC Romania

Methodology



✓ 83 indicators
✓ 2014 data



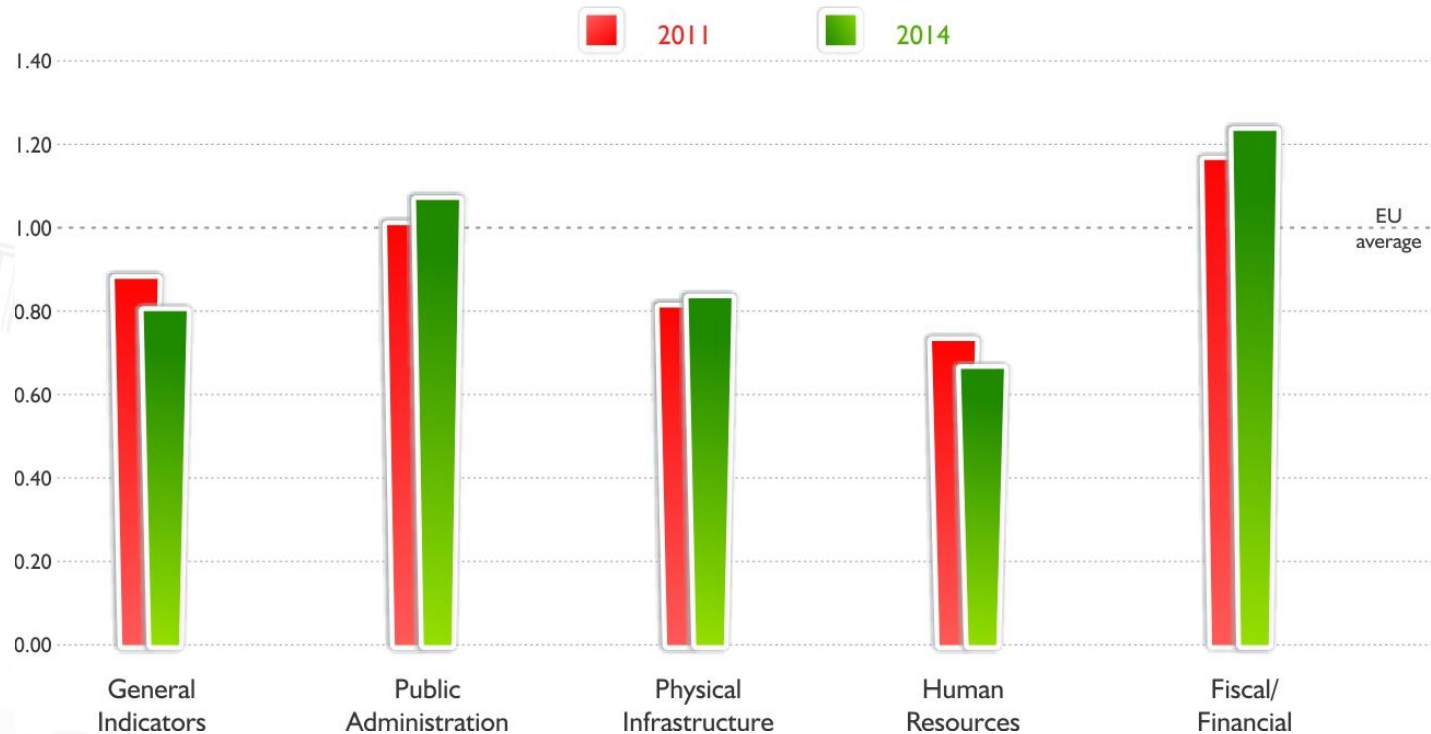
Performance compared to EU average Benchmark against 6 other countries in our region Dynamics since 2011 Competitiveness Report

 Disadvantages
  Neutral
  Advantages

Aggregating our analysis (1 of 4)

