

Why Romania?

Summary

Capital: Bucharest (BucureC1ti)

Official EU language(s): Romanian

Currency: Leu (RON) (plural Lei)

Geographical size: 92,043 sq. miles (238,391 sq. km)

Population: 19.46 million. Romania's population lives in 320 cities and towns and 12,956 villages

Population as % of total EU population: 4.0 % (2012)

Main Ethnic Groups: Romanian 84%, Hungarian 6.1%, Ethnic Gypsy 3.1%, German 0.2%, Ukrainian 0.2%

Religions: Christian Orthodox 81%, Roman Catholic 4.3%, Reformed 3%, Greek-Catholic 0.7%, Unitarian 0.3%, Jewish, other.

Largest cities: Bucharest (1,883,400), Iasi (322,000), Cluj Napoca (309,000), Timisoara (303,000), Constanta (298,000), Craiova (295,000), Galati (286,000), Brasov (275,000), Ploiesti (224,000), Braila (205,000), Oradea (196,400).

GDP (per capita): US \$8,955.7

Export of goods to UK: £1,569 million Import of goods from UK: £991 million

Political system: Semi-presidential republic

EU member country since: 1 January 2007

Schengen area member? No, Romania is not a member of the Schengen Area.

Presidency of the Council: Romania will hold the revolving presidency of the Council of the EU for the first time in 2019.

Independence: July 13, 1878, from the Ottoman Empire; kingdom proclaimed March 26, 1881; Romanian People's Republic proclaimed April 13, 1948.

Airports and regular flights: There are 19 airports in Romania and the biggest 4 are Bucharest Henri Coanda International Airport – Otopeni, Timisoara Traian Vuia International Airport, Cluj-Napoca International Airport, Sibiu International Airport.

[Source - British Romanian Chamber of Commerce]

Background

Geography

Romania is located in south east Europe at the strategic crossroads of the European Union (EU), the Commonwealth of Independent States (CIS) and the Middle East, lying between latitudes 43° and 49°N, and longitudes 20° and 30°E.

With 19.46 million inhabitants, the country is the seventh most populous EU member state, and its capital and largest city, Bucharest, is the sixth largest city in the EU.

The Danube river forms a large part of the border with Serbia and Bulgaria, and flows into the Black Sea at the Danube Delta, the second-largest and best-preserved delta in Europe. Almost 27% of the country is covered by dense forest, and the rugged Carpathian Mountains dominate the centre of the country, with 14 mountain ranges reaching above 2,000m (6,600ft).



Government overview

President

Klaus Iohannis, a centre-right, ethnic German is the current Head of State. He was elected in November 2014, beating the centre-left candidate, then-Prime Minister Victor Ponta, with nearly 55% of the votes. Iohannis was previously the mayor of the small Transylvanian city of Sibiu, serving in his fourth term in office. Iohannis took office as president on 22 December 2014.

Executive

In November 2015, Iohannis nominated Dacian Cioloş, formerly a European Commissioner for Agriculture to lead a new technocratic government of 22 Ministers, many of whom have extensive experience of working with the European Union. Within a mandate set to end by November 2016, Cioloş' priorities are to ensure the smooth running of the 2016 local and general elections; reform of the public administration; deeper engagement in EU decision-making; consolidating good governance procedures and putting in place coherent strategies for economic and social development.

The technocratic government was set up against a backdrop of popular protests prompted by a fire at the Club Colectiv nightclub in Bucharest. Over 60 people died in the fire, or as a result of their injuries. A culture of impunity and a laissez-faire approach to implementing rules was blamed for this. Many protestors saw the previous Prime Minister, Victor Ponta (Social Democrat Party; PSD) as responsible, not least as he had refused to step down from his role, despite being prosecuted for alleged corruption and trafficking of influence.

Local elections took place in May 2016, with a general election due in November 2016.

Parliament

The bicameral (two Chambers) Parliament consists of a Senate (176 seats) and a Chamber of Deputies (412 seats). In May 2015 Parliament agreed that the number of MPs in the upcoming 2016 Parliament would be reduced to 330 for the Chamber of Deputies and to 126 for the Senate. Elections to both Chambers of Parliament are held simultaneously every four years – the most recent in December 2012 and the next in 2016. The voting system was changed in 2008 from a party list system to one whereby voters vote for individual candidates, so that only candidates achieving more than 50% of the vote are directly elected. Where there were no clear winners seats were filled through redistribution of Parties' votes to the most successful of the candidates who polled less than 50%. In May 2015 it was decided that the pre-2008 party list voting system will be reinstated, starting with the 2016 general elections.

County Level

Romania is divided into 41 counties (Judete), with the city of Bucharest forming a 42nd area. Each county is governed by a County Council (Consiliul Judetean) consisting of members elected by universal suffrage for a four-year term. The President of the County Council was elected directly by citizens, but from 2016 will be elected by County Councillors.

Central Government appoints a Prefect to each county, which functions as its representative at local level. Prefects direct public services of the Ministries and other central agencies at county level. A Prefect may block action by a local authority if he/she deems it unlawful or unconstitutional. Although Prefects are often former MPs, they do not officially represent political Parties.

