

2016

ROMANIA COMPETITIVENESS REPORT



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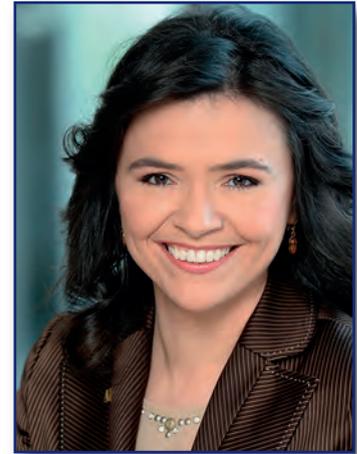
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Investment - a competitiveness driver for Romania

Romania benefits from remarkable potential for development and the current circumstances point to investment opportunities in various sectors that are being revamped. Under the pressure of complex and accelerated global changes, Romania's efforts to gain a competitive edge must be scaled up and strategically upheld to be aligned more efficiently to international geo-political, economic and technological developments.



Impact of global mega-trends on Romania

Global reality and macroeconomic studies highlight the existence of extremely strong forces for change, such as massive urbanization with a focus on smart cities, the impact of demographics (with reference to countries such as China, India etc., but a reverse trend as well, insofar as some of the EU countries are concerned), the tsunami wave in technology development with an impact on extended interconnectivity, as well as critical challenges such as climate change (the recent COP21 Agreement being a momentous turning point towards globally concerted, responsible actions), the severe scarcity of resources and the shift in the centers of economic power, all these generating structural systemic effects.

Romania is part of this dynamic matrix and cannot afford to ignore the overall effects or the prospects taking shape. Priorities are manifold, while the budget remains highly strapped for Romania in 2016–2020. Whether it is about transport corridors, the development of energy or cyber security projects, nuclear reactors, rehabilitation of irrigation systems or about flood prevention, modernization of ports, airports and railways, health resorts or the ELI nuclear physics mega-research project, health and education, to which we can add regional and local projects, all require an extended exercise of systemically sustainable strategic projections, enhanced administration and management capabilities from the public authorities and institutions, specialized and dedicated resources, the capacity to come forward with viable and bankable projects, as well as efficiency and transparency at all levels and during all stages.

Romania's transformation

The world is changing and so are we. Romania should be more alert to the pulse of the economic, political and financial environment at a regional and worldwide level, as competition between states to attract investors and funding has been increasing. The impact of the post 2008 economic downturn, and the uncertainties in the economy over the last few years have

exposed the local business environment, which still has some weaknesses, to pressures that require real time actions, adjusted forecasts and forward looking contingency measures.

We believe that a predictable, level playing field and a stable business, political and legislative environment is the key to progress for Romania. The country's economy is developing, as proven by the latest positive macroeconomic indicators, which underline diversity, complexity, European and international standards and global connectivity in many sectors. Problems persist in certain poorer regions, in the transport infrastructure sector, as well as in health and education. There are also delays in the absorption of European funds.

Deep-rooted challenges, such as the culture of instant gratification, massive corruption, the lack of an integrated systemic vision, the widening gaps in society and the shrinking administrative capacity can be substantively cured only through the crafting and calibration of a multigenerational country project, of a competitive course and strategic priorities that should embrace national values and interests and promote the country's role in the European and transatlantic community.

AmCham is committed to a long-term strategic country project focused on competitiveness and value differentiators, which aim to enhance democracy, security and prosperity. We promote and directly support Project Romania and invite all stakeholders to align and contribute substantially to this powerful exercise for a better future.

Daniela Nemoianu
President
AmCham Romania

March 2016

Methodology

How the report was prepared

Other excellent competitiveness reports - the World Economic Forum's Global Competitiveness Report and IMD's World Competitiveness Yearbook - assess a country's competitiveness in full. This report attempts only to assign a value as to how Government policy has an impact on competitiveness.

To do so, economic policy was split into six areas: general, legislative framework, public administration, physical infrastructure, human resources as well as fiscal and monetary policy.

This is the second edition of the Competitiveness Report for Romania issued by AmCham Romania. The first edition was published in December 2011 based on a methodology prepared by AmCham Czech Republic.

The current report highlights Romania's performance compared to the average EU28 and benchmark it against 6 other countries in our region. Furthermore, this analysis captures the dynamics of the selected indicators since the 2011 report.

In addition to analyzing the five policy areas based on objective data, an executive survey was conducted and included in this report with the objective of capturing the opinions and perceptions of CEOs running businesses in Romania in relation to the progress of our country in terms of the legislative framework, public administration, physical infrastructure, human resources as well as fiscal and monetary policy. This survey provides qualitative insights on how these areas actually have an impact on doing business in Romania.

This instrument aims to provide a useful tool to help us work more effectively with the Romanian authorities.

1. General covers macro outcomes of the other five policy areas combined: the indicators listed represent the desired outcome of economic policy.

2. Legislative framework provides a snapshot of the current legislation.

3. Public administration assesses how effectively and efficiently regulation is enforced.

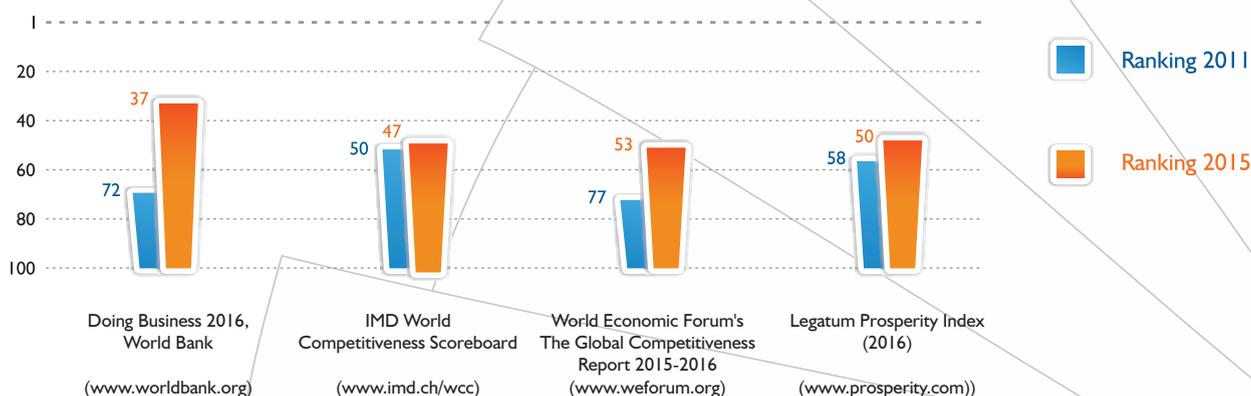
4. Physical Infrastructure describes how far Government policy has built up the necessary supporting landscape for business.

5. Human Resources addresses how policy has influenced the labor force, education, research and healthcare.

6. Fiscal and Monetary highlights how policy has affected access to capital and price stability.

For each area of policy, a statistical model was created. The statistical model gives numbers for judging the effectiveness of policy. For the statistical model - except for the legislative framework - both actual numbers and a comparative index with the average result within the EU are presented. The final score was indexed based on how the country performed against the EU average, because EU is the benchmark for Romania.

Where Romania Ranks in Competitiveness





For each of the policy areas, the EU index scores were totaled up and the sum was divided by the number of statistical indicators in that area. That gave the overall score for each area. The six areas were then added together - without any weighting - and the result multiplied by 100 to give visual dimension to the differences. Thus, each of the seven countries compared received an overall economic policy score.

Determining a numerical benchmark for the legislative framework was more difficult. Categories of law were defined and a series of principles required for competitive legislation in each category were developed. These principles must be subjective: after all, law itself is a series of rules to define a philosophic system of governance and we do not all share the same philosophy (and often have a different understanding of it even if we believe we agree).

Comparative Countries. Six countries were chosen for comparison: Austria, Bulgaria, the Czech Republic, Hungary, Poland and Slovakia.

Sources. The primary statistical sources have been Eurostat and national statistical offices. Data published by OECD, the Legatum Prosperity Index, the European Central Bank, the IMF and the World Bank were also used. The Global Competitiveness Report and the World Competitiveness Yearbook were sources of inspiration; every business interested in crossing borders should have a copy of each.

How were the indicators selected

The aim was to assess outcomes and efficiency in all areas of Government policy. That meant finding statistics that would measure the economic impact of policies and also the cost in money and other resources of implementing them.

Our efforts were restricted by the availability of data. To calculate competitiveness, we needed comparable data not only from our seven comparative countries, but also from all EU countries. For that reason, it was not possible to include such comparative data as average length of legislative process, the legislative cost of parliament per law, the cost of highway development and other relevant measures. In large, the report is based on 2014 data.

Some entire areas of economic policy - real estate, for instance - were not included because of the lack of data covering the whole of the European Union. We would have liked to provide a view on real estate

by providing occupancy numbers for industrial sites or the amount of square meters of office space per person. Unfortunately, these numbers, as far as our research has carried us, are not available in a comparative way for all countries of the EU.

How do we assess the indicators and areas

We constructed a simple model for determining country performance in every indicator and each area.



Advantages

- Exceeding $+0.15$ of the European average meant that the indicator or area was a competitive advantage for the country. These areas are shaded in **green**.



Neutral

- Performing at ± 0.15 of the European average meant the country was competitive. These indicators or areas are shaded in **blue**.



Disadvantages

- Falling below -0.15 of the European average indicated a competitive disadvantage. These areas of indicators are marked in **red**.

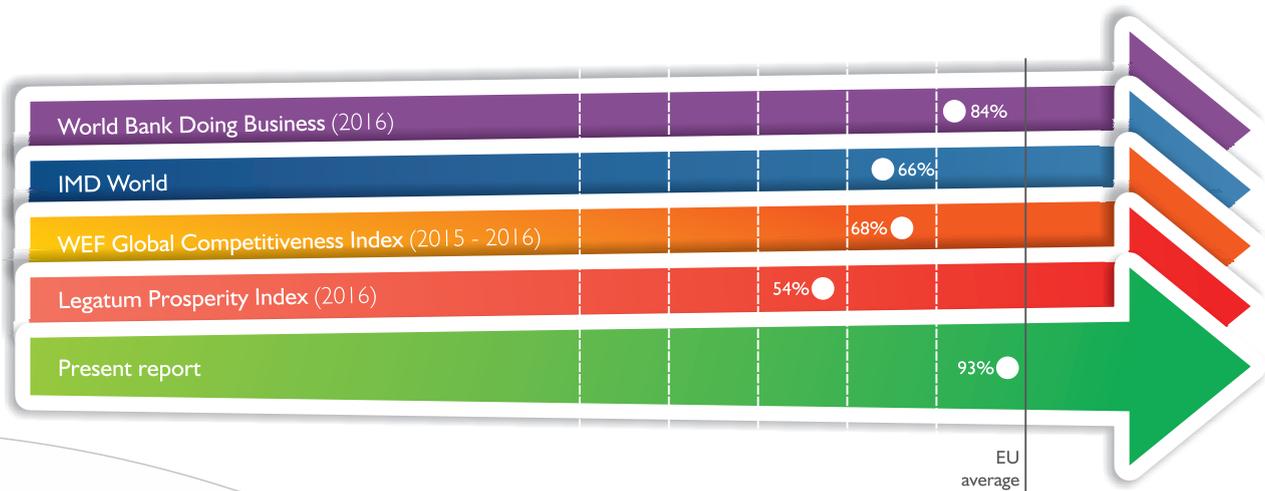
Executive Summary

The background features a complex arrangement of thin, light-colored lines that resemble architectural blueprints or technical drawings. These lines form various geometric shapes, including rectangles, circles, and arcs. In the lower right quadrant, there is a prominent graphic element consisting of a fan-like shape that radiates from a point. This fan is composed of multiple overlapping, semi-transparent colored segments in shades of blue, green, yellow, and red, creating a vibrant, multi-colored effect. The overall aesthetic is clean, modern, and technical.



Since the publishing of AmCham’s previous Romania Competitiveness Report in 2011, Romania has seen three years of strong economic growth as well as positive developments in a number of economic and public policy areas such as labor legislation, anti-corruption measures and inflation, to name only a few. There is no doubt that Romania is making steps towards becoming a more competitive country on the global scene. The sobering aspect, however, is the length of the road ahead. GDP/capita is a great illustration in this respect. The indicator has

grown by 4.5% per year, on average, during the past three years, much faster than the rest of Europe (1.9% yearly growth). Still, Romania’s GDP/capita in 2014 stood at a mere 30% of the EU average. This is the story that we see replicated in many crucial aspects of the Romanian economy, Government and society. In a nutshell – things are going in the right direction, but there is still a long way to go. The chart below depicts Romania's performance against EU average as per different competitiveness reports.



In acknowledgement of the positive changes that have happened in recent years, the main global competitiveness rankings have unanimously moved Romania up in their classifications. The most striking improvement comes from the **World Bank’s**

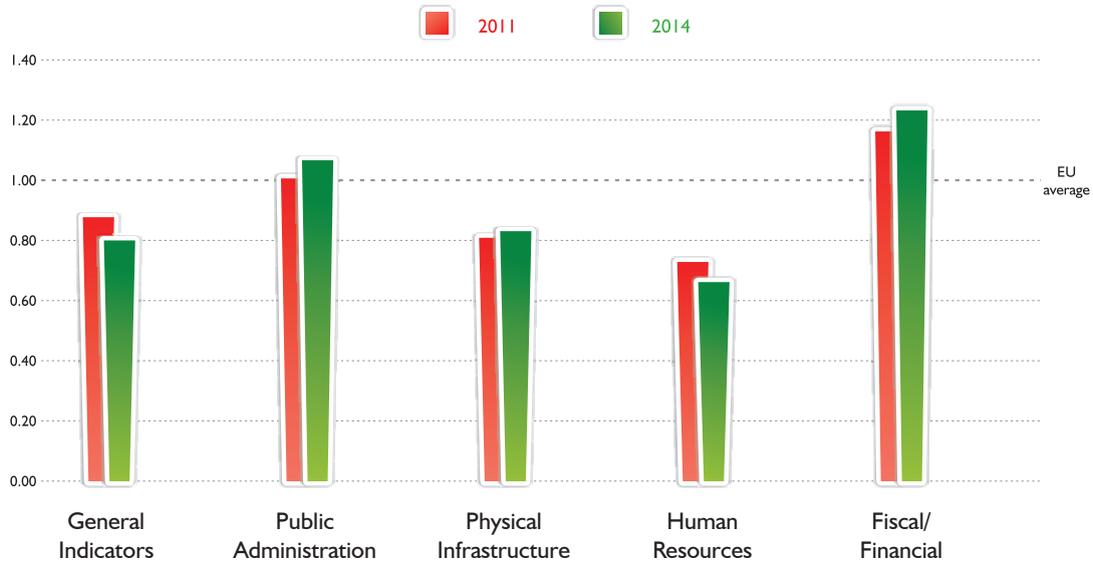
Doing Business Report, in which Romania climbed from the 72nd position in 2011 to the 37th in 2016, while the **World Economic Forum’s Global Competitiveness Report** placed Romania in 53rd place in 2015, up from 77th place in 2011.

Global Competitiveness Rankings	EU	Austria	Bulgaria	Czech Republic	Hungary	Poland	Romania	Slovakia
	average	result	result	result	result	result	result	result
World Bank Doing Business (2016)	31	21	38	36	42	25	37	29
IMD World	31	26	55	29	48	33	47	46
WEF Global Competitiveness Index (2015 - 2016)	36	23	54	31	63	41	53	67
Legatum Prosperity Index (2016)	27	16	51	26	45	29	50	35

This report also shows a slight overall improvement of Romania's performance. With the exception of the general indicators where we see a small decrease (mainly due to the impact of the current

account deficit as compared to the EU), and human resources, all other categories show either similar or slightly improved scores.