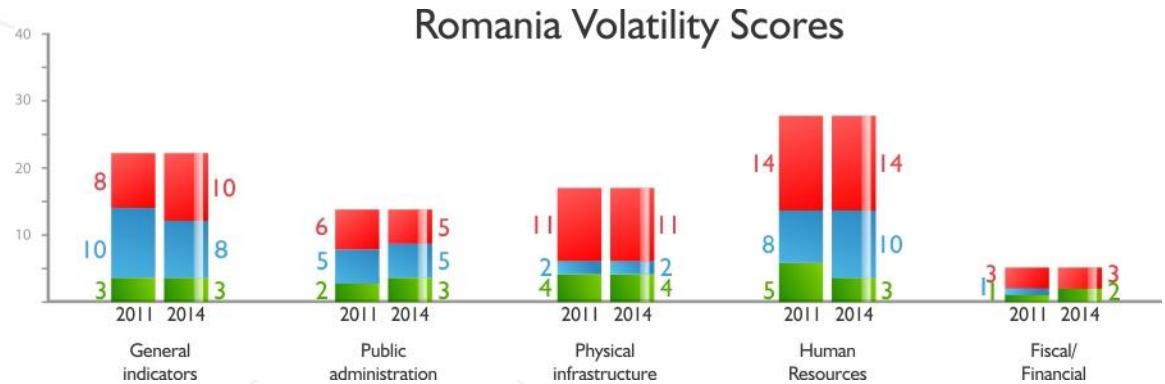
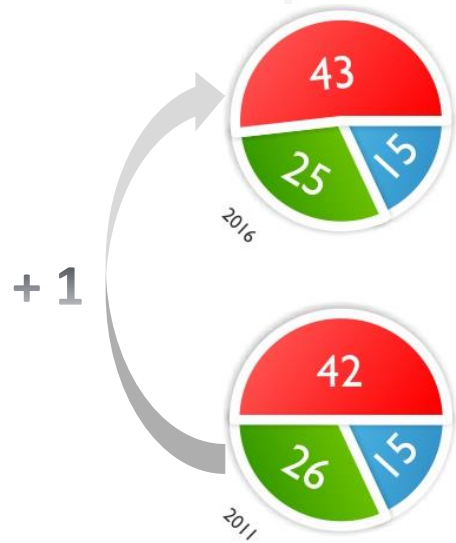
2011
4.61 → 2016
4.64

Score Development 2011-2014



SLIGHT OVERALL IMPROVEMENT

Aggregating our analysis (2 of 4)



Advantages
 Neutral
 Disadvantages

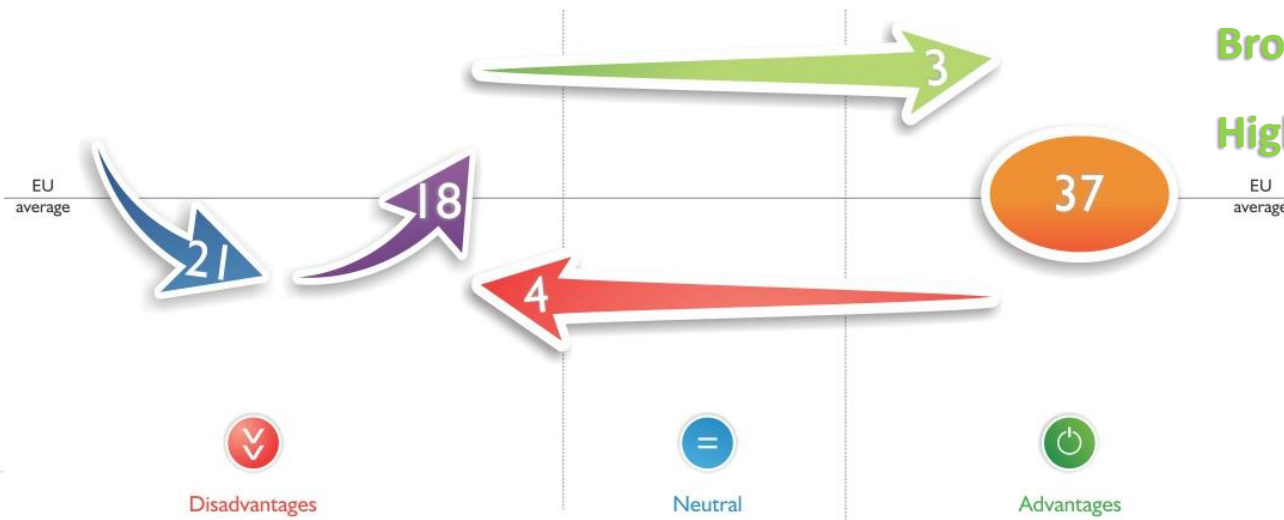


43
Disadvantages

40
Advantages & Neutral

Aggregating our analysis (3 of 4)