Counties have responsibility for development planning, water supply, sewage, public transport, roads, social assistance for children, education.

[Source: FCO Overseas Business Risk/gov.uk (Feb 2016)]

Human rights

Romania has ratified most of the European and universal human rights treaties and counts human rights as an official foreign policy priority. Issues remain with human trafficking, including forced labour, and discrimination against minority groups.

Romania is a source, transit, and destination country for men, women, and children trafficked for the purposes of commercial sexual exploitation and forced labour in the agriculture, construction, and service sectors. The Government of Romania is making efforts to comply with the minimum standards for the elimination of trafficking. One of the priorities of the Government remains the strengthening of the institutional capacity of the National Agency against Trafficking in Persons (NAATIP), the implementation of the 2012-2016 National Anti-Trafficking Strategy and funding of the NGOs working with victims of trafficking.

Public attitudes towards the Roma remain negative and they still face structural discrimination, including enjoyment of equal access to housing, education, jobs or health care. Accepting diversity remains a major issue in Romania, particularly regarding sexual orientation. Romania does not allow civil partnerships, nor does it recognise civil partnerships signed in another country.

[Source: FCO Overseas Business Risk/gov.uk (Feb 2016)]

Economic overview

Following the collapse of communist rule in 1989, Romania has undergone a long period of economic transition to a market economy, which has not been smooth. Since 2000, there has been more progress. An extensive programme of economic reforms

included the privatisation of several state-owned enterprises and the restructuring of Romania's energy, mining and industrial sector. The economy had been growing at an average annual rate of 6% from 2000 until the economic crisis hit Romania's economy hard in the final quarter of 2008. Romania officially entered recession in mid-May 2009. Romania signed a €20 billion stand-by agreement with the EU and the IMF, which has helped stabilise the economy. The Romanian economy grew by around 3.8% in 2015. Private consumption was the main source of growth. The pace of growth is forecast to accelerate to 4.2% in 2016 in response to the significant fiscal stimulus including tax cuts and increases of the minimum wage and public wages. Economic growth is estimated to moderate somewhat to 3.7% in 2017, but still to remain above potential.

Agriculture represents about 7% of Romanian GDP and employs around 30% of total employment in Romania, but it is mainly subsistence farming. Direct payments from the EU's Common Agricultural Policy (CAP) and rural development funds have improved living standards in the countryside. €20 billion of EU structural funding was allocated for the 2007-2013 timeframe and despite a slow start in absorbing it; Romania is beginning to reap the benefits. At the end of 2015, the absorption rate was 52.2% - the lowest in the EU. However, in 2013 the European Parliament approved the extension of the deadline to absorb these funds, meaning that the absorption rate for 2007-13 may still increase.

Romania was allocated €22.9 billion for the 2014-2020 round of funding. Absorption will once again be a challenge.

The mostly foreign-owned banking system has proved stable, thanks to highly effective supervision by the National Central Bank (BNR). Compared to previous years, liquidity is no longer a problem, although the BNR is still encouraging banks to increase lending. In July 2015, BNR officials ruled out any potential spill-over from Greece's economic turmoil, on the basis that local subsidiaries of Greek banks are well capitalised and have reduced their dependence on parent-companies, increasingly financing their operations from local earnings.

GDP growth

According to the European Commission's autumn 2015 forecast, growth in 2016 will be driven by domestic demand. Romania's GDP is expected to grow strongly, at 4.1% in 2016, slowing down to 3.6% in 2017, when the effect of the recent VAT cut diminishes and inflation picks up, taking the steam out of private consumption. The expected recovery of housing construction, against the backdrop of fiscal incentives and low borrowing costs will push up private investment. The demand for imports is expected to grow until capital investments in production capacity, made in the context of a perceived robust economic recovery, come online. Exports continue to have a negative impact on GDP growth.

Real household disposable income is growing, fuelled by an increase in the minimum wage alongside rising wages in the public sector, but also by a tightening of the labour

market. Deflation is expected to continue until 2017. This will push private consumption to a post-crisis peak in 2016.

IMF programme

Between June 2013 and September 2015, Romania was part of a joint European Commission (EC)/IMF precautionary agreement of €4 billion, funded equally by the two institutions. The programme helped the Romanian Government to maintain credibility on external markets and implement structural reforms. The programme ended in late September 2015, with no stated intention from the Romanian Government of agreeing to another precautionary programme.

The 2013-2015 agreement was the 3rd consecutive financial assistance programme signed with the EC/IMC and, like the 2011-2013 package, was treated as precautionary and never drawn upon.

The 1st EC/IMF financial assistance programme was signed in 2009, at Romania's request, to help it cope with the financial and economic crisis. The EC (€5 billion) and IMF (€12 billion) disbursed the bulk of financial assistance, supported by the World Bank, European Investment Bank and EBRD with another €3 billion in loans. The programme was renewed in 2011, but because of the disbursements, Romania will undergo post-programme surveillance (PPS) until 70% of the loan has been repaid, i.e. spring 2018.