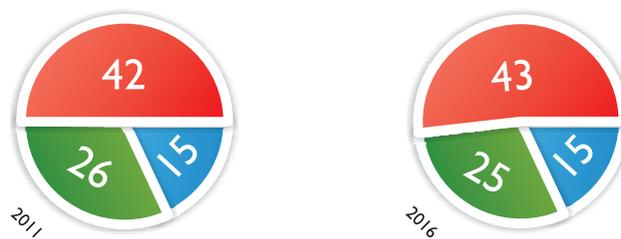
Score Development 2011-2014



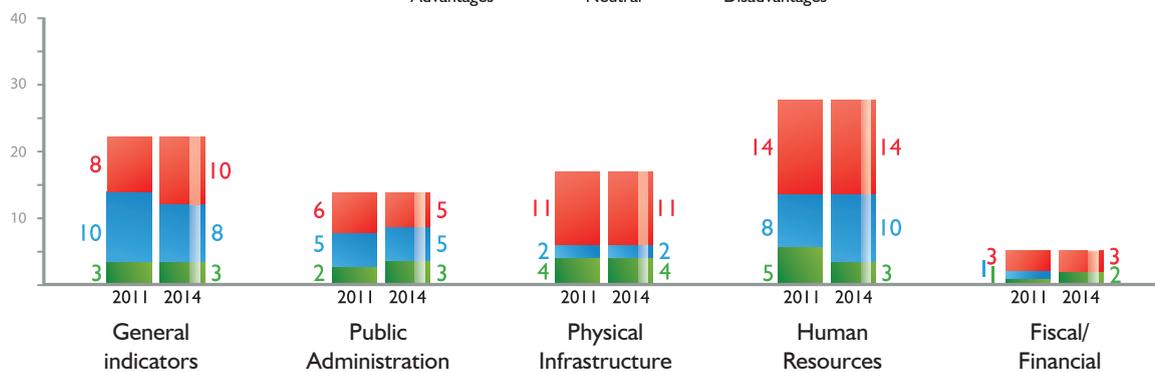
Volatility Scores assesses the 83 indicators that were analysed from the perspective of clustering them into competitive advantages, disadvantages or neutral. Overall the balance of advantages and disadvantages

remains similar to 2011, with only one indicator changing cluster from being a competitive advantage to a competitive disadvantage.

Romania Volatility Scores



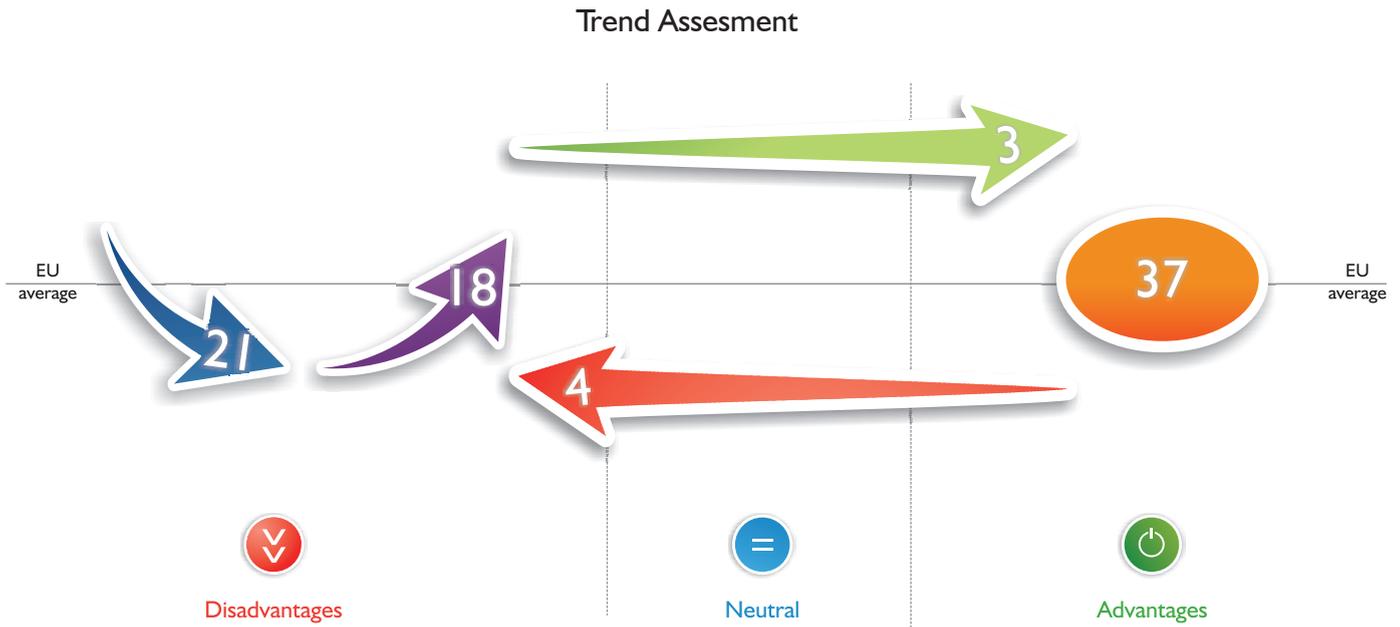
 Advantages
  Neutral
  Disadvantages





Trend Assessment captures the evolution of the analysed indicators between 2011 and 2016 reports. Consequently, out of the 40 indicators that cluster as either neutral or competitive advantage in 2016, 37 lied within the same category in 2011 whereas 3 indicators changed clusters and become competitive advantages (while being competitive disadvantages in 2011).

The 43 competitive disadvantages recorded consist of 39 indicators that were also disadvantages in 2011 (over this interval, approximately half of them displayed better performance than the EU average) and 4 indicators that became competitive disadvantages while in 2011 they display a competitive advantage.



- Indicators that clustered as competitive disadvantage in 2011 but have turned into competitive advantage or neutral meanwhile
- Indicators that clustered as competitive disadvantage in 2011, still are, but have shown better performance than EU average meanwhile
- Indicators that clustered as competitive disadvantage in 2011, still are, but have shown worse performance than EU average meanwhile
- Indicators that clustered as competitive advantage or neutral in 2011 but have turned into competitive disadvantage meanwhile
- Indicators that clustered as competitive advantage or neutral in 2011 and have not changed cluster meanwhile



General Indicators



Public Administration



Physical Infrastructure



Human Resources



Fiscal/Financial

From the general indicators, notable advances were made on employment and GDP/capita as compared to 2011. At the other end of the spectrum, the highest nominal reduction was registered by FDI - a worrying development given the strategic importance of FDI for the country's future economic growth. As Romania lags significantly behind the EU average on economic performance, as well as energy intensity and corruption the overall score shows that Romania is still at a substantial disadvantage. **The most alarming trend is demographics – population statistics show a constant decrease of Romania's population since 1990 – in the last 10 years alone, the decline was about 7%.**

Consistent with 2011 report, Romanian public administration continues to score well in terms of cost and efficiency, though this is contrary to general public opinion. Some of the cost indicators, where Romania performs well, actually hide quality issues, which are harder to assess. A commendable improvement in the past three years has been the increase in overall control of corruption. Although the improvement is not significant, the trend is positive, which is a development welcomed by the business community that sees corruption as one of the main constraints against doing business in Romania (as indicated by AmCham's CEOs Survey). The two other major sticking points for the business community, i.e. political stability and the rule of law, however, have still not registered progress.

Physical infrastructure is probably the most widely debated public policy issue at a national level. The CEOs Survey also placed the **lack of infrastructure in the top two of the business constraints list**. This is indeed reflected by the analyzed indicators as well, with **transportation infrastructure marking the largest disadvantage for our country relative both to the benchmark countries as well as to the EU average** (transportation infrastructure subscore was 0.5). On a positive note, it is worthwhile mentioning the steep surge in broadband connectivity in the past three years, where Romania is catching up fast with the rest of Europe.

The level of education remains one of Romania's strengths, especially in terms of language proficiency and sciences. Both our comparative scores as well as the CEOs Survey indicate this aspect of the labor force as one of Romania's biggest advantages. Consequently, a **brain-drain phenomenon is wide-spread and measures to address this should be applied**, building

for instance on the positive experience of the IT sector. However, the low percentage of GDP spent on education (3.1% in Romania compared with 5.3% EU average) puts a shadow on Romania's quality of education for the next generation. Except for the top pupils that form the brain drain phenomenon, **the overall quality of the labor market is affected by the average level of education of the active labor force**. This can be addressed by improving the quality of the education system with the aim of bridging the gap with market requirements. In a related field, Research and Development, Romania unfortunately scores extremely poorly as compared to both the EU average as well as comparative countries. On a global scene where innovation, creativity and value added are paramount for increased competitiveness, this is certainly an area that demands immediate policy attention.

Fiscal and monetary policy indicators have been improving significantly over the past three years with both Romania's risk perception (measured in Government bond yields) as well as interest rates and inflation having a positive development. Relatively to the EU average, however, these indicators still remain a disadvantage. Notably, the CEOs Survey shows that the largest increase in policy confidence from 2011 to 2014 was in monetary policy. On the fiscal side, Romania fares markedly better than the EU average in terms of total Government debt and the budget deficit. However, the fiscal reform implemented this year is expected to put additional pressure on both. According to the Fiscal Council, in the absence of other measures to strengthen the budgetary position, **the medium term objective related to the structural deficit, to which Romania is committed by adherence to Stability and Growth Pact, is being jeopardised**.

The new Fiscal Code and Fiscal Procedure Code, which entered into force on January 1st, 2016, introduced several incentives both for companies and individual investors. The announced reduction of the standard VAT rate with effect from January 1st, 2016, along with other reduced rates for certain types of supplies, increased domestic consumption and stimulated economic growth in 2015. **Future growth prospects will depend heavily on the fiscal and investment policies of the Government**. 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.



Based on the methodology of the present report, ratings have been derived for each country and category of

indicators. A summary of these results as well as a comparison to 2011 results are depicted in the table below:

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

Following the analyses carried out in each of the 6 policy areas, a number of **learning points have emerged**, that could be used as a starting point by policy makers. They will need to be further analyzed, developed,

prioritized and, most importantly, implemented, in order to increase the speed with which Romania will close the competitiveness gap. A snapshot of the most important learning points by area is presented as follows.

Learning

Physical Infrastructure

- Ensure the implementation of the General Transport Master Plan (adopted in 2015) against a timetable and enforce the existing multiannual budgeting legislation to ring fence major projects and integrate them with regional business and tourism development initiatives.
- Retool the contract awarding procedures through which private firms are procured for projects by increasing the transparency of the bidding process to comply with the new Public Procurement Directives.
 - Rebuild/improve irrigation infrastructure in order to better leverage Romania's agricultural endowment.

General

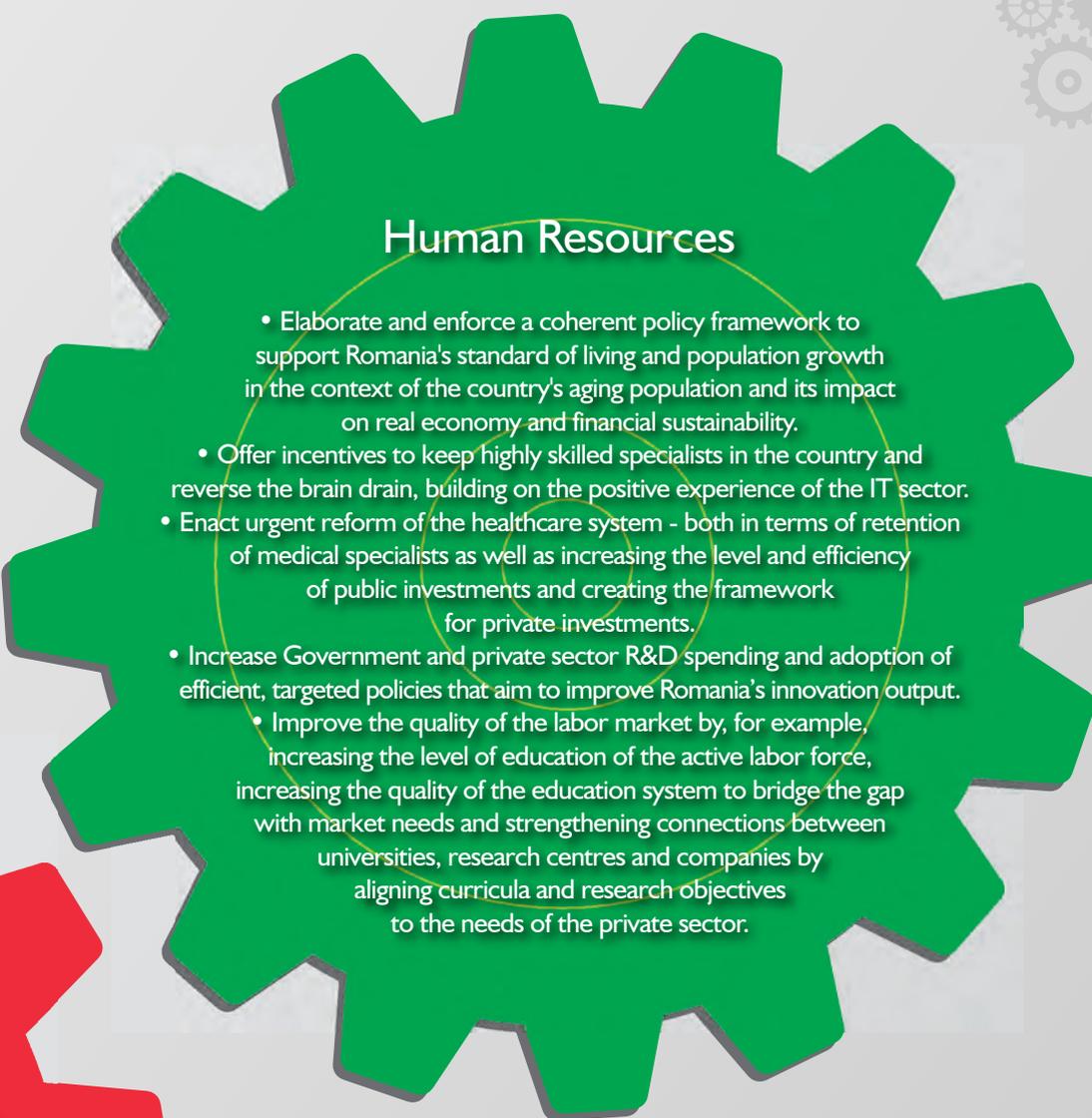
- Target an increase in FDI inflows by implementing incentives for foreign firms and investors, developing a more efficient and visible governmental body focused on Foreign Investment (Czech model could be replicated) and working on improving both political stability and predictability in the regulatory framework of the business environment and in the legal system.
- Stimulate investment in key export industries and create incentive packages for local and foreign investors based on new technology implemented, number of jobs created and high value added export capacity created.
- Develop infrastructure by use of EU funding to develop physical infrastructure, together with private funding through public-private

Fiscal and Monetary Policy

- Ensure coherence of the fiscal reforms already adopted and find solutions for managing the fiscal deficit, both effective and structural, by either:
 - o Improvement of the structure and efficiency of Government expenditures.
 - o Increase in tax collection rate/decrease of tax avoidance.
- Conduct a monetary policy that carefully considers the estimated effect that the fiscal reform is expected to have on consumer prices.
- Significantly reform the tax administration, modernize and simplify tax collection, reduce tax evasion and reduce the burden of compliance for taxpayers.



Policy Points



Human Resources

- Elaborate and enforce a coherent policy framework to support Romania's standard of living and population growth in the context of the country's aging population and its impact on real economy and financial sustainability.
- Offer incentives to keep highly skilled specialists in the country and reverse the brain drain, building on the positive experience of the IT sector.
- Enact urgent reform of the healthcare system - both in terms of retention of medical specialists as well as increasing the level and efficiency of public investments and creating the framework for private investments.
- Increase Government and private sector R&D spending and adoption of efficient, targeted policies that aim to improve Romania's innovation output.
- Improve the quality of the labor market by, for example, increasing the level of education of the active labor force, increasing the quality of the education system to bridge the gap with market needs and strengthening connections between universities, research centres and companies by aligning curricula and research objectives to the needs of the private sector.



Indicators

partnerships and/or concessions and strengthen the competitiveness of Romanian companies on local and foreign markets. The improvement of EU funds absorption should remain a top priority of the Government which at the same time should take care of the quality of the projects and their relevance for the overall economic environment.

- Adopt policies to stop the demographic decline with focus on stimulating an increase in the birth rate.
- Take steps towards increasing the value added of agricultural products. This objective can be achieved by decreasing exports of raw materials, increasing local production using as input agricultural raw materials, increasing investment aimed at capital formation, etc.



Public Administration

- Increase transparency and accountability in public administration and in the use of national public funds. Publish the costs of public investments (including the bid prices and final costs), the cost/benefit analysis of each investment and implement the OECD corporate governance principles for state owned enterprises, either as a code of conduct, or as a law.
- Increase implementation of Internet based "e-services" by the administration to enhance efficiency and reduce costs. In addition, ensure that the population is aware of Internet based "e-services" and implement policies to enhance their capability to access them.
- Enhance the competency of public officers to improve quality of public interaction with Government services by improving the skills of current employees and attracting talent by improving incentives.