Trend Assessment



Control of corruption

Broadband connection

High & medium tech employees

Tourism

Current account

Railways

Accidents at work

SLIGHT NEGATIVE EVOLUTION



General indicators



Public administration



Physical infrastructure



Human Resources



Fiscal Financial

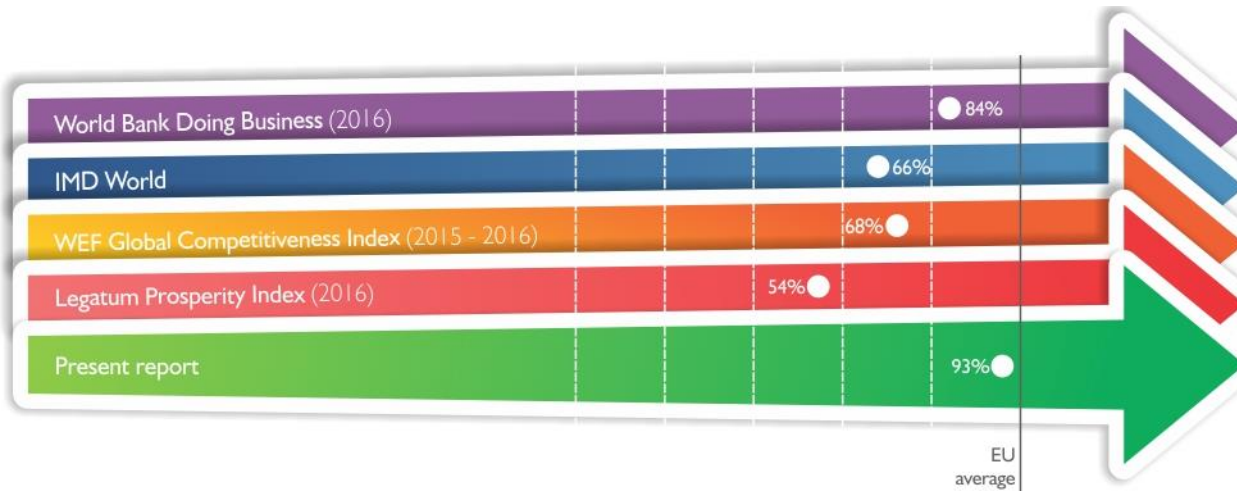
Aggregating our analysis (4 of 4)

Country comparative scores	Austria	Bulgaria	Czech Republic	Hungary	Poland	Romania	Slovakia	2011
General Indicators	1.22	0.95	1.05	1.00	0.90	0.80	0.88	0.83
Public Administration	1.10	0.90	1.03	1.04	1.03	1.05	1.06	1.01
Physical Infrastructure	1.29	0.78	0.78	0.89	1.00	0.86	0.76	0.85
Human Resources	1.41	0.70	0.98	0.78	0.70	0.70	0.79	0.74
Fiscal/Financial	1.17	1.02	1.47	0.72	0.84	1.23	0.98	1.17
Overall	6.19	4.34	5.30	4.43	4.48	4.64	4.48	4.51