Outlook for 2016-2017

The new Fiscal Code, adopted by Parliament in September 2015, sets out a series of tax cuts in 2016 and 2017. These amendments are expected to increase the budget deficit by 1.1% of GDP in 2016, to a headline deficit of 2.8% of GDP.

Borrowing costs are currently low (five-year government bond yields reached 2.3% in Nov 2015), but mainly used to roll over existing debts.

Externally, a slowdown in global trade may have a high impact on Romania's growth, mainly due to its reliance on other EU economies as trading partners. Geopolitical tensions, combined with the increase in the US Federal Reserve's key-interest rate could lead to increased investor caution, capital outflows and depreciation of the RON.

Internally, Romania's budget faces pressures from the previous government's commitment to double child benefits and significant increases already in place or expected in public sector wages and the commitment under the Fiscal Compact to keep deficit under 3% of GDP.

Contact a DIT Romania export adviser for a free consultation if you are interested in exporting to Romania. See: www.greatbusiness.gov.uk/ukti

Contact UK Export Finance (UKEF) about trade finance and insurance cover for UK companies. See: www.gov.uk/government/organisations/uk-export-finance. You can also check the current UKEF cover position for Romania at: www.gov.uk/guidance/country-cover-policy-and-indicators#romania.

[Source: FCO Overseas Business Risk/gov.uk (Feb 2016)]

Growth potential

In the first quarter, Romania grew 4.3% year-over-year, beating the 3.9% analysts had expected, and up 1.6% from the fourth quarter of 2015. According to Bloomberg, this is the fastest growth pace recorded by the Romanian economy since 2008.

Economic growth in Romania is among the highest in the EU and is forecast to remain above potential in 2016 and 2017. With a GDP growth of 5.9% in Q2, backed by strong macroeconomic policies, Romania is Europe's fastest growing economy, but not only within the EU area, but on the whole European continent. Romania is Europe's, so to speak 'tiger economy'.

According to Bloomberg, the Romanian currency is the third-best performer against the euro in 2016 among currencies in CEE area, gaining 1.4%.

Romania's main industries are:

- food and beverages
- energy
- metallurgy
- crude oil processing
- chemicals
- light machinery
- textiles
- automotives

EU funds

The EU has allocated €23 billion to Romania through the 2014-2020 structural and cohesion fund programme.

The EU funds will contribute to investments in Romanian:

- infrastructure
- human development
- regional development

Resulting projects will offer good prospects for UK businesses.

Benefits for UK businesses exporting to Romania

'UK exports are worth over £24.8 billion, with exports increasing by £0.8 billion and imports decreasing by £0.3 billion. The Central and Eastern European (CEE) region offers considerable potential for British businesses.

The CEE region:

- is easily accessible from the UK
- offers a market of over 100 million consumers
- has widespread use of English as the business language
- is making major investments in energy, transport and other infrastructure as a result of billions in EU funding
- is an entry point into eastern Europe

Watch the Department for International Trade (DIT) videos on growing your business in CEE

markets at: www.youtube.com/playlist?list=PLW9Q9i8L1YhX_C48FICre2JAefWEJF_cP

Benefits for UK businesses include:

- domestic market of nearly 20 million consumers
- English is widely spoken
- gateway to markets of the CIS and Balkans
- low cost flights between Romania and the UK

Strengths of the market

Strengths of the Romanian market include:

- young, skilled and educated workforce
- well established support in Romania from foreign lawyers, accountants and consultants
- implementation of Single Euro Payments Area (SEPA) standards for euro payments. See: www.ec.europa.eu/finance/payments/sepa/index_en.htm
- plentiful natural resources
- western business practices

Read the practical guide to doing business in Europe at: www.europa.eu/youreurope/business/index_en.htm

In addition:

- In 2015 Romania was ranked 58th out of 168 countries in Transparency International's latest corruption perception index (the UK ranked 10th): www.transparency.org/cpi2015/#map-container
- Romania is ranked 37th out of 189 in the World Bank's 2015 Ease of Doing Business index (the UK ranked 6th): www.doingbusiness.org/rankings
- The World Economic Forum's Global Competitiveness report 2016-17 ranks Romania 62nd out of 138 (the UK is ranked 7th): www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf

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Trade between the UK and Romania

Currently, over 5,000 UK companies operate in Romania.

The UK exported €2.4 billion in goods to Romania in 2015 making up 10.6 % of Romanian imports. Bilateral trade was worth €3.95 billion in 2015, the highest level in our bilateral history.

UK's top exports to Romania:

- machinery and electrical parts
- textiles and clothing
- chemical products
- vehicles, aircraft and transport equipment
- base metals
- plastics

The UK is Romania's 14th largest inward investor with €1.5 billion invested in 2015.

Free Trade Agreements (FTAs)

Romania is a member of the EU, the World Trade Organization (WTO) and other international bodies. Goods manufactured in the UK are exempt from import duties.

SOLVIT is a free service provided by the national administration in each EU country and in Iceland, Liechtenstein and Norway, providing solutions to problems with your EU rights. Contact the SOLVIT team at: www.ec.europa.eu/solvit/index_en.htm if you have market access issues relating to the operation of the Single Market.

[Source: Department for International Trade/gov.uk (Aug 2015)]

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Case Study



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