General Indicators





Economic Performance

Several general indicators could be used to measure the overall performance of the Romanian economy: GDP per capita, household consumption, compensation of employees, percentage of total population employed, gross national savings, current account balance, investment and gross fixed capital formation. Since overall economic success depends on many factors, such as natural resources endowment or geographical position, these indicators cannot describe fully the impact of policies on economic performance and should not be used as the sole determinants of policy success or failure.



General indicators rate a country's progress: the main aim of economic policy. The indicators are split into five areas: economic performance, demographics, direct Government contribution to performance, energy consumption and Government accountability.

Romania Economic performance	Country Result 2014	EU (28) average 2014	Country Result 2010	EU (28) average 2010
GDP per capita Euro (current prices)	7,500	27,300	6,300	25,300
Return on employment (GDP/Employment compensation)	3.19	2.09	2.81	2.08
FDI per capita, Euro	156	358	110	956

Romania has a GDP per capita (in current prices) of EUR 7,500, placing it well below the EU average (EUR 27,300) and below all other benchmark countries with the exception of Bulgaria. However, there has been an improvement of this indicator for Romania in recent years, as the country's GDP per capita has grown at an average annual rate of 4.5% from EUR 6,300 in 2010. During the same period the average EU GDP per capita showed an annual growth rate of only 1.9%. It is important to note that the recent financial crisis curbed GDP growth in most European countries and that although Romania was not impacted as forcefully as some European countries, the stagnation certainly affected its growth momentum. Barring any negative economic events with widespread consequences, Romania's GDP is expected to continue to grow in the next few years. World Bank estimations place Romania's real GDP growth for the period 2016 – 2018 at a yearly average of 4%.

Romania's return on employment scores well above the EU average, exceeding virtually all other selected countries. This indicates that the country has a better return than average on every euro spent on employment, which offers Romania a competitive advantage over

other EU countries. Romania's strong performance in this indicator can be partially attributed to the fact that the cost of labor in Romania, both skilled and unskilled, is significantly lower than in more developed parts of the EU. Other factors that influence this metric are labor productivity per hour and hours worked per year (these factors will be analyzed in detail in the Human Resources section of this report). **As Romania continues to develop, wages should slowly rise towards the EU average and eventually catch-up, so this return on employment advantage may deteriorate over time unless value added by the workforce or productivity increase as well.**

While observing gross fixed capital formation and FDI levels for the countries analyzed, a positive correlation can be identified (countries that display low FDI also display low levels of gross fixed capital). In 2012, FDI per capita in Romania was roughly 87% lower than the EU average (based on data from that year). FDI is a significant channel for financing gross fixed capital formation, balancing the current account and providing know-how and best practices to the economy. Designing effective policies to foster FDI, especially in post-transition economies, has always been a fine balancing act due to cumbersome regulation and underdeveloped production structures. The most successful FDI policies have ensured a significant inflow of foreign funds and expertise, without Government relinquishing control of the most strategically important elements of the economy through overzealous privatization. To increase levels of FDI inflows in the coming years **Romania must implement carefully targeted incentives for foreign firms and investors (while observing EU legislation), set-up an efficient and visible Foreign Investment Agency and work on improving political stability, while displaying predictability in both the business environment and the legal regulatory environment.** Along with increased revenues, higher FDI inflows will also generate higher competition of foreign firms in the domestic market, thus increasing both the rate of knowledge transfer in the country and the competitiveness of domestic firms. In the context of FDI increases, it is expected that fixed capital and R&D are amongst the areas that could benefit from improvements.

Total investment in Romania amounted to 24.2% of GDP in 2014, which places Romania above the EU average of 19.8% in this category. However, when considering the nominal value of investments, the GDP trend for the peer countries as well as the fact that EU average incorporates many mature markets

where significant investments are not required with the same urgency, we may conclude that Romania needs to be more ambitious in attracting FDI to finance the formation of its fixed capital. Increased investment in Romania will serve as evidence of a higher level of trust in the markets and in the profits they can generate and is paramount for stimulating R&D and innovation that could lead to further economic growth.

There has been a deterioration in the current account balance per capita, as compared to EU average; this indicator has changed clusters over the analyzed period, turning from a competitive advantage to a competitive disadvantage. Additional measures for further **stimulating local production and exports should be envisaged, in correlation with measures to increase FDI and improving the skills of the labor force.**

A general indicator for tourism (tourist trips per bed) shows a slight deterioration of this sector. While this indicator was clustered as neutral based on 2010 data (0.9 of the EU average), it has turned into a competitive disadvantage when considering statistics published for 2013 (0.8 of the EU average). This will be further analyzed later in this report.

Direct Government Contribution

A Government should invest and spend its revenues in ways that generate more economic prosperity. Therefore, the weight of Government direct contribution to economic performance is a strong indicator of effectiveness of public policy making and resource allocation. In this report, we have included several indicators that reveal how much of the economy depends on Government spending and how effectively Government spending stimulates growth and private consumption (i.e. household consumption to Government consumption, Government subsidies, business investment as a percentage of total investment).

Romania seems well-positioned within the analyzed group in terms of household consumption to Government consumption. The ratio of household to Government consumption increased from 1.45 in 2010 to 1.62 in 2014, equivalent to an annual compound growth rate of 3.8% as compared to a 1% average displayed by the EU. This trend can be explained by the fact that household consumption was considerably lower in 2010 which probably occurred



due to the austerity measures and general fall in consumer confidence that followed the global financial crisis. So, although Romania has been improving this metric and it has been doing so at a faster rate than the rest of Europe, further measures aimed at improving this indicator either by raising the purchasing power of households or reducing Government consumption should be considered.

Energy

Energy consumption is relevant to an economy's productivity and competitiveness. Energy is relevant to virtually all sectors of the economy and this is demonstrated whenever there are supply constraints. Furthermore, the structure of the energy sector, including supply and distribution, has an important effect on the competitiveness of the economy, as well as environmental costs and benefits.

Romania scores well in terms of CO₂ emissions per capita. However, this indicator also reflects the sharp decrease of industrial output in Romania since 1989 in the context of the structural transformation of the economy. When looking at this process through the perspective of competitiveness, this may not necessarily reflect an advantage (further details are provided within Physical Infrastructure – Energy section).

Energy intensity is a measure of the energy equivalent of oil required to produce 1.000 EUR of GDP. Romania still shows a competitive disadvantage in this area, (i.e. still it is more energy intensive than the benchmark countries/EU28 average). However when compared to 2009 data presented in the previous report, the trend is positive and it displays a more accelerated pace than the EU average.

Focusing investment and policy on energy efficiency, including savings, is an effective mechanism for spurring productivity and competitiveness via efficiency gains. At the same time, such a strategic thrust would continue Romania's alignment with EU environmental regulations. **Policy decisions that encourage private action and funding, as well as public resources such as EU funding, would contribute to achieving such targets and more sustainable economic growth.**

Government Accountability

A Government's effectiveness in formulating and implementing effective economic policy relies heavily on its ability to put the public interest before personal profits and partisan goals. In countries with a history of corruption, seeking out corrupt public officials and holding them accountable is a mandatory process for meaningful progress. However, fighting against corruption should be a natural outcome of increasing the quality of public policies in general and the overall capacity of public institutions to formulate qualitative regulation. Romania's score of 4.3 in the 2014 TI Corruption Index has improved from the 3.7 it has scored in 2010. However it remains a poor overall result (the above-mentioned index ranges from 0-10, where 0 represents high levels of corruption). **There is no doubt that an objective and independent judicial system is paramount to a successful overhaul of a country's political landscape.** To conclude on a slightly positive note, the average annual rate displayed by the indicator over the analyzed period shows a more accelerated performance as compared to EU average.

Demographics

A worrying feature for Romania's future economic development that needs to be addressed by Government policy is the development of the country's demographics. **Population statistics show a constant decrease of Romania's population since 1990 - in the last 10 years alone, the decline was about 7%.** Future projections also indicate a bleak prospect. While the EU population is expected to increase by 3% by 2050, for Romania, Eurostat foresees a 10% decrease in population for the same period. Projections made by the Center for Demographic Research of the Romanian Academy take a more drastic view placing the 2050 population in Romania at 16 million, a 20% decrease as compared to the 2014 level.

This level of depopulation, if not properly addressed, will have a major impact on the country's competitiveness affecting a wide range of areas from availability of workforce to the size of the consumer market, ultimately undermining Romania's potential for sustained economic growth.

While until 2009 migration had the largest influence on Romania's depopulation, natural decrease (births-deaths) has led the trend since. Net migration saw a

significant decline, with the number of emigrants and that of immigrants in 2012 and 2013 almost evening out. The natural change in Romania's population turned negative in 1991 and has remained there ever since. If no change occurs in fertility rate, which in Romania is 1.41 (meaning the number of children that are born alive to a woman in her lifetime), below the EU average of 1.55, natural decrease is expected to accelerate in the medium term.

Population decrease brings with it even more dramatic structural changes in terms of age distribution. Europe is already confronted with an aging population, with the percentage of people over 65 at 18.5% of the total population, which is the second highest in the world, after Japan. (For comparison purposes, the percentage in India, according to World Bank Indicators is 5%). With 16.5% in 2014, Romania is not far behind. The situation is only getting worse. The old age dependency ratio (population of over 65 for every 100 active people with ages between 15 and 64) in Romania is projected to increase from 24.3 in 2014 to 48.5 by 2050. The expected worsening of the ageing phenomenon sparks serious concerns about the capacity of the social security, healthcare systems and the economy as a whole to cope.

Summary

Romania's overall ranking in general policy indicators is based on its good performance in three main areas: total investment as a % of GDP, household consumption to Government consumption ratio and CO₂ emissions per capita. The main areas where Romania's performance needs urgent improvement are: household consumption per capita, compensation of employees per capita, GDP per capita, gross fixed capital, foreign direct investment, current account balance, energy intensity, crude death rate, tourist trips and the TI Corruption Index. For 7 out of these 10 indicators listed as competitive disadvantages for Romania, the trend analysis reveals that their performance improved compared to 2011 and they scored better relative to the EU average.

Policy Learning Points

The authorities should aim to do the following:

- Target an increase in the FDI inflows by implementing incentives for foreign firms and investors, developing a more efficient and visible governmental body focused on Foreign Investment (Czech model could be replicated) and working on improving both political stability and predictability in the regulatory framework of the business environment and in the legal system.
- Stimulate R&D and innovation throughout the country by:
 - Stimulating the establishment of industrial clusters and technology transfer infrastructure to encourage development and commercialization of new patents (targeting less developed areas).
 - Defining breakthrough projects to enable knowledge transfer to Romania by bringing in global expertise (e.g. Laser Valley project). Increasing accountability by strengthening transparency of public administration.
- Stimulate investments in key export industries and create incentive packages for local and foreign investors based on new technology introduced, number of jobs created and high value added export capacity created.
- Define a strategic framework for large infrastructure investment projects such as energy investment and enforce a predictable and stable regulatory environment aimed at supporting economic competitiveness.
- Use EU funding to develop physical infrastructure, together with private funding through public-private partnerships and/or concessions and strengthen the competitiveness of Romanian companies on local and foreign markets. The improvement of EU funds absorption should remain a top priority of the Government, which at the same time should ensure that projects are of high quality and are relevant for the overall economic environment.
- Adopt policies to stop the demographic decline with a focus on stimulating an increase in the birth rate.



General Indicators	People	EU	Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
		average	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)
Employment (%) of total population 2014	64.9	71.1	1.1	61.0	0.9	69.0	1.1	61.8	1.0	61.7	1.0	61.0	0.9	61.0	0.9	
Household consumption per capita (including non-profit institutions serving households), EUR 2014	15,569	20,742	1.3	3,606	0.2	7,135	0.5	5,287	0.3	6,447	0.4	4,717	0.3	7,865	0.5	
Compensation of employees per capita 2014	13,098	18,595	1.4	2,325	0.2	5,903	0.5	4,575	0.3	3,815	0.3	2,357	0.2	5,345	0.4	
People subsum			3.8	1.3	2.0	1.6	1.7	1.4	1.9							
People subscore			1.3	0.4	0.7	0.5	0.6	0.5	0.6							

General Indicators	Economic Performance	EU	Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
		average	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)
GDP per capita, EUR 2014	27,300	38,500	1.4	5,800	0.2	14,700	0.5	10,500	0.4	10,700	0.4	7,500	0.3	13,900	0.5	
Gross Domestic Savings % of GDP 2013	21.7	26.4	1.2	20.9	1.0	30.8	1.4	27.4	1.3	21.0	1.0	22.3	1.0	25.2	1.2	
Gross fixed capital formation, EUR per capita	5,267	8,523	1.6	1,222	0.2	3,731	0.7	n.a.	n.a.	2,093	0.4	1,653	0.3	2,933	0.6	
FDI per capita, 2012	821	532	0.6	n.a.	n.a.	785	1.0	1080	1.3	122	0.1	107	0.1	407	0.5	
Total Investment as % of GDP, 2014	19.8	22.4	1.1	n.a.	n.a.	25.0	1.3	21.7	1.1	20	1.0	24.2	1.2	20.9	1.1	
Business investment to Total investment ratio, 2012	0.6	0.6	1.1	n.a.	n.a.	0.7	1.2	0.7	1.1	0.5	0.9	0.6	1.1	0.6	1.1	
Current account balance per capita, 4Q average, 2014Q1-2014Q4	248	299	1.2	50	0.2	91	0.4	426	1.7	-155	-0.6	-32	-0.1	7	0.0	
Household consumption to Government consumption ratio, 2014	2.7	2.7	1.0	3.6	1.3	2.5	0.9	2.5	0.9	3.3	1.2	4.4	1.6	n.a.	n.a.	
Economic Performance subsum			9.3	2.9	7.3	7.8	4.4	5.5	4.9							
Economic Performance subscore			1.2	0.6	0.9	1.1	0.5	0.7	0.7							

General Indicators	Energy	EU	Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
		average	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)
Energy intensity, KG of oil per 1000 EUR GDP, 2013	141,6	123.9	0.9	610.6	4.3	353.8	2.5	256.6	1.8	294.7	2.1	334.7	0.4	337.2	2.4	
CO ₂ emissions per capita, metric ton per capita, 2010	7.4	8.0	1.1	6.0	0.8	10.7	1.5	5.1	0.7	8.3	1.1	3.9	1.9	6.7	0.9	
Energy subsum			2.0	5.1	3.9	2.5	3.2	2.3	3.3							
Energy subscore			1.0	2.6	2.0	1.3	1.6	1.2	1.6							

General Indicators	EU		Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
	average	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)									
Demographics																
Population (million)	18.1	8.5	0.5	7.2	0.4	10.5	0.6	9.9	0.5	38.0	2.1	19.9	1.1	5.4	0.3	
Fertility Rate (2013)	1.6	1.4	0.9	1.5	1.0	1.5	0.9	1.4	0.9	1.3	0.8	1.4	0.9	1.3	n.a	
Crude Birth Rate (birth per 1000 inhabitants)	10.0	9.4	0.9	9.2	0.9	10.2	1.0	9.0	0.9	9.7	1.0	9.1	0.9	10.1	1.0	
Crude Death Rate (death per 1000 inhabitants)	9.9	9.4	1.1	14.3	0.7	10.4	1.0	12.8	0.8	10.2	1.0	12.3	0.8	9.6	1.0	
Old Age Dependency Rate	28.1	27.2	1.0	29.3	1.0	25.7	0.9	25.8	0.9	21.2	0.8	24.3	0.9	19.0	0.7	
Life expectancy	81	81	1.0	75	0.9	78	1.0	76	0.9	77	1.0	75	0.9	77	1.0	
Demographics subsum			8.0		5.9		7.3		6.5		7.6		6.1		5.3	
Demographics subscore			1.0		0.7		0.9		0.8		1.0		0.8		0.8	

General Indicators	EU		Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
	average	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)									
Tourism																
Tourist trips (for personal purposes, in nights spent) per bed, 2013	86.3	112.8	1.3	71.5	0.8	58.5	0.7	57.9	0.7	92.7	1.1	66.3	0.8	59.6	0.7	

General Indicators	EU		Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
	average	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)									
Corruption																
Tl corruption index, 2014 (10 clean - 0 high corruption)	6.4	7.2	1.1	5.8	0.9	5.1	0.8	5.4	0.8	6.1	1.0	4.3	0.7	5.0	0.8	

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

Volatility assessment



Advantages
(score of 1.15 or more)



Neutral
(score between 0.85 and 1.15)



Disadvantages
(score below 0.85)

Trend assessment	Number	Details
Indicators that clustered as competitive disadvantage in 2011, but have turned into competitive advantage or neutral meanwhile	0	No indicator in this cluster
Indicators that clustered as competitive disadvantage in 2011, still are, but have shown better performance than EU average meanwhile	7	Household consumption per capita, GDP per capita, Gross fixed capital, FDI per capita, Energy intensity, Crude death rate, TI Corruption Index
Indicators that clustered as competitive disadvantage in 2011, still are, but have shown worse performance than EU average meanwhile	1	Compensation of employees per capita 2014
Indicators that clustered as competitive advantage or neutral in 2011, but have turned into competitive disadvantage meanwhile	2	Current account balance per capita, Tourist trips per bed
Indicators that clustered as competitive advantage or neutral in 2011 and have not changed cluster meanwhile	11	Employment (%) of total population, Gross Domestic Savings, Total Investment as % of GDP, Business investment to Total investment, Household consumption to Government consumption ratio, CO ₂ emissions per capita, Population, Fertility rate, Crude birth rate, Old Age Dependency, Life expectancy

Public Administration





Cost of Government

Romania has a relatively low overall tax burden. While the various tax rates have been rising slowly since 2010, the percentage change is not significant. Romania has production and import taxes that are close to the EU average. When considering the total tax rate as a % of commercial profit, Romania (43.2%) is positioning itself better than Slovakia (48.6%) but worse than Poland (38.7%). These relatively low rates of taxation result in lower Government revenue (33% of GDP) for Romania than for any other country in the benchmark group.