DEMOGRAPHICS & HEALTHCARE

INFRASTRUCTURE GAP

BRAIN DRAIN PHENOMENON



RESEARCH & DEVELOPMENT

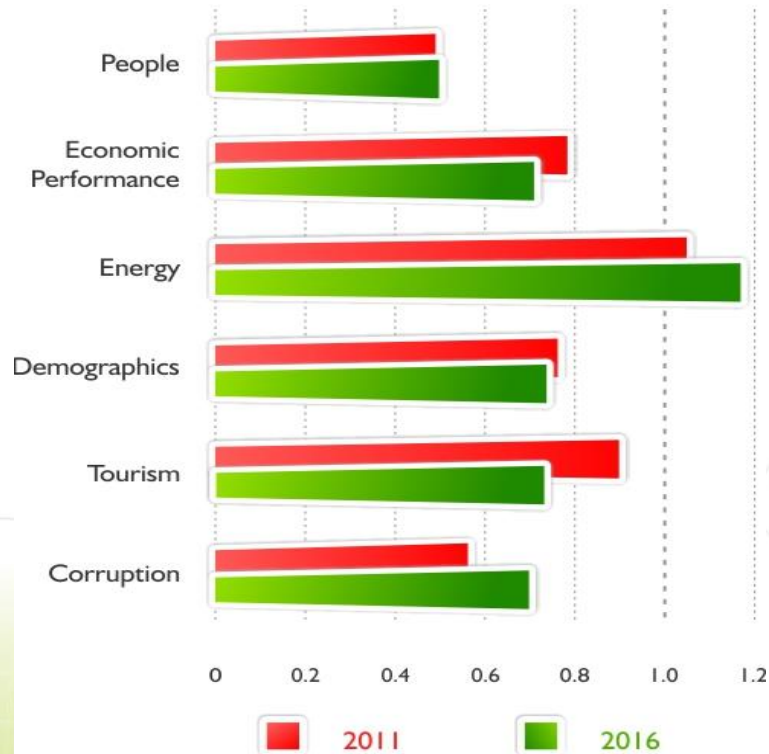
AGRICULTURE

EDUCATION

COHERENCE OF PUBLIC POLICIES

General Indicators (1 of 3)

Score Development 2011-2016



Robust GDP Growth

FDIs/capita 13% of EU average

Exports losing ground

The demographic challenge

General Indicators	Austria	Bulgaria	Czech Republic	Hungary	Poland	Romania	Slovakia
Overall score	1.22	0.95	1.05	1.00	0.90	0.80	0.88

General Indicators (2 of 3)

Volatility assessment

Trend assessment



Advantages
(score of 1.15 or more)



Neutral
(score between 0.85 and 1.15)



Disadvantages
(score below 0.85)



Positive: 7 disadvantages had a positive trend
Negative: Current Account Balance
Tourist nights per bed

General Indicators (3 of 3)

Stimulate investments in key export industries.

Stimulate FDI's by improving the incentive packages based on key value added indicators.

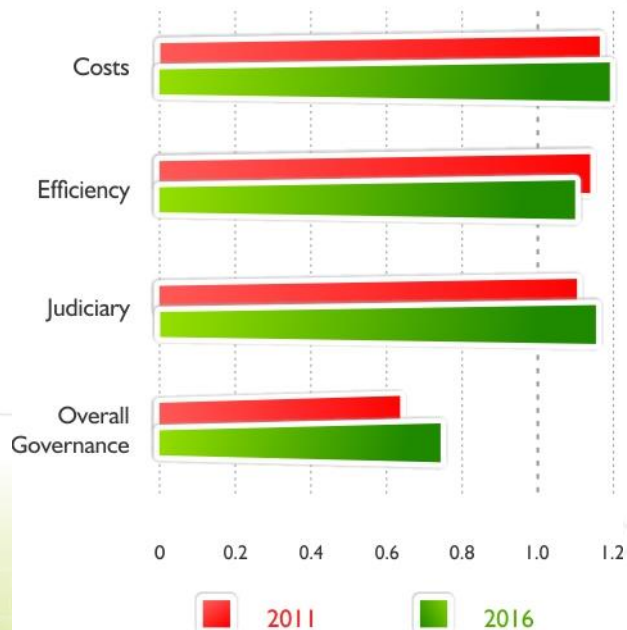
Adopt policies to stop the demographic decline with a focus on stimulating an increase in the birth rate.

Develop infrastructure by using EU funding and improving EU funds absorption.

Increase the value added on agricultural products.

Public Administration (1 of 3)

Score Development 2011-2016



The numbers look good, but

...the devil is in details

- Overall taxation is low but fragmented and complex
- Efficiency above EU average but it does not feel like
- 512 days to enforce a contract
- Governance remains low, despite improvement in control of corruption

Public Administration	Austria	Bulgaria	Czech Republic	Hungary	Poland	Romania	Slovakia
Overall score	1.1	0.9	1.0	1.0	1.0	1.1	1.1

Public Administration (2 of 3)

Volatility assessment



Trend assessment



Stagnant, positive:

control of corruption, moved to advantages

4 disadvantages showed a positive trend, but remain disadvantages

Public Administration (3 of 3)

Narrow the gap between social contributions and benefits.

Increase transparency and accountability: publish the costs of public investments (including the bid prices and final costs); implement corporate governance principles.

Increase availability of "e-services", their technical quality, ensure public awareness and education of tax payers.

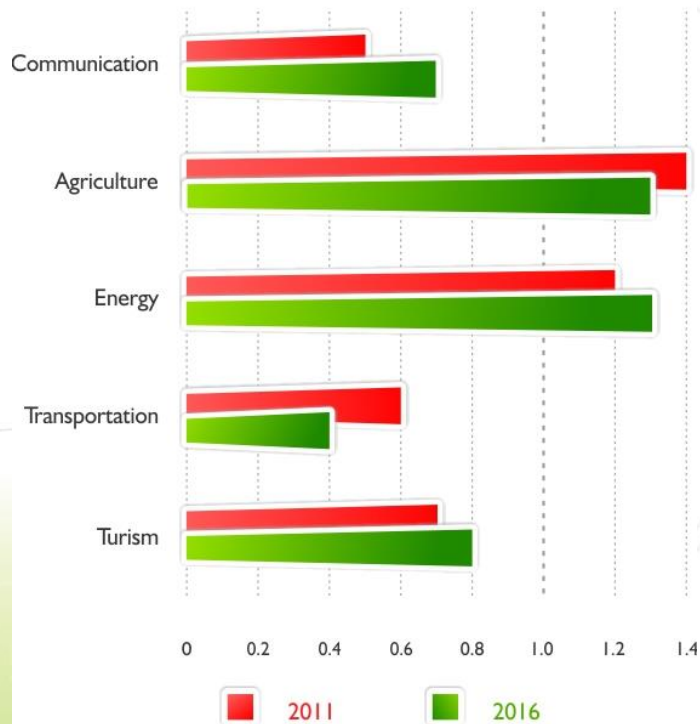
Upskill the public officers, improve remuneration linked to performance, define career path, performance objectives and annual evaluations.

Improve the sophistication of public procurement to differentiate between commodities and value-added products and services.

Simplify, Simplify, Simplify... tax forms, tax code, guidance.

Physical Infrastructure (1 of 3)

Score Development 2011-2016



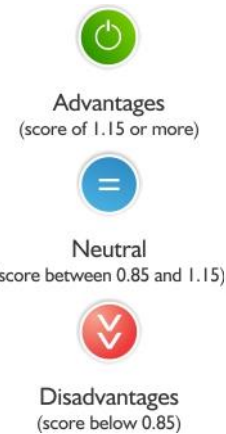
Stagnant, behind EU average; a mix of “+” and “-”

- Significant improvement but still behind EU average
- Great potential but poor results (inefficient, low added value, unpredictable)
- Brings most of the competitive advantages. Solid base for development.
- Far behind by all means (of transportation)
- Slowly going up

Physical Infrastructure	Austria	Bulgaria	Czech Republic	Hungary	Poland	Romania	Slovakia
Overall score	1.3	0.8	0.8	0.9	1.0	0.9	0.8

Physical Infrastructure (2 of 3)

Volatility assessment



Trend assessment



Most indicators remained the same, with two exceptions :

New competitive advantage : % enterprises having a broadband connection

New competitive disadvantage: Total railways lines per million people

Physical Infrastructure (3 of 3)

Continue/stimulate development of nationwide broadband infrastructure.

Ensure strict implementation of the General Transport Masterplan (2015).
Enforce the multiannual budgeting legislation to accelerate major projects.
Ensure integration with regional business/tourism initiatives.

Transport infrastructure: focus on absorbing EU funds (ensure co-financing) as well as develop Public Private Partnerships.