However, despite low overall taxation rates, the fragmentation of the taxation system and the complexity of the infrastructure around collection and compliance represent a burden for companies.



Efficiency of Government

Administrative efficiency is an area where Romania seems to perform well as compared to the EU benchmark, a result which is somehow in contradiction with perceived public opinion. The relative performance of the country is primarily explained by the below average cost of public administration. It is important to note that the meaning of the good scores in social security is that the country is in line with most of Europe, which has a major competitive imbalance in this area. **The effectiveness of the redistribution function of the system needs to be closely analyzed.** Further reforms need to be put in place in order to support the move towards a more sustainable policy stance. Since 2010 Romania has managed to decrease the gap between social benefits paid and social contributions received, thus moving closer to sustainability (while the EU average displayed a deterioration of this indicator). Although the progress in this indicator is a positive one, the Government must continue taking steps toward narrowing the gap by increasing the base for social contributions or lowering the cost burden of social benefit payments as the country still pays out more in benefits than it collects in contributions (e.g. the New Fiscal Code enlarges the contributions base).

Romania has made progress in cutting unnecessary red tape and reducing bureaucracy. In 2010 it took 10 days on average to start a business in Romania, and that timeframe has slightly decreased to 8 days. Romania's score compared to the EU average qualifies it for a competitive advantage in this sector.

This section will evaluate the overall competitiveness of public administration policies in Romania and across the selected benchmark countries. The evaluation will entail examining the costs, efficiency and overall characteristics of the aforementioned policies. The cost indicators analyzed in this section estimate the regulatory burden placed on the economy by public administration, while the efficiency indicators will attempt to rate how well-designed and efficient administrative processes are within the country. The overall characteristics refer to certain qualitative factors that have an effect on public administration policies, like Government Accountability and Political Stability. Indicators for public administration are divided into four areas: cost, efficiency, judiciary and overall governance.

In the Public Administration efficiency table there is only one indicator where Romania scores as non-competitive: e-Government online activity. **Increasing the quality of public services across the board, at both local and central Government level, is considered a significant factor to enhance competitiveness and encouraging investment.** The performance of Romania's public administration is severely constrained by inefficiency (even though this is not necessarily reflected in the indicators selected due to quantification issues). One reason for this inefficiency is the low level of automation or e-Government in administrative processes. The Romanian Government offers online services that are quite similar to those offered by peer countries, so the issue lies either with the promotion of these services within the country, with their technical quality or with the technical abilities of the population. Given that internet penetration in households has been increasing significantly in recent years (however still showing a consistent gap compared to average EU level), the Government must focus on ensuring that the population is aware of these services and has the capability to access them.

In terms of time to prepare and pay taxes annually, Romania displays a competitive advantage as it is placed 16% below the EU average. Since 2010 Romania has managed to reduce the lead time of this process from 228 hours per year to 159 hours per year on average. **Further progress could be made by simplifying the tax forms citizens must complete, offering comprehensive online tax submission, simplifying the tax code, or offering citizens more help with completing tax forms, either in the form of online tutorials or tax advisory and support services.**

Judiciary

The time it takes to enforce contracts is an important measure of the efficiency of the judicial system and the overall competitiveness of a country. This is one of the indicators that features prominently in the most widely read GCRs, and foreign investors will certainly look to this metric when evaluating a potential market, as it expresses how efficiently the judicial system is able to handle contractual disputes or issues. It currently takes 512 days on average to enforce a contract in Romania, which is competitive in the EU context (amounts to only 89% of average days spent on enforcement in the EU).

Overall Governance

This segment attempts to measure areas of Government performance that are often difficult to quantify: public trust in the Government, Government's compliance with the law, the effectiveness of anti-corruption efforts, Government accountability to citizens and the stability of the political system.

In contrast to other Public Administration sectors, Romania performs poorly compared with the benchmark group here. It only achieved 70% of the EU average in the 2014 results for Voice and Accountability, Political Stability and Rule of Law and 60% for Governance Efficiency. An important aspect related to these metrics is their trend – Romania's performance has worsened slightly since 2010. Although worrying, this is not necessarily surprising given the political turmoil of recent years. **Today the situation is not much improved, as political scandals and corruption accusations levelled at high-ranking officials still dominate the news cycle.** Nevertheless, general corruption (the type that permeates institutions at all levels, measured by the Control of Corruption metric) has been reduced and Romania's scores (71,8) is above its benchmark countries (with the exception of Austria – 88,5), but it is still behind the EU average in this metric (77,7).

Summary

Romania has an advantage in the cost of Government service, average performance in administration and low scores in integrity and quality of institutions and public policies. However, the trend observed for the control of corruption is encouraging. Maintaining this trend in control of corruption, which could be enhanced by successfully addressing integrity, would distinguish Romania from other countries in the region with similar problems. The trend analysis carried out for public administration reveals that the only noticeable changes occurred in relation to control of corruption, while most of the other indicators remained within the same cluster (either competitive advantages or disadvantages) as per the data displayed in 2010.



Policy Learning Points

The authorities should aim to do the following:

- Take steps toward narrowing the gap between social contributions and social benefits by increasing the base for social contributions (for example by increasing the employed population) and consequently lowering the cost burden of social benefit payments.
- Increase transparency and accountability in public administration and in the use of national public funds. Publish the costs of public investments (including the bid prices and final costs), the cost/benefit analysis of each investment and implement the OECD corporate governance principles for state owned enterprises, either as a code of conduct, or as a law.
- Increase implementation of Internet based "e-services" by the administration to enhance efficiency, reduce costs and improve the quality of public interaction with Government services.
- Ensure that the population is aware of Internet based "e-services" and implement policies to enhance their capability to access them.
- Increase the quality of public service and build administrative capacity at both central and local level, by increasing remuneration, introducing career path development, defining seniority levels, performance objectives and annual evaluations against the objectives linked to remuneration.
- Improve the sophistication of public procurement to differentiate between commodities and value-added products and services. Perform lifecycle cost analysis and cost-quality analysis where appropriate, as part of the public procurement process.
- Simplify the tax forms the citizens must fill in, offer comprehensive online tax submission, simplify the tax code or offer citizens more help with completing tax forms, either in the form of online tutorials or tax advisory and support services.

Public Administration Costs	EU	Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
	average	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)
Total General Government Revenue as % of GDP, 2014	45.7	49.7	0.9	37.2	1.2	40.9	1.1	47.7	1.0	37.5	1.2	32.7	1.4	38.7	1.2
Cost - Taxes on production and import % GDP, 2014	13.5	14.4	0.9	14.8	0.9	12.1	1.1	18.6	0.7	12.7	1.1	12.8	1.1	10.6	1.3
Cost - Total tax rate as % of Commercial Profit, 2014	41.9	52.0	0.8	27.0	1.6	48.5	0.9	48.0	0.9	38.7	1.1	43.2	1.0	48.6	0.9

* EU28 computation excludes data for Croatia, Cyprus and Greece, due to unavailability

Public Administration Costs subsum		2.7	3.7	3.1	2.6	3.4	3.5	3.3
Public Administration Costs subscore		0.9	1.2	1.0	0.9	1.1	1.2	1.1

Public Administration Efficiency	EU	Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
	average	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)
Efficiency - Social contributions to Social benefits ratio, 2014	0.8	0.8	1.0	0.6	0.8	1.1	1.4	0.9	1.2	0.9	1.1	0.8	1.0	1.0	1.2
Efficiency - E-Government on-line-availability, 2010	84.3	100.0	1.2	70.0	0.8	73.8	0.9	65.8	0.8	78.8	0.9	60.0	0.7	62.5	0.7
Efficiency - Time to prepare and pay taxes annually, (expressed in hours per year) 2014	189.2	166.0	1.1	454.0	0.4	413.0	0.5	277.0	0.7	286.0	0.7	159.0	1.2	207.0	0.9
Efficiency, days to start a business, 2014	11.6	22.0	0.5	18.0	0.6	19.0	0.6	5.0	2.3	30.0	0.4	8.0	1.4	11.5	1.0

Public Administration Efficiency subsum		3.8	2.7	3.3	4.9	3.1	4.3	3.9
Public Administration Efficiency subscore		1.0	0.7	0.8	1.2	0.8	1.1	1.0

Public Administration Judiciary	EU	Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
	average	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)
Judiciary - Time to enforce contracts, 2014	576.0	397.0	0.7	564.0	1.0	611.0	1.1	395.0	0.7	685.0	1.2	512.0	1.1	545.0	0.9



Public Administration Overall Governance	EU	Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
	average	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)
Overall Governance - Voice and Accountability (Rank 0-100), 2013	82.1	96.2	1.2	58.3	0.7	76.8	0.9	69.7	0.8	78.2	1.0	57.3	0.7	76.3	0.9
Overall Governance - Political Stability, 2014 (Rank 0-100)	73.1	96.7	1.3	54.5	0.7	84.4	1.2	69.7	1.0	78.7	1.1	52.6	0.7	88.6	1.2
Overall Governance - Rule of Law, 2014 (Rank 0-100)	81.1	97.6	1.2	51.2	0.6	82.5	1.0	67.3	0.8	73.5	0.9	56.4	0.7	64.0	0.8
Overall Governance - Control of Corruption, 2014 (Rank 0-100)	77.7	88.5	1.1	52.2	0.7	63.6	0.8	64.6	0.8	71.8	0.9	71.8	0.9	60.3	0.8
Overall Governance - Governance Effectiveness Ranking, 2014 (Rank 0-100)	81.9	92.8	1.1	59.3	0.7	75.1	0.9	70.3	0.9	71.3	0.9	52.6	0.6	73.2	0.9

Public Administration Overall Governance subsum	6.0	3.5	4.8	4.3	4.7	3.7	4.6
Public Administration Overall Governance subscore	1.2	0.7	1.0	0.9	0.9	0.7	0.9

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

Volatility assessment



Advantages
(score of 1.15 or more)



Neutral
(score between 0.85 and 1.15)



Disadvantages
(score below 0.85)

Trend assessment	Number	Details
Indicators that clustered as competitive disadvantage in 2011, but have turned into competitive advantage or neutral meanwhile	1	Overall Governance - Control of Corruption
Indicators that clustered as competitive disadvantage in 2011, still are, but have shown better performance than EU average meanwhile	1	Overall Governance - Rule of Law
Indicators that clustered as competitive disadvantage in 2011, still are, but have shown worse performance than EU average meanwhile	4	Overall Governance - Voice and Accountability, Overall Governance - Political Stability, Overall Governance - Governance Effectiveness Ranking
Indicators that clustered as competitive advantage or neutral in 2011, but have turned into competitive disadvantage meanwhile	0	No indicator in this cluster
Indicators that clustered as competitive advantage or neutral in 2011 and have not changed cluster meanwhile	7	The remainder

Physical Infrastructure





Internet Infrastructure

Romania's Internet infrastructure is still quite lopsided, although coverage has become more homogenous in recent years. Where Internet connections exist, Romania boasts connection speeds that are highly competitive at the EU level. In fact, based on several international rankings, Romania is known to be in the top 10 countries in the world for Internet speed. While in 2010 42% of households were connected to the Internet, as of 2014, that figure has risen to around 61%, which means penetration is increasing steadily. In the same period, average EU household Internet penetration rose from 70% to 81%, which, given demographic similarities across Europe, indicates that the main barrier to further growth in Romania is infrastructure development. Given that the Internet and telecom market in Romania is highly competitive and features a number of large international players which are investing in infrastructure and battling over market share, a continuation of this positive trend is expected in the coming years. In terms of enterprises connected to the Internet, Romania's 2014 score positions it around the EU average, whereas in 2010 this indicator clustered Romania as showing a competitive disadvantage.

4 2 11

Physical infrastructure indicators measure a country's level of development in both quantitative and qualitative terms. These measures are considered a significant prerequisite for economic growth and competitiveness. Our analysis focuses on: Internet infrastructure, agriculture, energy, tourism and transport networks.

Agriculture

Romania has a vast amount of arable land, almost twice the average per capita area found in other EU countries. This has always been perceived as a competitive advantage. In fact, the value added from agricultural activities represented around 6% of Romania's GDP in 2013, while the EU average in the same measure was only 1.7% of GDP. This indicates, however, that Romania remains highly dependent on agricultural revenue in the context of an increasingly industrialized, highly-skilled and specialized European Union. Agricultural revenue is highly dependent on weather conditions and lacks predictability. In the context of the relatively low level of development of financial services for this sector, this brings significant vulnerabilities in terms of consolidated budgetary revenues.

When assessing the efficiency of agricultural exploitation, Romania remains far behind other EU countries, with agricultural production per hectare 50% lower than the EU average. Moreover, the agricultural output is obtained in the context of a high percentage of labor "employed" in agriculture (about 27%)

which may suggest that resources allocation in the economy are not optimal.

Given its natural endowment in this sector, Romania would be well-advised to keep developing its agricultural advantage. Steps should be taken towards **increasing the value added of agricultural products – for example by moving from export of raw materials to exports of agricultural based goods processed in Romania**. Other measures to be considered are increased investments, including investment in irrigation systems, encouraging more efficient land ownership structures as well as developing sources of revenue from medium and high – skilled industries in the agricultural sector. This would contribute to increasing productivity and the value added by the sector as well as its contribution to GDP formation.

Energy

Romania consumes about half the amount of fossil fuels that the average EU country consumes. In light of the recent EU push to reduce CO₂ emissions as well as reliance on traditional forms of energy generation, this level of emissions is quite competitive. It is important to note, however, that **the reduced emissions are not the result of successful policies aimed at significantly lowering carbon dioxide production within the country**, but are in fact the result of the abrupt restructuring process of the national economy in the context of the transition process. This process has been accompanied by structural transformation of the economy as well.

Romania also has a competitive advantage in renewables energy production, which represents about 23.9% of total energy generation in the country, compared to an average of 15% at EU28 level. Romania's advantage comes mostly from the large hydro plants built prior to 1990 in Romania's water rich mountainous areas. However, other forms of renewable energy, mainly wind and solar have seen a considerable surge in the past few years and have led to an increase of 2.5 percentage points in renewables' share of total energy production in only 3 years (from 2010 to 2013).

The largest energy provider in Romania only controls around 27% of the domestic market, while the largest players in other EU countries represent, on average, 54% of their respective markets. While in many industries such a high level of market control could be considered monopolistic and could result

in higher prices and lower quality service for consumers, in the energy sector a high level of market dominance does offer certain advantages. Centralization of electricity distribution decisions lends higher efficiency to the system, while economies of scale allow for lower prices. That being said, energy prices in Romania are about 20% lower than the EU average, but purchasing power parity has to be accounted for, as wage levels are also considerably lower in Romania. Also, prices in the industry are regulated by the Government to a certain extent.

Transport

In terms of road infrastructure, Romania has traditionally performed very poorly compared to its EU peers. Unfortunately no significant progress has been made, as less than 200 km of highway have been built in the last five years, totaling about 700 km. In 2014 the length of highways per million inhabitants in Romania amounted to less than 10% of the length of motorways per million in Austria and Austria has a considerably smaller surface area than Romania. Although countries like Poland and Slovakia have considerably lower values than Austria in this metric, Romania still ranks lowest in the benchmark group by a considerable margin. Given Romania's strategic geographical position at the border of East and West, **improving the road and railway system is paramount for economic development, attracting FDI and cultivating Romania's potential as a logistic hub for the region**. Apart from a low level of motorway coverage, Romania also scores poorly in terms of road interconnectivity with other EU countries and this has numerous consequences, including increased lead time for road trade between countries and a lower export capacity. Romania has had difficulty improving its road infrastructure because most ambitious expansion projects fall apart during the planning or negotiation stages, generally because costs are deemed to be too high. This issue should be addressed by completely transforming the process through which private firms are procured for projects and by increasing the transparency of the bidding process.