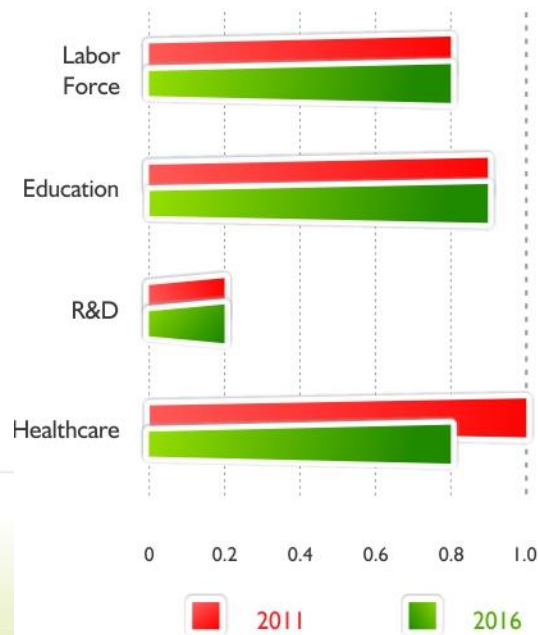
Re-design the contract awarding process by increasing transparency.

Invest in intelligent utilities infrastructure. Focus on renewable energy.

Boost agricultural advantage: a) move from exports of raw materials to exports of processed goods; b) irrigation systems; c) absorption of EU funds.

Human Resources (1 of 3)

Score Development 2011-2016



Education: myth versus reality

R&D largest gap to EU average:

- R&D spending as %GDP, 19% of EU average
- Patent applications 3% of EU average

Healthcare:

- Doctors/1000 inhabitants: 2.4 versus 3.5
- Healthcare expenditure – 15% of EU average

Human Resources	Austria	Bulgaria	Czech Republic	Hungary	Poland	Romania	Slovakia
Overall score	1.4	0.7	1.0	0.8	0.7	0.7	0.8

Human Resources (2 of 3)

Volatility assessment



Advantages
(score of 1.15 or more)



Neutral
(score between 0.85 and 1.15)



Disadvantages
(score below 0.85)

Trend assessment



Positive: Medium and high tech
(%of total employment)

Negative: Doctors per 100 inhabitants
Hospital beds per doctor

Human Resources (3 of 3)

Bridge the gap between labor force education and market needs.

Incentives to keep skilled specialists in the country & reverse brain drain.

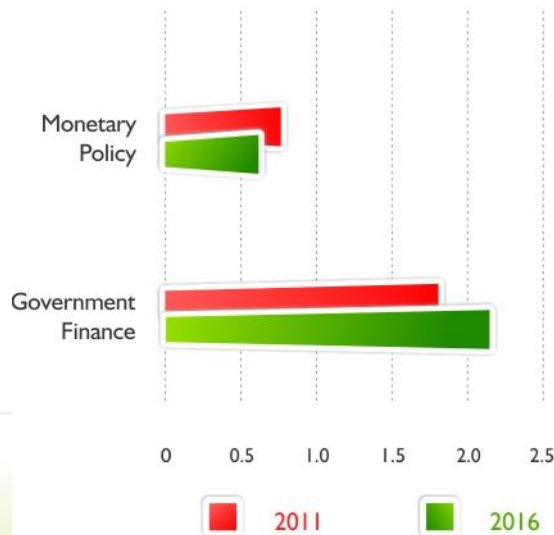
Increase Government and private sector R&D spending.

Stimulate R&D and innovation through the establishment of innovation/technology clusters.

Comprehensive healthcare reform: improve level and efficiency of public investments, create the framework for private investments and improve retention of medical specialists.

Fiscal & Monetary Policy (1 of 3)

Score Development 2011-2016



Notable improvements:

- Low budget deficit: 1.4% in 2014, 1.2% in 2015
- Small public debt: 40% of GDP
- Declining interest rates
- Higher lending in Ron vs Euro
- Improved country risk perception
- Stable exchange rate

HOWEVER...

Fiscal & Monetary Policy	Austria	Bulgaria	Czech Republic	Hungary	Poland	Romania	Slovakia
Overall score	1.2	1.0	1.5	0.7	0.8	1.2	1.0

Fiscal & Monetary Policy (2 of 3)

Volatility assessment



Advantages
(score of 1.15 or more)



Neutral
(score between 0.85 and 1.15)



Disadvantages
(score below 0.85)

Trend assessment



Volatility assessment stationary

Slower improvements vs EU:

- Government bond yields
- HICP

Fiscal & Monetary Policy (3 of 3)

Manage the widening fiscal deficit by increasing tax collection and improving the structure and efficiency of Government expenditure.