Romania also performs poorly in the air transport sector. Romania has only one major international airport, which handles a fraction of the traffic of major airports in more developed EU countries. This has been partly compensated by the investments conducted in order to improve Henry Coanda Airport



and increase its capacity in recent years and by recent enhancement of the number of international flights at regional airports, but far more investment is required for Romania to be able to meet its potential as a layover hub for flights from the Far and Middle East to the West. Romania also has a significantly lower number of airplane passengers per capita than most other EU countries (15% of the EU average) and while this is certainly partly related to the lack of airport infrastructure throughout the country, it is also a result of the overall low purchasing power of Romanian consumers, especially since airplane ticket prices are quite uniform across the continent. However, the purchasing power element has been partly addressed by the higher availability of low cost flights that have significantly contributed to economic development by introducing a degree of openness into the markets and facilitating labor mobility.

The rail infrastructure and transportation system in Romania is lagging behind considerably and needs significant improvements, since efficient rail transport is likely to be an EU priority. According to a 2015 analysis commissioned by the European Parliament, Romania has a fairly large network of rail lines open to commercial traffic (the eighth largest in the EU with a network of 11 000 km, more than 1000 stations, almost 200 tunnels and around 6 800 bridges) which is in an advanced state of disrepair due to a chronic lack of maintenance, investment and poor management. As a consequence, **the rail system is very inefficient and it continues to deteriorate.**

In 2015 Romania adopted the General Transport Master Plan (GTMP) drawn up by the Ministry of Transport as a prerequisite for EU funding and approved by the European Commission in July 2015.

According to the Master Plan, bringing the whole existing rail network to EU standards would be unaffordable - and unnecessary on portions with very low volumes of traffic. **The Master Plan therefore suggests channelling the available resources towards the main lines serving the majority of demand.**

Consequently, the priority for the coming years of any Government should be to access most of the funds available, use them in an efficient manner in the modernisation and development of the system and not allow this strategic pillar of the economy to deteriorate further.

Tourism

Tourist nights per bed was selected as the primary indicator for this section because it can be studied as a measure of tourism's economic activity. However, it does not distinguish business travelers from tourists and it is a poor method of measuring the **attractiveness of the country's cultural sites and activities, the development of its natural attractions, the effectiveness of tourism promotion and the regulation of commercial tourism infrastructure development.** In 2010 tourist nights per bed in Romania was 26 % lower than the European average and in 2013 Romania's performance in this sector still lagged behind the EU average by 23%. Since it is hard to isolate tourism activity in this metric, it is difficult to estimate the proportion that is attributable to an increase in tourism activity.

It is important to note the great potential that Romania has in this area, although this is difficult to quantify. Romania has a highly diverse geography, boasting both extensive mountain ranges and access to the Black Sea. Its major cities are modern and offer a vibrant nightlife. Most importantly, it is home to numerous important historical sites and multiple UNESCO World Heritage sites, like the Danube Delta. With the appropriate levels of investment and promotion Romania could become, in time, one of the most sought – after European tourism destinations.

Summary

Romania's physical infrastructure requires further investment to reach EU levels of development. Improvements would benefit the overall economy by connecting rural areas to larger markets, improving productivity, reducing transport costs and generally encouraging development and more economic activity. EU funds are available and could significantly defray the cost of the necessary development. A comprehensive and coordinated plan to bring Romanian infrastructure to EU levels should be high on the Government's list of priorities. The low level of development presents a significant opportunity to implement integrated intermodal transportation that would reduce costs, increase efficiency and reduce the environmental impact of this sector.

Policy Learning Points

The authorities should aim to do the following:

- Ensure the implementation of the General Transport Master Plan (adopted in 2015) against a timetable and enforce the existing multiannual budgeting legislation to ring fence major projects and integrate them with regional business and tourism development initiatives.
- Invest in intelligent utility network infrastructure coordinated with a focus on increased renewable energy generation.
- Continue development of the nationwide broadband communications infrastructure.
- Ensure coherent development of e-Government, based on common standards accessible by all local and central Government structures.
- Focus on absorbing the available EU funds for transport infrastructure by ensuring co-financing sources from the state budget, as well as on developing well-structured public private partnerships (e.g. for the construction and operation of highways, as well as the development of air transport).
- Redesign the contract awarding procedures through which private firms are procured for projects by increasing the transparency of the bidding process in compliance with the new Public Procurement Directives.
- Take steps towards increasing the value added of agricultural products. This objective can be achieved by decreasing exports of raw materials, increasing local production using as input agricultural raw materials, increasing investment aimed at capital formation, etc.



Physical Infrastructure Communication	EU	Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
	average	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)
% Enterprises having a broadband connection (fixed conn), 2014 (%)	94.0	96.0	1.0	78.0	0.8	97.0	1.0	88.0	0.9	90.0	1.0	82.0	0.9	93.0	1.0
Households having a broadband connection, 2014 (%)	81.0	81.0	1.0	57.0	0.7	78.0	1.0	75.0	0.9	75.0	0.9	61.0	0.8	78.0	1.0
Broadband penetration rate - number of broadband access at home (%)	26.5	23.8	0.9	15.0	0.6	21.5	0.8	20.6	0.8	16.0	0.6	14.0	0.5	16.4	0.6
Level of internet access - Households - Households who have internet access at home, 2014 (%)	78.0	79.0	1.0	56.0	0.7	76.0	1.0	74.0	0.9	71.0	0.9	58.0	0.7	76.0	1.0
Physical Infrastructure Communication subsum			3.9		2.8		3.8		3.6		3.4		2.9		3.5
Physical Infrastructure Communication subscore			1.0		0.7		0.9		0.9		0.8		0.7		0.9

Physical Infrastructure Agriculture	EU	Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
	average	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)
Arable land (hectars per person), 2012	0.2	0.2	0.7	0.5	2.1	0.3	1.4	0.4	2.1	0.3	1.3	0.4	2.0	0.3	1.2
Agricultural Value at current prices, per hectare, 2014	20.2	34.0	1.7	6.7	0.3	13.3	0.7	10.5	0.5	12.8	0.6	9.2	0.5	23.8	1.2
Physical Infrastructure Agriculture subsum			2.4		2.4		2.1		2.6		2.0		2.5		2.4
Physical Infrastructure Agriculture subscore			1.2		1.2		1.0		1.3		1.0		1.3		1.2

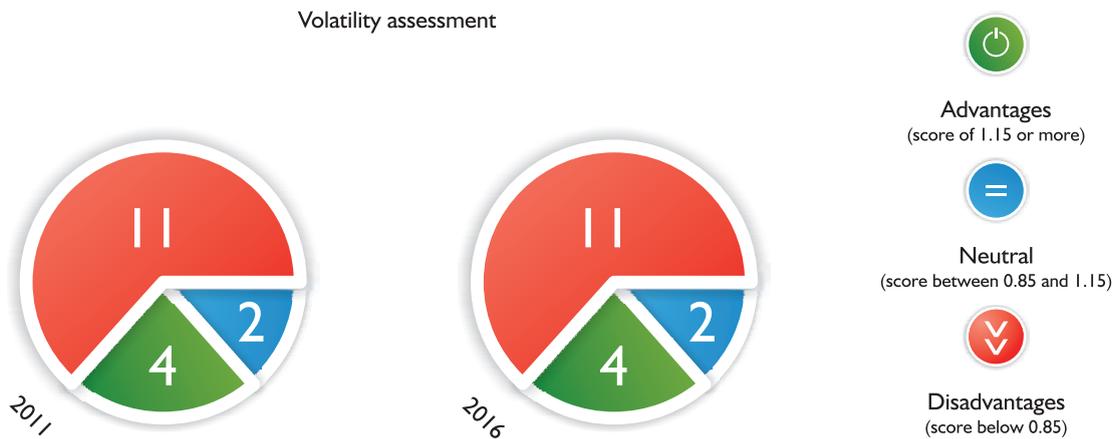
Physical Infrastructure Energy	EU	Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
	average	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)
GDP per unit of energy in use (using constant PPP \$ 2011 per kg of oil equivalent), 2012	10.5	11.2	1.1	5.8	0.6	7.0	0.7	9.0	0.9	8.4	0.8	9.8	0.9	7.8	0.7
Primary Energy use, tonnes of oil equivalent (toe), 2011	3.3	3.9	1.2	2.6	0.8	4.1	1.3	2.5	0.8	2.6	0.8	1.8	0.5	3.2	1.0
Share of renewable energy in gross final energy consumption, 2013	15.0	32.6	2.2	19.0	1.3	12.4	0.8	9.8	0.7	11.3	0.8	23.9	1.6	9.8	0.7
Market share of the largest generator in the electricity market, 2013 (excluding the Netherlands and Bulgaria)	54.4	55.5	1.0	n.a	n.a	58.2	0.9	51.9	1.0	17.3	3.1	26.8	2.0	83.8	0.6
Electricity prices for industrial consumers, (in EUR per Kwh), Mwh <consumption<2000 MWh, 2014, S2	0.089	0.079	1.1	0.083	1.1	0.081	1.1	0.082	1.1	0.079	1.1	0.0710	1.3	0.113	0.8
Physical Infrastructure Energy subsum			6.6		3.7		4.8		4.4		6.6		6.4		3.8
Physical Infrastructure Energy subscore			1.3		0.9		1.0		0.9		1.3		1.3		0.8

Physical Infrastructure Transportation	EU	Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
	average	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)
Roads - Motorways kilometers per million inhabitants, Eurostat	91.8	204.0	2.2	74.0	0.8	71.5	0.8	152.7	1.7	35.4	0.4	27.4	0.3	77.5	0.8
Roads - People killed per million inhabitants, WHO, 2010	75.7	66.0	1.1	104.0	0.7	76.0	1.0	91.0	0.8	118.0	0.6	111.0	0.7	94.0	0.8
Rail Roads - Total length of railway lines per million people, 2012	667.93	660.6	1.0	557.1	0.8	910.6	1.4	820.6	1.2	521.5	0.8	537.2	0.8	671.6	n.a.
Number of airplane passengers per people, 2013	1.1	1.8	1.6	0.1	0.1	0.4	0.3	1.4	1.2	0.1	0.1	0.2	0.1	0.0	0.0
Air transport, registered carrier departures, per thousand inhabitants, 2013	10.8	19.6	1.8	1.6	0.2	4.2	0.4	9.3	0.9	2.0	0.2	2.3	0.2	0.3	0.0
Physical Infrastructure Transportation subsum			7.7		2.6		3.9		5.8		2.1		2.1		1.7
Physical Infrastructure Transportation subscore			1.5		0.5		0.8		1.2		0.4		0.4		0.4

Physical Infrastructure Tourism	EU	Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
	average	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)
Total nights per hotel beds	86.3	112.8	1.3	71.5	0.8	58.5	0.7	57.9	0.7	92.7	1.1	66.3	0.8	59.6	0.7

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

Volatility assessment





Trend assessment	Number	Details
Indicators that clustered as competitive disadvantage in 2011, but have turned into competitive advantage or neutral meanwhile	1	% Enterprises having a broadband connection (fixed conn)
Indicators that clustered as competitive disadvantage in 2011, still are, but have shown better performance than EU average meanwhile	4	Households having a broadband connection, Percentage of Households who have internet access at home, Total nights per hotel beds, Roads - Motorways kilometers per million inhabitants
Indicators that clustered as competitive disadvantage in 2011, still are, but have shown worse performance than EU average meanwhile	6	Broadband penetration rate-number of broadband access at home, Primary Energy use, tonnes of oil equivalent (toe), Roads - People killed per million inhabitants, Number of airplane passengers per people, Air transport, registered carrier departures, Agricultural value at current prices
Indicators that clustered as competitive advantage or neutral in 2011, but have turned into competitive disadvantage meanwhile	1	Rail Roads - Total length of railways lines per million people
Indicators that clustered as competitive advantage or neutral in 2011 and have not changed cluster meanwhile	5	Arable land (hectars per person), GDP per unit of energy in use, Share of renewable energy in gross final energy consumption, Market share of the largest generator in the electricity market, Electricity prices for industrial consumers

Human Resources





Labor Force

Romania still lags well behind its EU peers in terms of productivity per hour worked, but it is slowly making up ground in this regard. This is not unexpected – the Romanian economy is still in the process of shaking off the lingering constraints of the former command system it used to follow, based on large, unwieldy enterprises and a legacy of inefficient economic policies. But Romania shows advantages in other departments. It achieves competitive scores in both working hours per year and high tech and medium-high tech employment. Romania's success in the latter measure should come as no surprise, especially when one considers the large number of high-tech firms that are present on the Romanian market. Large multinational corporations like Microsoft, Oracle and Ubisoft have been increasing their commitment to Romania by increasing the number of their Romanian employees in recent years, as there is a constant stream of qualified and cheap (compared to Western Europe) labor entering the market. There has also been a strong emergence of competitive domestic IT and software firms that are fighting for market share both domestically and on the world stage (the best example is probably BitDefender).

3 10 14

The Government makes an important and basic contribution to the development of the country's human capital through its policies on education and research. It can take steps to encourage further the continuous development of human capital to a coherent range of policies related to education, research and continuous training, to increase the level of participation in the workforce and to encourage the creation of jobs in high value added sectors of the economy, which bring greater income and standard of living. This chapter is divided into four areas: labor force, education, research and development and healthcare.

While there is still much progress to be made in terms of overall workforce skills, the amount of quality educational resources has been increasing in Romania. In 2014 nearly 70% of the eligible workforce held a tertiary education degree, which places Romania at the EU average in this respect. Further efforts should, however, be directed towards **increasing the quality of education and alignment with the demands of the labor market**. This measure, together with better employment opportunities, would help trigger a reversal of the “brain drain” that has plagued the country since the early 90's. It would also lead to a direct improvement in the labor productivity of employees.

Education

Education in Romania is still underdeveloped relative to the benchmark country group. Romania scores below any other country in the peer group in three very important indicators: % GDP spent on education, Student/Teacher Ratio and Education – Lifelong Learning. These indicators reveal the structural problems of the educational system in Romania. This poor showing can be attributed to a turbulent and ever – changing environment in the Romanian public school system in the past few years. With the

Research and Development

private school industry still in its infancy in Romania, the public system bears almost the entire burden of educating millions of pupils and students. Romania has had more than 8 Education Ministers in the last 10 years and nearly every one of them has radically changed the national curriculum and examination structure, for reasons which many observers have claimed to be mainly partisan or electoral. Romania has one of the lowest degrees of spending on education, at only 3% of its GDP (decreasing from 4.25% in 2010). Low teacher compensation is also an important issue that truly contributes to the atmosphere of uncertainty that permeates the public school systems. Large-scale teacher strikes and school shutdowns have been all too common in post – 2000 Romania.

Romania needs a multilaterally agreed upon cohesive national education strategy that will not be subject to constant tinkering and would also benefit from increased GDP spending on education and higher teacher compensation or incentive programs. Teacher compensation has been improved by recent increases in salaries. Lifelong learning must also be improved by increasing the number and quality of vocational training programs throughout the country. Apart from raising the overall skill of the labor force, increased vocational training will also help combat structural unemployment. It is important to mention that education is one of the most difficult sectors to reform, as it is hard to gauge the results of specific policies until many years have passed. Best practice systems from highly competitive countries like Finland or the United Kingdom can be analyzed in order to identify appropriate policies to be implemented.

It is important to note, however, that the results displayed by Romania in English Proficiency, Science/Math/Tech graduates, Reading, Mathematics and Science Scores cluster Romania as either neutral or showing a competitive advantage in these areas. This is an additional argument for sustainable measures to be taken in this field – **there is a lot of potential in the Romanian workforce that can be translated into value added for the economy by building a competitive advantage on the skills of employees, not on the wage level. This is what builds sustainable growth.**

CEEC nations perform quite poorly in this area, although the Czech Republic and Hungary have started to align their spending on R&D to the EU average. Romania's performance is consistently disappointing across all indicators in this section. A very relevant indicator, R&D expenditure as % of GDP, decreased from 0.47% in 2009 to 0.39% in 2013, only increasing the gap with the EU average. However, there has been some improvement in several of the categories, like total spending per researcher (which increased at an average annual rate of 11% during 2009 – 2013). While Romania is far from being competitive in this regard, the trend is favorable and likely to continue in the coming years. **This increase in spending per researcher should be doubled by an increase in Government and private sector R&D spending and combined with efficient, targeted policies that aim to improve the innovation output of the country.** For instance, the Government should support the development of an education cluster, where the Government would provide the legal framework that would entice major university centers to partner up with private sector companies to further advance R&D, innovation, etc. Some examples exist in Timisoara, Sibiu, and Iasi, but a much more coherent policy is needed to scale this up. Primarily, the Government must aim to push the university system into a more central role in the country's research endeavors, perhaps by creating financial incentives for innovation or encouraging private-public partnerships. **Looking closely at the U.K. or U.S. university systems will reveal valuable lessons and best practices that should be applied in Romania.**

In 2009 non-resident patent applications in Romania represented less than 4% of the EU average, while the measure currently places Romania at about 5% of the EU average. It is important to note here that patent applications have been growing across the EU as well and that the average is slightly skewed due to countries like Germany, which have a truly vast number of non-resident patent applications annually. This increase can be partially attributed to the growing number of foreign firms and entities that have entered the Romanian market in recent years.

Domestic high-tech patent applications have also decreased significantly and only represent 3% of the EU average. In 2007 Romania recorded 0.7 high-tech patents per million inhabitants and that value decreased to 0.20 per million in 2012.



Healthcare

When looking generally at EU demographics, Romania faces similar challenges to other EU member states from the perspective of an aging population as well as when it comes to the future financial viability of pensions plans, which need to be adjusted to reality. However, additional challenges for Romania are visible at first instance and they intervene with the need for finalizing reform of the healthcare system. These challenges relate to the level of financing in the sector, allocation of financial resources, decentralization of the hospital system, as well as structural deficiencies of the National Health Insurance Fund (FNUASS), all of which stand in the way of Romanian patients getting care at European standards.

Romania performs poorly both in terms of quality and efficiency of the healthcare system. Shortfalls in quality are underlined by unmet needs for medical examinations (too expensive or too far for patients to travel to a doctor) and for treatment (waiting lists for approval of paperwork and delayed access to innovative treatments). **The lag behind Europe in terms of efficiency is highlighted by gaps in healthcare expenditure per capita, doctors per 1000 inhabitants and hospital beds per doctor.** In addition to the insufficient level of funding (with the public sector as the major provider of funding and with a lower level of consolidated budget revenues in Romania compared with the EU average), one should also take into account the decentralized system, the diversity of actors, insurance contributions and contractual relations between service providers and the Health Insurance Authority (CNAS). **All of these indicators show a stringent requirement for structural reform of the healthcare system in Romania.**

Increased competition between the public and private health systems should be also encouraged, as competition is mainly focused on the funding provided by the Health Insurance House (CNAS). In addition, when it comes to the private health sector, with a general strategy of attracting patients with above average incomes and a focus on providing medical services which involve lower consumption of medicines and sanitary materials, the result is seen in an increase in the number of inpatients in private hospitals (by approximately five times between 2006 and 2013). We have to take notice of a private healthcare sector which is much more developed in Bucharest than the rest of Romania (the rural areas being disadvantaged from the perspective of the levels of service) as well as a shortage at country level of specialized clinics or

hospitals in high priority specialties such as general surgery, cardiology, oncology and oncology surgery, emergency services (nevertheless, since 2013 a small number of specialized hospitals have focused on one or more of these priority services, especially in Bucharest).

In 2015 the Ministry of Health and the Health Insurance Authority (CNAS) made some small steps on the way to reform in healthcare by taking the following measures: an update of the reimbursement list of medicines (about 35 medicines for rare and chronic diseases were added), a 25% increase in salaries for employees in the public healthcare system (from November 2015) and the introduction of mandatory healthcare card for every insured citizen (from May 2015). These are examples that complement a high level overview of the healthcare system in Romania, where the state budget finances investments in hospitals, the Health Insurance House (CNAS) debits the medical services and medicines, and local authorities cover the maintenance and repair expenditures for hospitals that they have taken over responsibility for following the decentralization reform.

In line with general medical innovation and technological advances that have led to the increased use of outpatient treatment - minor surgery, procedures and treatment achieved within a shorter time span than major, or inpatient care – **the trend, with beneficial public budgetary effects, should be to move an increasing portion of patient care from an inpatient setting to an outpatient one.** Moreover, a reduction in the length of stay in an inpatient setting, which shall represent a key performance indicator for acute-care hospitals, will result in reduced cost for medical care. Moreover, in addition to shifting to outpatient care, Romania should also consider a coherent prevention program that encourages early diagnosis and a healthy lifestyle among citizens, lowering the burden of treatment in the long term.

These are elements that should be related to the arrears analysis in the Romanian public healthcare system as the competition between public and private hospitals for Health Authority funding will become more evident, the private healthcare insurance market (which is rather weak at his moment) will see a further advance and the public healthcare sector will remain under-financed.

Overall, Romania still needs to make important changes in healthcare in order to make sure it offers the basis for good productivity for Romanian citizens. All the reform components highlighted above should

be seen through the lenses of productivity and the cost of poor healthcare for businesses both in terms of productivity and absenteeism. **It is crucial that the Romanian healthcare sector is not perceived only as a “black hole” for public funding, but becomes an acknowledged contributor to economic growth.** Health is a value in itself and also a precondition for economic prosperity. In order to create wealth a society needs health. We cannot speak about a healthy business without a healthy community. Indeed, healthy people are more active, more productive and contribute more to the development of the economy and society. Moreover, the health sector has great potential to create new jobs to reduce unemployment.

Summary

While analyzing Romania’s human resources, 4 areas of strength are revealed: Efficiency - Hospital beds per doctor, percentage of students learning 2 or more languages, accidents at work and people with long standing illness or health problems. A worrying trend can be observed in the healthcare when comparing indicators from 2013 and 2011 in terms of efficiency. Healthcare expenditure per capita and number of doctors per 1000 inhabitants are all indicators that cluster Romania as having a competitive disadvantage whereas they showed good performance in 2011.

Policy Learning Points

The authorities should aim to do the following:

- Elaborate and enforce a coherent policy framework to support Romania's standard of living and population growth in the context of the country's aging population and its impact on real economy and financial sustainability.
- Offer incentives to keep highly skilled specialists in Romania and reverse the brain drain, building on the positive experience of the IT sector.
- Urgently implement healthcare reform – both in terms of retention of medical specialists as well as increasing the level and efficiency of public investments and creating the framework for private investments.
- Increase Government and private sector R&D spending and adopt efficient, targeted policies that aim to improve the innovation output of the country.
- Improve the quality of the labor market by:
 1. Increasing the level of education of the active labor force (e.g. e-Learning, Life-Long Learning).
 2. Increasing the quality of the education system, including high school, vocational schools and higher education (Master and PhD degrees) to bridge the gap with market needs.
 3. Strengthening connections between universities, research centres and companies by aligning curricula and research objectives to the needs of the private sector.
 4. Enhancing young people's entry into the labor market through integrated action including guidance, counselling, internships and apprenticeships.
 5. Promoting greater involvement of experienced specialists, including retirees.



Human Resources Labor Force	EU	Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
	average	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)
Productivity per hour worked as % of GDP, 2013	32.1	39.9	1.2	4.9	0.2	13.1	0.4	11.5	0.4	10.6	0.3	5.6	0.2	13.20	0.41
Labor force - High tech and medium tech (% of total employment), 2013	5.6	5.8	1.0	3.8	0.7	10.8	1.9	8.5	1.5	5.0	0.9	4.8	0.9	9.80	1.75
Labor force - Working hours per employee, per year, 2012	1,736	1,751	1.0	1,723	1.0	1,749	1.0	1,780	1.0	1,685	1.0	1,850	1.1	1,705	0.98
Labor force - % 15-64 with tertiary education, 2014	72.6	79.7	1.1	77.4	1.1	87.6	1.2	78.0	1.1	84.5	1.2	68.8	0.9	84.80	1.17
Human Resources Labor Force subsum			4.4		2.9		4.6		4.0		3.4		3.0		4.3
Human Resources Labor Force subscore			1.1		0.7		1.1		1.0		0.8		0.8		1.1

Human Resources Education	EU	Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
	average	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)
Education, English Proficiency, TOEFL Scores, 2014	85.5	100.0	1.2	88.0	1.0	91.0	1.1	91.0	1.1	90.0	1.1	90.0	1.1	N/A	N/A
Education - % Students learning 2 or more languages, 2012	50.6	74.2	1.5	74.3	1.5	98.8	2.0	45.3	0.9	70.1	1.4	98.4	1.9	99.0	2.0
Education - % GDP spent on education, 2011	5.3	5.8	1.1	3.8	0.7	4.5	0.9	4.7	0.9	4.9	0.9	3.1	0.6	4.1	0.8
Education - Science/ Math/Tech graduates, 2012	22.8	25.6	1.1	20.1	0.9	22.3	1.0	N/A	N/A	16.9	0.7	24.8	1.1	20.6	0.9
Education - Student/Teacher Ratio (ISCED 1-3) 2012	11.9	10.1	1.2	13.9	0.9	13.2	0.9	11.3	1.1	10.7	1.1	15.4	0.8	14.1	0.8
Education - Lifelong Learning, 2014	10.7	14.2	1.3	1.8	0.2	9.3	0.9	3.2	0.3	4.0	0.4	1.5	0.1	3.0	0.3
Education - Reading Scores, 2012	510.7	490.0	1.0	436.0	0.9	493.0	1.0	488.0	1.0	518.0	1.0	438.0	0.9	471.0	0.9
Education - Math Scores, 2012	513.4	506.0	1.0	439.0	0.9	499.0	1.0	477.0	0.9	518.0	1.0	445.0	0.9	482.0	0.9
Education - Science Scores, 2012	516.1	506.0	1.0	446.0	0.9	508.0	1.0	494.0	1.0	526.0	1.0	439.0	0.9	471.0	0.9
Human Resources Education subsum			10.3		7.7		9.5		7.1		8.6		8.2		7.5
Human Resources Education subscore			1.1		0.9		1.1		0.9		1.0		0.9		0.9

Human Resources R&D	EU	Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
	average	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)
Patent applications by non-residents per million inhabitants, 2013	57.9	28.8	0.5	2.1	0.0	9.2	0.2	6.7	0.1	4.5	0.1	2.7	0.05	2.6	0.0
Commercialization High Tech patents per million, 2012	7.8	10.2	1.3	0.2	0.0	0.6	0.1	1.6	0.2	1.1	0.1	0.2	0.03	0.6	0.1
Patent applications to the European patent office, 2012	1,963.7	1,804.3	0.9	22.2	0.0	188.0	0.1	198.4	0.1	469.4	0.2	55.9	0.03	53.2	0.0
Gross R&D expenditure as % GDP, 2013	2.0	2.8	1.4	0.7	0.3	1.9	1.0	1.4	0.7	0.9	0.4	0.39	0.19	0.8	0.4
R&D spending per researcher euro thousands, 2013	119.6	227.3	1.9	21.7	0.2	83.0	0.7	56.4	0.5	48.6	0.4	29.8	0.25	41.5	0.3
Share of Government budget appropriations on R&D as % of total general Government expenditure, 2013	1.4	1.6	1.1	0.7	0.5	1.6	1.1	1.3	1.0	0.9	0.6	0.6	0.42	1.0	0.7
Human Resources R&D subsum			7.1		1.0		3.1		2.6		1.9		1.0		1.6
Human Resources R&D subscore			1.2		0.2		0.5		0.4		0.3		0.2		0.3

Human Resources Healthcare	EU	Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
	average	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)
Healthcare - Quality - Healthy years as % of life expectancy, avg male and female, 2013	0.9	0.9	1.0	0.9	1.0	0.9	1.0	0.9	1.0	0.9	1.0	0.9	1.03	0.9	1.0
Healthcare - Quality - unmet needs for medical examination (too expensive or far, or waiting list), 2013	3.6	0.4	9.0	8.9	0.4	1.0	3.6	2.4	1.5	8.8	0.4	10.4	0.35	1.9	1.9
Healthcare Quality - accidents at work per 100,000 inhabitants, 2012	17.5	668.1	0.0	24.2	0.7	342.7	0.1	168.5	0.1	175.1	0.1	14.4	1.21	138.2	0.1
Healthcare - Quality - people with long standing illness or health problem % population, 2013	32.5	34.5	0.9	19.1	1.7	31.5	1.0	37.0	0.9	34.1	1.0	19.7	1.65	30.7	1.1
Healthcare - Efficiency - healthcare expenditure per capita, euro, 2013	2,659.7	4,174.8	1.6	426.9	0.2	1,051.6	0.4	812.1	0.3	688.4	0.3	387.5	0.15	1,118.5	0.4
Healthcare - Efficiency - Doctors, per 1000 inhabitants, 2011	3.5	4.8	1.4	3.9	1.1	3.6	1.0	3.0	0.8	2.2	0.6	2.4	0.67	n.a	n.a
Healthcare - Efficiency - Hospital beds per 1000 inhabitants, 2011	5.4	7.6	1.4	6.4	1.2	6.8	1.3	7.2	1.3	6.5	1.2	6.1	1.14	6.0	1.1
Healthcare - Efficiency - Hospital beds per doctor, 2011	1.5	1.6	1.0	1.7	0.9	1.9	0.8	2.4	0.6	3.0	0.5	2.6	0.59	n.a	n.a
Human Resources Healthcare subsum			16		7		9		7		5		7		6
Human Resources Healthcare subscore			2.0		0.9		1.1		0.8		0.6		0.8		0.9

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



Volatility assessment



Advantages
(score of 1.15 or more)



Neutral
(score between 0.85 and 1.15)



Disadvantages
(score below 0.85)

Trend assessment	Number	Details
Indicators that clustered as competitive disadvantage in 2011, but have turned into competitive advantage or neutral meanwhile	1	Labor force - High tech and medium tech (% of total employment)
Indicators that clustered as competitive disadvantage in 2011, still are, but have shown better performance than EU average meanwhile	5	Productivity per hour worked as % of GDP; Patent applications by non-residents per million inhabitants; High Tech patents per million; Patent applications to the European patent office; R&D spending per researcher
Indicators that clustered as competitive disadvantage in 2011, still are, but have shown worse performance than EU average meanwhile	8	% GDP spent on education; Quality - unmet needs for medical examination; Share of Government budget appropriations on R&D as % of total general Government expenditure; Education - Student/Teacher Ratio; Education - Life - Long learning; 2014, Efficiency - healthcare expenditure per capita
Indicators that clustered as competitive advantage or neutral in 2011, but have turned into competitive disadvantage meanwhile	1	Healthcare Quality - accidents at work per 100,000 inhabitants
Indicators that clustered as competitive advantage or neutral in 2011 and have not changed cluster meanwhile	12	Labor force - Working hours per employee; % of students learning 2 or more languages; Education, English Proficiency, TOEFL Scores; Science/ Math/Tech graduates; Reading Scores; Math Scores; Science Scores; Quality - Healthy years as % of life expectancy; Quality - people with long standing illness or health problem % population; Labor force - % 15-64 with tertiary education; Efficiency - hospital beds per 1000 inhabitants

Fiscal & Monetary Policy





2 0 5

While recognising virtues of agreements with international institutions for the stability of public finances, budgetary policy should increase the quality of public spending, especially by prioritising public investment expenditure based on cost-benefit analysis. This chapter analyses selected indicators in the areas of Government / finance and fiscal / monetary.

Given the favourable macroeconomic context over the past few years, the Government deficit as a percentage of GDP decreased from 5.4% in 2011 to 1.4% in 2014, while the public debt increased from 34% in 2011 to 40% in 2014. Together with an estimated budget deficit for 2015 of around 1.2% of GDP (the estimated target was 1.86%), both of these indicators position Romania comfortably from the perspective of the EU average. However, these indicators do not reflect the newly adopted Fiscal Code (approved on June 24, 2015) nor the commitments already assumed by Romania in relation to the EU or other international bodies. They also need to be considered in the context of the significant failure of the authorities to implement major capital expenditure projects especially in times of crisis. The quality of public expenditure needs to be considered when analysing the levels of the budget deficits. **Continuation of this trend of low investment in physical infrastructure would mean that sustainable economic growth would be rather difficult to achieve since strong private consumption cannot be a sustainable source of economic expansion.**

In addition, with respect to the newly adopted Fiscal Code, the reduction of taxes is likely to have a significant impact on the Government deficit in the next few years. According to the Fiscal Council, the estimated impact of the fiscal reform amounts to approximately 2% of GDP in 2016. The fiscal reform included significant measures which will boost consumption (such as the decrease in indirect taxes like VAT and excises).