Further stimulate lending in local currency and prompt long-term saving behavior of the population.

Continue the reform of tax administration to simplify tax collection and reduce tax evasion.

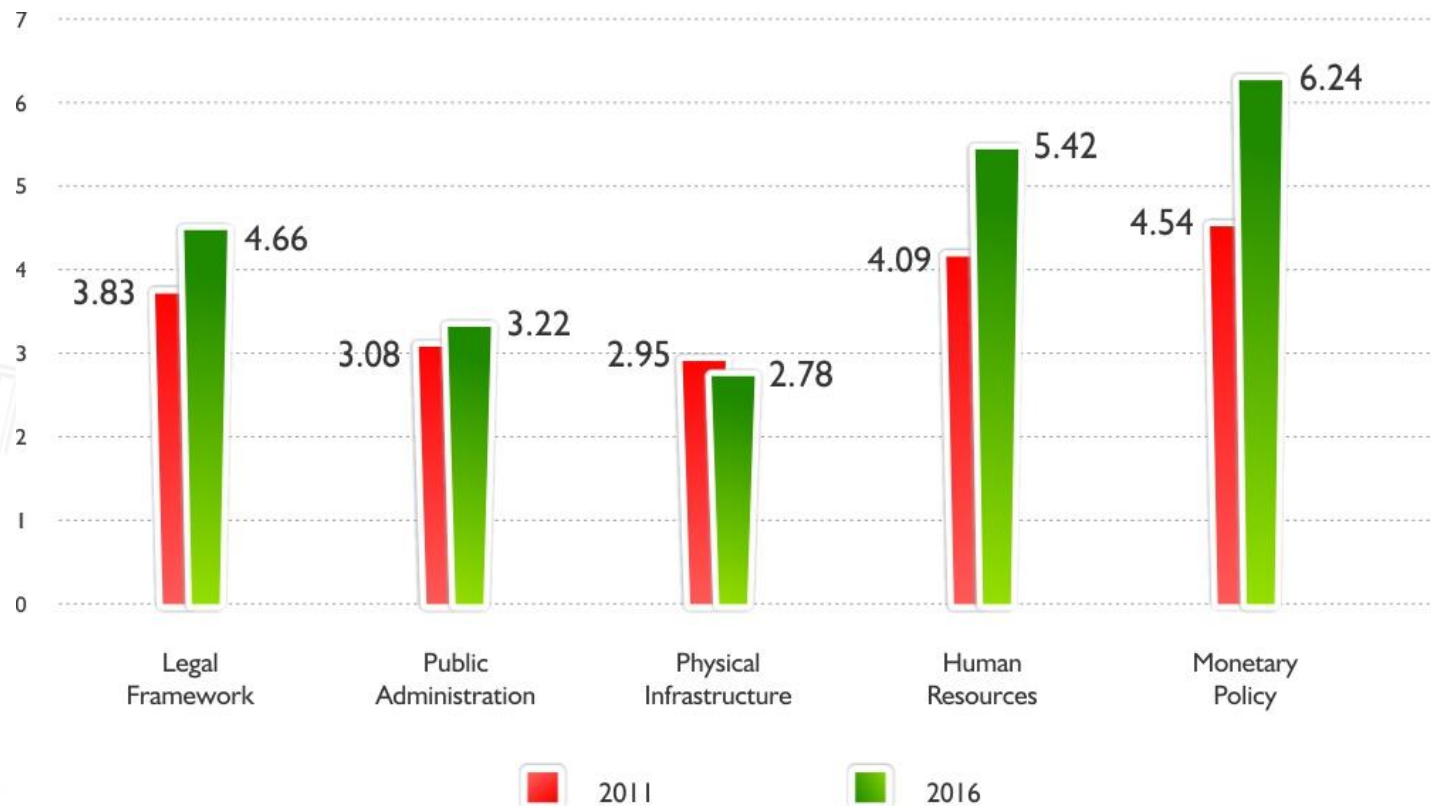
Recognize and develop the capital markets as an important alternative source of capital, for both private and public borrowers.