With respect to commitments already assumed by Romania in relation to EU bodies, the most restrictive is the MTO that sets the target for the structural deficit at 1% of GDP. Another criterion, referred to as the Maastricht criterion, sets the maximum level of fiscal deficit at 3% of GDP. In this context, many investors expect a widening of the fiscal deficit, which may translate into higher financing costs (which are already higher than the EU average).

Consequently, monetary policy should carefully weigh the estimated effect that the expected increase in demand (arising from fiscal reform that stimulates consumption) will have on consumer prices. In the short term, it is expected that consumer prices will show a decreasing trend as a result of the decrease in the VAT rate and in excises.

Policy Learning Points

The authorities should aim to do the following:

- Ensure coherence of the already adopted fiscal reform and find solutions for managing the fiscal deficit, both effective and structural, by either:
 - Improvement of the structure and efficiency of Government expenditure.
 - Increase in the tax collection rate/decrease of tax avoidance.
- Conduct a monetary policy that carefully takes into account the estimated effect that the fiscal reform will have on consumer prices.
- Carry out significant reform of the tax administration, modernize and simplify tax collection, reduce tax evasion and reduce the taxpayer's compliance burden. Finalize the reform of fiscal administration and establish an economically efficient public revenue collection system that facilitates private sector development.
- Further stimulate lending in local currency and the development of a local currency debt market. Prompt long-term saving behaviour of the population by encouraging participation in private pension funds, private healthcare insurance plans, as well as stimulating the activity of saving – lending banks.
- Recognize and develop the capital markets as an important alternative source of capital, for both private and public borrowers. The development of strong and liquid local capital markets will provide much needed funding for private and public investment and will reduce the dependence of the economy on banking financing.



Government Finance Statistics	EU	Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
	average	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)
	Government gross debt as % GDP 2014	86.8	84.2	1.0	27.0	3.2	42.7	2.0	76.2	1.1	50.4	1.7	39.9	2.2	53.5
Government deficit/surplus as % GDP 2014	-3.0	-2.7	1.1	-5.8	0.5	-1.9	1.6	-2.5	1.2	-3.3	0.9	-1.4	2.1	-3	1.1

Fiscal Monetary Policy	EU	Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
	average	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)	result	score (EU ratio)
	Long Term Government Bond Yields, September 2014	1.5	0.8	1.9	3.0	0.5	0.7	2.2	3.6	0.4	2.6	0.6	3.7	0.4	1.2
Credit Depth of information index, 2014	8.0	7.0	0.9	0.0	0.0	4.0	0.5	0.0	0.0	0.0	0.0	5.0	0.6	0.0	0.0
HICP/hamortized indices of Consumer Prices, 12/2014, (2005=100)	120.8	121.4	1.0	142.0	0.9	122.2	1.0	143.1	0.8	124.8	1.0	154.4	0.8	122.4	1.0

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

Volatility assessment



Advantages
(score of 1.15 or more)



Neutral
(score between 0.85 and 1.15)



Disadvantages
(score below 0.85)

Trend assessment	Number	Details
Indicators that clustered as competitive disadvantage in 2011, but have turned into competitive advantage or neutral meanwhile	0	No indicator in this cluster
Indicators that clustered as competitive disadvantage in 2011, still are, but have shown better performance than EU average meanwhile	1	Long Term Government Bond Yields
Indicators that clustered as competitive disadvantage in 2011, still are, but have shown worse performance than EU average meanwhile	2	Hamortized indices of Consumer Prices, Credit Depth of information index
Indicators that clustered as competitive advantage or neutral in 2011, but have turned into competitive disadvantage meanwhile	0	No indicator in this cluster
Indicators that clustered as competitive advantage or neutral in 2011 and have not changed cluster meanwhile	2	Government gross debt as % GDP 2014, Government deficit/surplus as % GDP 2014

Legal & Regulatory Framework





Labor Law

The labor environment is governed by a comprehensive Labor Code that provides an all-embracing legal framework and generally regulates labor law relationships, while certain labor issues are governed by special laws (such as Law no. 62/2011 on Social Dialogue).

Traditionally, labor legislation has been viewed as excessively favoring employees and, in 2011, in an attempt to support the labor market and provide more flexibility to employers, substantial amendments were enacted. Among other changes, the 2011 amendments to the Labor Code placed an increased emphasis on performance, providing an extension of probation periods and of dismissal and resignation notices and sought to facilitate the use of fixed-term employment, temporary work and other more flexible forms of work.

Nonetheless, dismissals remain difficult as they may be made only on the basis of certain statutory reasons for dismissal, which are viewed as narrow, as well as subject to fulfilment of complex formalities. For example, the mandatory notice period for termination of employment contracts cannot be shorter than 20 working days.

However, the Romanian law does not provide for minimum severance payments to dismissed employees, as such severance payments are usually subject to either individual or collective negotiations between the parties.

Employees may be held liable for damages caused to their employer, but the amount of damages is capped at a maximum threshold set out under the Labor Code (5 times the minimum monthly gross salary applicable at national level and approved under Government Decision, currently RON 1,050, approximately EUR 230). Additional amounts exceeding the legal threshold are payable only as a result of a court ruling.

Romanian law regulates part-time work and work from home, but not specifically on-call employment and job sharing, which are not common and need to be implemented indirectly, through the use of other concepts (implementation of uneven work schedules, or part-time contracts, generally with the employee's cooperation).

If, further to a court dispute regarding the validity of employment termination, the court decides that termination was void, the employee is reinstated and his/her contract is retroactively considered valid, with the employee being entitled to his/her salary for the period between the unlawful contract termination and his/her reinstatement.

Law no. 62/2011 on Social Dialogue was enacted in May 2011, unifying the legal framework governing trade unions and employers' organizations. Collective bargaining agreements may be concluded only at industry, group of companies and company level and are applicable only to the parties that have negotiated and signed such agreements.

While employment of EU nationals has become easier since Romania's accession to the EU, the procedure to be followed for the assignment/employment of non-EU nationals who need work and residence permits is currently complex and time consuming. For short-term projects it is usually unrealistic to use workers from outside the EU, as obtaining a work permit can take several months.

Taxes

The length of court proceedings has always been a problem in Romania. Certain steps have been made in this respect: a New Civil Procedure Code entered into force in 2013. Nevertheless, in Romania the average length of proceedings to challenge a tax decision is 2-3 years. One of the essential rights of a taxpayer before the tax authorities is the right to obtain a statement of reasons for each material decision imposed by the tax authorities, which is already applicable in Romania.

Another cornerstone of fair tax administration is the suspensive effect of an appeal against tax authorities' decisions. In Romania, an appeal does not have a suspensive effect, irrespective of whether it is an administrative appeal against the relevant department of the tax authorities or an appeal in court. This favors the tax authorities, which can collect taxes from taxpayers and return excess payments only following a relevant court decision. In Romania, the principle in dubio contra fiscum (=when legislation is unclear, it should be interpreted in favor of the taxpayer) has only recently been introduced into fiscal legislation, through the reform of the Fiscal Code and Fiscal Procedure Code. This principle is regulated under article 13 (6) of the Fiscal Procedure Code, which entered into force from January 1st, 2016. Hopefully, this amendment will reduce abuse against taxpayers and improve the behaviour of tax inspectors.

Tax authorities can issue binding rules in connection with certain tax related issues, which all tax offices are then required to take into consideration. One such example is the „advance individual tax ruling” and refers to a taxpayer's future operations. It is valid and

binding on tax authorities only if the taxpayer complies with its terms and conditions.

Taxpayers must express their standpoint with respect to regulations applicable to a certain issue and can have prior meetings with the tax authorities. If taxpayers disagree with the content of a regulation, they may notify the tax authorities, in which case the solution will no longer be considered binding. However, the procedure is rather complicated and time consuming. To increase transparency, the tax authorities should publish, as in other EU member states, a report showing the number of requested vs. issued binding rules, as well as advance price arrangements.

The Fiscal Code regulates the main direct and indirect taxes applicable to individual and corporate taxpayers.

Romania has had a flat rate system since 2005 and the current applicable rate is 16%. The country's tax system favours employees with higher salaries, although the rate of social security contributions is rather high. With gross pay of EUR 1,000; EUR 2,000; EUR 3,000, the take-home net pay/employer's costs is EUR 701/EUR 1,229; EUR 1,403/EUR 2,454; and EUR 2,106/EUR 3,682 respectively. The calculation base for social security contributions is capped at 5 times the monthly gross salary at national level (the cap is approximately EUR 2,980/month).

There is no integrated 'one-stop-shop' dealing with all taxes, social security, pension and health insurance payments for employees.

From a corporate income tax perspective, there are certain incentives, although not tax-based, available to all investors in Romania such as: (i) accelerated depreciation, (ii) special allowances for expenses related to R&D activities and (iii) reinvested profit. In addition, certain tax incentives may be granted to individual investors ("business angels") starting 2015, i.e. dividend tax exemption in the first 3 years of investment and capital gains tax exemption if shares are sold after at least 3 years. From a personal income tax perspective, income earned by employees working in software creation is free of personal income tax, subject to certain conditions to be met by both employer and employee. There also are specific incentives but with their applicability limited to only certain social security contributions such as the unemployment contributions (e.g. for employers hiring new graduates/individuals with disabilities/unemployed individuals over the age of 45 /sole family supporters).

Insofar as indirect taxation is concerned, from January 1st, 2016 (the date when the new Fiscal Code entered

force), the standard VAT rate in Romania is 20%. Certain types of goods benefit from reduced rates, e.g. 9% for food products, hotel accommodation, etc. and 5% for magazines, newspapers, tickets to the cinema, family/individual housing under certain conditions, residential estates designed for retirement homes, etc.

With respect to taxpayers required to register for VAT purposes and account for VAT in Romania, there is a threshold of EUR 65,000 (or RON 220.000) for the exemption of small enterprises. Consequently, taxpayers that do not supply goods/services during a calendar year in excess of this threshold are not required to register for VAT purposes in Romania or to pay Romanian VAT. It is also important to note that, generally, for the import of goods in Romania, taxpayers are required to pay the related VAT to the customs authorities and subsequently deduct the VAT. Nevertheless, where taxpayers hold an import VAT payment deferment certificate, they are not required to pay VAT upon import of goods and apply the VAT reverse charge mechanism. The import VAT deferment certificate is granted to the following business operators: 1) Authorized Economic Operators (AEOs), 2) operators holding an on-site customs clearance authorization or 3) operators which have imported goods over the previous last 12 months with an aggregate value of at least RON 100 million.

Starting a Business in Romania

According to recent data collected by the World Bank's Doing Business, globally, Romania ranks 37th out of 189 economies analysed when it comes to the ease of starting a business. Several types of companies may be established in Romania, i.e.: (i) Limited liability company (SRL), (ii) Joint stock company (SA), (iii) General partnership (SNC), (iv) Limited partnership (SCS), (v) Limited partnership by shares (SCA).

Among other several key indicators on business regulations proving that Romania is a good place to start a business, we have identified the following:

(i) In principle, shareholders may limit their liability to third parties (e.g. the company's creditors) up to the value of the share capital contribution, by choosing to incorporate a limited liability company or a joint stock company.

(ii) A limited liability company may be incorporated with a minimum share capital of approx. EUR 47.



(iii) The standard timeframe for incorporating a company with the relevant Romanian registry (i.e. the Trade Registry) or for registering various corporate changes (e.g. new directors, share capital increases/decreases, etc.) is 3-5 business days from the date when the Trade Registry establishes that the incorporation/ registration file is complete.

(iv) The costs (e.g. Trade Registry fees) for incorporating a company are low.

(v) If all conditions have been met, the general authorization procedure needed to start a business in Romania is carried out with the relevant Trade Registry Office (e.g. health and safety requirements, environmental compliance, work protection as well as sanitary-veterinary conditions) and it is only for certain activities that a special authorization/licensing procedure must be observed (e.g. for environmentally hazardous activities, insurance or banking activities, pharmaceuticals, certain industrial activities, etc.). In these cases, the applicant needs to ensure that it fulfils the conditions imposed under Romanian law to obtain each authorization or license from the relevant authorities, after the company's incorporation.

In addition, Directive 2012/17/EU on the interconnection of central, commercial and company registers has very recently been transposed into domestic legislation. Thus, the National Trade Register Office (ONRC) will be further included into the European Registers Interconnection Systems, ensuring free access to information harmonized at European Union level with regard to the companies registered in EU member states.

Competition

According to the existing case law of the Competition Council, the majority of mergers notified to the Council were granted unconditional clearance.

The legal framework applicable to merger clearance was significantly amended in August 2010, in order to harmonize it with EU legislation, following Romania's accession to the EU in 2007.

Simplified procedures are in place; the review period after the submission of the notification is 45 days, provided that the notification is deemed complete by the Council and no further clarifications/information is required.

The standard procedure, including a potential investigation launched by the Council, may take from several months to several years (3-4 months is the average).

If the authority does not make a decision with respect to the notified merger within the required timeframe, clearance is deemed to have been given. Divestment orders are very rare.

Fines for implementation of a merger in the absence of clearance from the Council can be up to 10% of the total annual turnover for the year preceding the sanction.

Competition advocacy is allowed in Romania. Notification of a merger is mandatory if (1) the worldwide aggregated turnover generated by the undertakings involved is at least EUR 10 million, and (2) a turnover of EUR 4 million is generated in Romania by each of at least two of the undertakings involved in the operation. The methodology for calculating turnover is different for financial institutions and leasing companies. In Romania, the fee for filing a notification is RON 4,775, approximately EUR 1,080 at an exchange rate of EUR 1 = RON 4.43.

Under Romanian law, the criminal penalty for the organization of or participation in a cartel is imprisonment of between 6 months and 3 years or a fine and limitation of certain rights. Investigations for hard-core infringements of competition rules may include dawn raids by the Competition Council in order to take documents and interview employees, without prior notice.

Insolvency

The Romanian Insolvency Law (Law no. 85/2014) allows for the adoption of the non-liquidation method. Consequently, a debtor has the option of either reorganizing its activities or filing for bankruptcy.

Although in theory reorganization represents a possibility for debtors to recover from insolvency, in practice most insolvency files become bankruptcy files (90%). The main cause of the low success rate of reorganizations is creditors' lack of confidence in the debtor's capacity to recover.

Under the law, neither secured nor unsecured creditors have a guaranteed percentage of satisfaction from the value of the collateral, mostly due to the fact that different valuations may show different results. Generally, creditors receive the money established under the reorganization plan or the amounts obtained from disposal of the debtor's assets, such amounts depending on, among other things, the market value of the assets.

Secured creditors have a privileged position in the distribution order of liquidation amounts resulting

from the sale of the assets mortgaged in their favour. The law does not provide for a limitation of a collateral's economic value. However, such limitation may occur in the valuation of a debtor's assets subject to insolvency, made according to international valuation standards, by a valuator appointed by the judicial administrator/liquidator. This limitation may also be triggered by a deterioration of the market conditions with respect to the encumbered asset. Creditors may not independently enforce their rights against a debtor after the date when the debtor was declared insolvent by the court. Also, following the initiation of the insolvency procedure, as a rule, the debtor's rights of self-management are severely limited, including the right to dispose of its assets.

Although the limitation of a debtor's right to dispose of its assets is intended to ensure creditors' protection against other creditors willing to independently enforce their rights and against an insolvent debtor fraudulently decreasing the value of its estate, such rules are sometimes excessively applied by the judicial administrators/liquidators and disposals of assets, which may be profitable for the debtor's estate and its creditors, are very hard to carry out. According to Law no. 85/2014, the liquidation of a debtor's estate is performed by the judicial administrator/liquidator under the control of the judge and not directly by creditors. However, creditors are informed and may decide upon certain aspects, including the sale method (direct sale, tender bid). In certain cases, due to the rather excessive formalism of the insolvency procedure, the restrictions on asset disposals may also limit the possibility to obtain the highest value. Publication of all important aspects of the insolvency procedure (e.g. decisions, summonses, subpoenas, etc.) is made via the Insolvency Procedures Bulletin (www.buletinulinsolventei.ro).

Intellectual Property Rights

With a history that begins in 1879, the Romanian intellectual property environment is under constant change and intense development. Romania is a member of the Bern Convention on Copyrights and a signatory party to the WIPO Copyright Treaty. Moreover, Romania's Patent Office is part of the integrated OHIM and PATLIB system. Romania is a founding member of the World Intellectual Property Organization (WIPO) and several software antipiracy campaigns have been initiated in recent years with the help of the police force. The EU Accession Treaty lays down specific provisions that

reaffirm Romania's commitment to internationally agreed rules in this field.

Romanian law contains specific rules applicable to copyright, trademarks, patents (including job inventions), utility models, geographical indications, industrial design and models etc.

As regards IPR cases, in appellate jurisdictions, there are specialized senates of judges that deal with disputes arising from the infringement of certain IP rights - patents, trademarks, geographic designations, industrial designs, topography of semiconductor products, utility models - („industrial rights“), and sole judges at the first instance courts. The Bucharest Tribunal has exclusive jurisdiction in first instance rulings for trademarks and patents, in the light of Romanian legal provisions in this respect. Romanian IP legislation is generally harmonized with EU law. Moreover, the trademark database organized by the Romanian Patent Office is completely merged with OHIM's TMview data base as well as WIPO's ROMARIN data base. Improvements can be made by increasing the number of judges, prosecutors and investigators specialized in the IP field. A seizure of goods is possible for a period set by a court decision. Within this period, no irreversible measure may be taken without a court's approval. Release of seized goods against deposit is possible. These provisions are also included in the Civil Procedural Code and Civil Code.

SMEs are not treated differently from large corporations. However, the size of an enterprise may be considered by the authority/court at its discretion when imposing a fine.

Regarding patents protection, account should be taken of the fact that from 2014 specific rules governing job inventions were issued. Its main objectives are to (a) offer additional guarantees to large investors carrying out research and production activities in Romania, (b) stimulate nationwide inventive activities through incentives awarded to employees, (c) expand the applicability of inventions developed by using the employer's resources, etc.

Moreover, in 2015, Romania became a signatory party to the Geneva Act of the Lisbon Agreement on Appellations of Origin and Geographical Indications. This new international act will enable, upon its entry into force, the registration and protection of any local appellation of origin and geographical indication in all countries which are part of the “Lisbon System”.



In Romania, Internet Service Providers are generally not liable for publishing, copying or disseminating infringing content by Internet users. However, certain restrictive measures may be imposed by a court of law (e.g. blocking the content of certain sites).

Romanian law sets out sanctions for the violation of IP rights, such as administrative sanctions (fines, confiscation, destruction of the counterfeited products and of the materials and equipment used for counterfeiting and closedown of a company), as well as civil and possibly criminal liability. Interim injunctions are regulated and used.

The jurisprudence of the courts hearing intellectual property rights infringement cases is generally consistent. Cross border cooperation in terms of IPR enforcement is in place.

Public Procurement

Public procurement is currently highly regulated in Romania and benefits from almost a decade of practice in line with EU legislation. Romania is one of the largest public procurement markets in the European Union. The general legal framework for public procurement and concessions is provided by Government Emergency Ordinance no. 34/2006 on the award of public procurement contracts, works concession contracts and services concession contracts, with subsequent amendments („Public Sector Regulation”). While the ordinance provides the main rules for the performance of these procedures, there also are important pieces of secondary legislation which support public authorities and private entities either in organizing or in taking part in public tenders. Insofar as concession contracts (services or public works) are concerned, the Public Sector Regulation sets forth the applicable rules under a distinct section thereof, with other legal as well as technical provisions being provided under separate Government decisions.

All such internal legislation is based on the European fundamental principles of non-discrimination, equal treatment, transparency, mutual recognition, proportionality, efficient use of public funds and accountability and is focused on finding the most suitable public tendering processes for identifying and selecting investments and partners.

Furthermore, the Romanian Government has taken the necessary measures for making public tenders

smoother, protecting the contracting authorities but also the bidders against potential non-competitive practices or non-transparent tendering. The relevant legal environment allows investors to easily participate in award procedures by way of consortiums, joint ventures or as subcontractors.

The relevant legal framework is currently undergoing significant reforms, with a new consolidated public procurement legislative package to be implemented in the near future (starting April 2016), which will transpose the new EU public procurement directives. The Romanian Government is also working towards a less bureaucratic system with more streamlined procedures aimed at ensuring better commercial coordinates as well as a competitive environment. In particular, the reform is focused on simplification of award procedures, strategic use of public procurement policies, introduction of new environmental protection and social responsibility issues, facilitation of small companies' participation in the award procedures, elimination of corruption, as well as removal of bureaucratic obstacles. In addition, the focus is for the new legislation to be oriented towards obtaining commercial performance and competition in the public procurement market, instead of being focused on over-regulating the system.

As regards the institutional framework, Romania has several institutions with responsibilities in the field of public procurement, such as (i) the National Council for Solving Complaints, an independent body with administrative and judicial activity whose main role is the settlement of complaints filed during the award of public procurement contracts, (ii) the National Agency for Public Procurement whose main role is the development, promotion and implementation of public procurement policy.

The relevant supervisory bodies responsible for the control of public funds are the Court of Accounts, whose specific activity in this case is performance of the external public audit and the Audit Authority who is responsible for the management and implementation of European funds.

Executive Survey





While the chapters above present a statistical analysis grounded in hard data, giving a strong sense of Romania's competitive profile, which are the competitive advantages and disadvantages of the country and how these have evolved over the past 3 years, this chapter focuses on the perception of CEOs running business in Romania which is equally important as it represents the way the hard data is translated into practice and is perceived in the opinion of 200 business leaders.

Similarly to 2011, **the Government's economic policy in terms of contribution to economic growth is rated poorly**; with 67% believing that the Government's economic policy has not contributed to or has actually impeded the economic growth of the country. 95% of leaders believe that the current economic policy needs to be changed in order to sustain high levels of growth. The CEOs Survey indicates that CEOs perceive that the poor performance in economic policy is driven by the misalignment between political parties (79%) and the use of taxation as a political tool, rather than an economic one (87%). The trust in Government among leaders is low, as 97% believe corruption is an issue that influences Government policymaking with 61% declaring that corruption has shifted the focus of economic policy-making from creating a fair and level playing field to protecting a narrow group of special interests.

The Government continues to receive low marks for the various areas of economic policy. However with the exception of physical infrastructure development these ratings are above the ratings given by CEOs in a similar survey run in 2011. On a scale of 1 (insufficient) to 5 (superior), the Government received an average score of 2.33 on the legal framework, 1.61 for public administration, 1.39 for physical infrastructure, 2.71 for human resources and 3.12 for monetary policy. These ratings are by and large in line with the statistical indicators analyzed previously, which indicate that Romania needs considerable improvements in virtually all of these areas, only monetary policy being rated slightly above average.

The low ratings in the legal framework are largely explained by the perception that Romanian laws are not cohesive and clear (83%) and that they are more restrictive to competition compared to EU laws (37%). 56% of CEOs find that Romanian laws and regulations are less attractive for entrepreneurial activity than in other EU countries, 38% believing they are about average for an EU country, and only 6% declaring them attractive to entrepreneurial activity and better than most EU countries.

Public administration has been rated poorly or below average compared with other EU countries by 94% of CEOs, 54% of whom believe that 30% or more of the public budget is wasted through inefficient, ineffective or corrupt management of Government offices and programs, while more than 75% believe that the performance of public officials is not properly monitored and managed.

Availability of human resources skills on the Romanian labor market is very well rated by the CEOs participating in the survey. On a scale of 1 (worst) to 5 (best), the CEOs rate skilled labor at a 3.45 average. The labor force received an average score of 4.08 on linguistic ability, 3.14 for professional service and admin, 3.47 for degrees in finance, 3.33 for marketing and sales, 3.72 for advance degree in math and science and 2.78 for internationally experienced management. The workforce is described as being above average in education and creativity and slightly below average in self-motivation, discipline, accountability and decision-making. Human resources were perceived by leaders as one of Romania's strengths in the 2011 survey and the position has clearly not changed.

Despite the poor perception in key areas of policy, 88% of CEOs have declared that their investment in Romania is meeting or surpassing expectations, with 100% of CEOs of companies with local turnover of 200 million EURO or more declaring this is the case. According to the CEOs Survey the outlook from an investment perspective in Romania is positive, 46% of CEOs saying that their company's investment in Romania will increase, while 49% declare it will remain the same. These plans translate into similar expectations in relation to the number of employees. The outlook for Romania in the opinion of the CEOs surveyed remains positive, 75% of them saying that Romania offers some or numerous opportunities for business.

Summary of responses

Key Questions Business Confidence

Over the next five years, will your capital investment in Romania

	2014	2011
Remain essentially the same?	49.3%	38.4%
Increase by 50% or more?	20.5%	22.2%
Increase by up to 50%?	25.3%	35.8%
Decrease by up to 50%?	0.7%	3.2%
Decrease by 50% or more?	2.1%	0.5%
Decrease to zero?	3.4%	1.1%

Over the next five years, will your average number of employees in Romania

	2014	2011
Remain essentially the same?	39.7%	30.6%
Increase by 50% or more?	19.2%	21.5%
Increase by up to 50%?	34.2%	42.5%
Decrease by up to 50%?	4.8%	5.9%
Decrease by 50% or more?	0.0%	0.0%
Decrease to zero?	2.1%	0.0%

Please rank the factors in your decisions to increase or decrease investment and employment in Romania over the next five years

	2014	2011
Global or Regional (external) demand for your product or services	43.4%	27%
Local demand for your product or services	63.2%	63.8%
Competitive changes within your industry	44.2%	35.7%
Local business environment	49.4%	48.1%

Is your company's investment in Romania viewed internally as

	2014	2011
An unqualified success?	7.5%	1.6%
Surpassing expectations?	17.8%	19.9%
Meeting expectations?	62.3%	61.8%
Falling below expectations?	11.0%	17.2%
A mistake?	1.4%	0.0%

If you were personally going to pursue another opportunity, do you believe that the local market

	2014	2011
Provides numerous possibilities for similar managerial and entrepreneurial opportunities?	17.1%	19.9%
Provides some possibilities for similar managerial and entrepreneurial opportunities?	58.2%	65.1%
Lacks realistic possibilities for similar managerial and entrepreneurial opportunities?	24.7%	15.1%



In comparison with other European countries, on a scale of 1 (worst) to 10 (best) how would you rate the Government's performance in the following areas of economic policy?

	2014	2011
Legal Framework	4.66	3.83
Public Administration	3.22	3.08
Physical Infrastructure	2.78	2.95
Human Resources	5.42	4.09
Monetary Policy	6.24	4.54

In comparison with other European countries, on a scale of 1 (worst) to 10 (best) how would you rate the Government's performance in the following areas of economic policy?

	2014	2011
Company Formation	6.65	5.38
Competition	6.26	5.19
Intellectual Property	6.10	5.23
Consumer Rights	6.22	5.46
Contractual Relations	6.05	5.30
Labor Relations	6.22	5.50
Product Liability	5.95	5.34
Environmental Protection	5.14	4.53

In comparison with other EU countries, on a scale of 1 (worst) to 10 (best), how would you rate the public administration of Romania (ministries, agencies, courts, counties, municipalities)?

	2014	2011
Average rating	3.42	3.19

On a scale of 1 (worst) to 10 (best), how would you rate the availability of the following categories of people?

	2014	2011
Skilled Labor Force	6.9	6.09
Linguistic Ability	8.16	7.33
Professional Services and Admin	6.28	5.99
Degrees in Finance	6.94	6.70
Marketing & Sales	6.66	6.76
Advanced Degrees in Math and Science	7.44	6.95
Internationally Experienced Management	5.56	5.37

On a scale of 1 (worst) to 10 (best), how would you rate the following qualities of the workforce?

	2014	2011
Education	6.7	6.21
Creativity	7.08	6.44
Self-Motivation	5.98	5.50
Discipline	5.3	5.08
Accountability	5.46	5.36
Decision-making	5.58	5.28

Romania Specific Section Summary of Open Questions

Competitive advantages

- Human resources - talented, highly skilled, educated and at a low cost compared with other EU markets (declared as a competitive advantage by almost every CEO);
 - Localization of country and resources available;
 - Romania's EU membership and NATO's support;
 - Market size and potential;
 - Flat tax on profit;
 - Underdeveloped agriculture remains an opportunity.

Constraints

- Corruption;
- Lack of infrastructure;
 - Taxation;
 - Lack of transparency;
- Lack of consistency in Government policies resulting in unpredictability of environment;
- Inefficient public administration and bureaucracy.

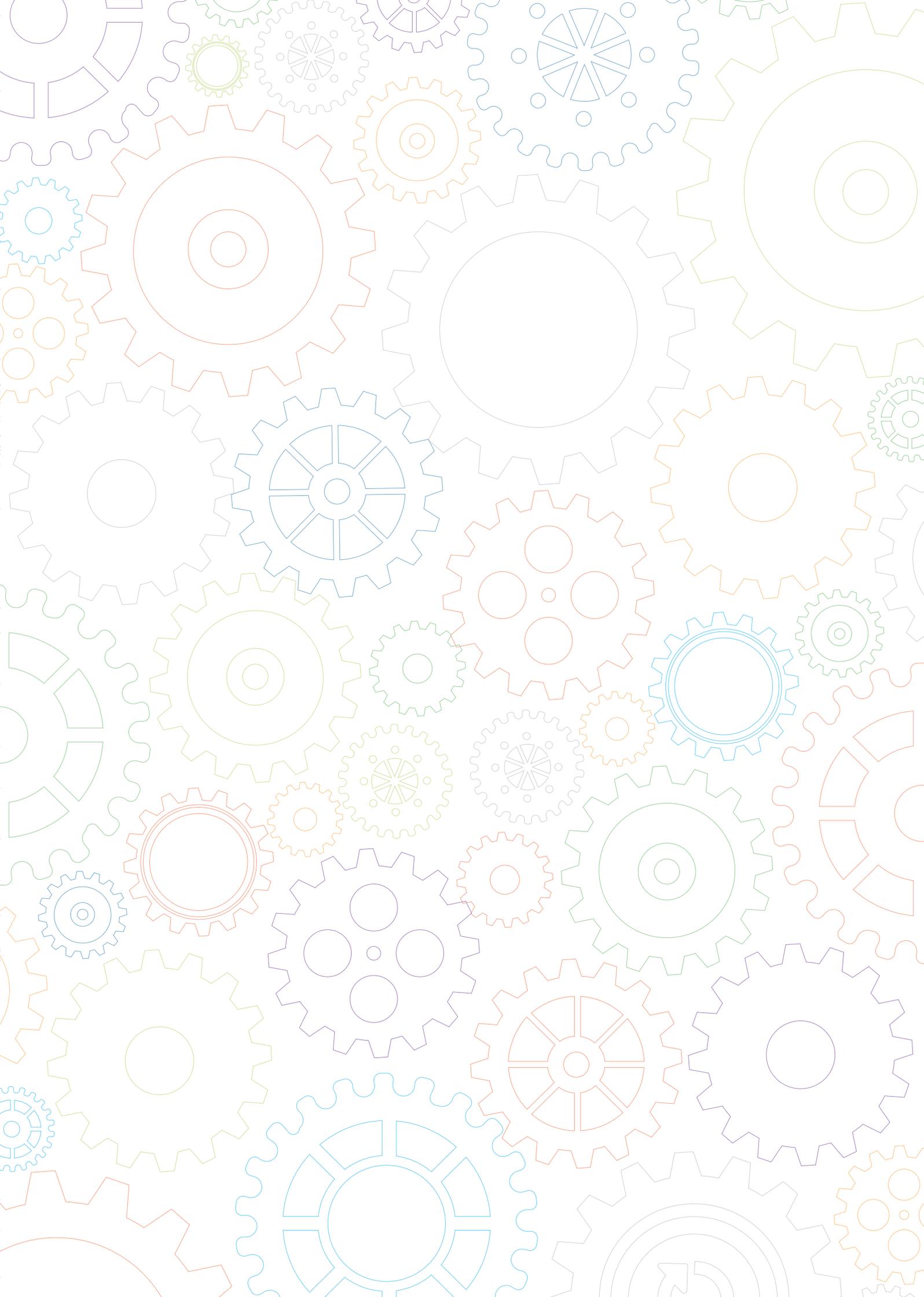
Good measures adopted by the Government in the last 2 years

- Social security tax reduction;
 - Keeping a flat income tax;
- VAT reduction to 9% for food products;
 - New Labor Code.

*50% of CEOs did not name a favourable measure in the last two years.

Policy measures to be taken

- Reform of education to include development of more applied knowledge oriented toward market needs;
- Simplification and standardization of taxes, including the reduction of VAT, a coherent Fiscal Code, decrease in taxes for investors, and implementation of measures to increase collection;
 - Drawing up of an economic growth vision for the next decade;
- Clear, simple, predictable regulations and legislation with reform in the public sector, health and fiscal policy;
 - Reduction of corruption;
 - Focus on infrastructure development;
 - More effective EU funds management; considering also the possibility to pursue private management in this area;
 - Coherent policies to attract foreign investors and encourage start-ups and entrepreneurship.



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