Legal and regulatory framework

- ✓ Comparing with the 2011 labour legislation picture (favouring employees), we see today a much more balanced approach, with additional flexibility to employers and emphasis on performance.
- ✓ The new Fiscal Code and Fiscal Procedure Code, which entered into force on 1 January 2016, introduced several incentives both for companies and individual investors.
- ✓ The announced reduction of the standard VAT rate with effect from 1 January 2016, along with other reduced rates for certain types of supplies, increased domestic consumption and stimulated economic growth in 2015.
- ✓ However, future growth prospects will depend heavily on the fiscal and investment policies of the Government.
- ✓ World Bank's Doing Business Report - Romania climbed from the 72nd position in 2011 to the 37th in 2016.
- ✓ World Economic Forum's Global Competitiveness Report placed Romania in 53rd place in 2015, up from 77th place in 2011.
- ✓ The intellectual property environment is also under intense development.
- ✓ A new public procurement package has to be harmonized with EU Directives and implemented starting from April 2016, contributing to the predictability of Romania as a promising investment destination.

Executive Survey (1 of 2)

CEOs rate the performance of the Romanian government in comparison to other EU countries



CURRENT ECONOMIC POLICIES

CORRUPTION

INVESTMENTS

Executive Survey (2 of 2)

How the CEOs leading businesses perceive the current competitiveness of Romania and the next steps needed to increase it

Competitive advantage

- Human resources
- Market size and potential
- Agriculture remains an opportunity

Constraints

- Corruption
- Lack of infrastructure
- Lack of consistency in government policies resulting in unpredictability of environment

- Social security and VAT reduction
- Keeping flat the income tax
- New Labor Code

Good measures adopted

- Draw up an economic growth vision for Romania
- Clear, simple and predictable regulations
- Coherent policies to attract foreign investments and encourage start-ups

Measures to be taken

Take aways

General

1. Target an increase in FDI inflows;
2. Stimulate investment in key export industries and create incentive packages for local and foreign investors;
3. Develop infrastructure by use of EU funding and improve EU funds absorption;
4. Adopt policies to stop the demographic decline;
5. Increase the value added of agricultural products.

Public Administration

1. Increase transparency and accountability in public administration and in the use of national public funds;
2. Increase implementation of Internet based "e-services" by the administration to enhance efficiency and reduce costs;
3. Enhance the competency of public officers to improve quality of public interaction with government services.

Physical Infrastructure

1. Ensure the implementation of the General Transport Masterplan against a timetable;
2. Retool the contract awarding procedures through which private firms are procured for projects;
3. Rebuild / improve irrigation infrastructure in order to better leverage Romania's agricultural endowment.

Human Resources

1. Increase of Government and private R&D spending and adoption of efficient, targeted policies that aim to improve Romania's innovation output;
2. Offer incentives to keep highly skilled specialists in Romania and reverse the brain drain;
3. Urgently implement healthcare reform, both in terms of retention of medical specialists, increasing the level and efficiency of public investments and creating the framework for private investments;
4. Improve the quality of the labour market.

Fiscal and Monetary

1. Ensure coherence of the fiscal reforms already adopted and find solutions for managing the fiscal deficit;
2. Conduct a monetary policy that carefully considers the estimated effect that the fiscal reform is expected to have on consumer prices;
3. Significantly reform the tax administration, modernize and simplify tax collection, reduce tax evasion and reduce the burden of compliance for taxpayers.

Special acknowledgments to the Competitiveness Report Team:

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(Project Leader, Data Collection, Executive Summary, Research & Policy Analysis)

Sinziana Pardhan (Frangeti), Associate Director, Investment Services, Colliers International

(Executive Summary & Policy Analysis)

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Mark Percival, Business Writer, KPMG Romania (Proofreading & Translation)

Carmen Sbarna, Senior Translator, KPMG Romania (Proofreading & Translation)

Thank You!

The image features the words "Thank You!" written in a black, elegant cursive script. The text is centered and overlaid on a vibrant, multi-colored brushstroke background. The colors transition from a deep blue on the left, through purple and magenta, to bright red and yellow on the right. The brushstrokes are thick and expressive, creating a sense of movement and energy. The overall composition is clean and visually appealing, suitable for a thank-you card or a celebratory graphic.