COUNTRY ESSENTIALS
ROMANIA

Summer 2015

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Overview

The Coface Country Essentials offer a concise and clearly structured overview of country economic facts.

The most important facts for 18 countries in Central and Eastern Europe include the most recent risk overview and our Coface country risk assessment.

You receive a general information on the country ranging from major cities to natural resources and most important sectors. This is followed by our risk assessment giving a general overview on the economic and political situation and the strength and weaknesses of the country. The next chapter focuses on the key facts: top trading partners and economic data like GDP growth, inflation or public debt. The insolvency part shows you the top and flop sectors, information on the development of insolvencies and the procedure.

Last but not least we provide you with a checklist for business operations and the latest corruption and doing business index data. If you need further information your will find a list of our contacts in the region.

coface FOR SAFER TRADE

GENERAL INFORMATION

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

Form of government:	Democratic Republic	
Administrative organisation:	9 regions	
Area:	238,391 km^2	
Population:	19,042,936; 80 inhabitants / km^2	
Official language:	Romanian	
Local currency:	1 New Romanian Leu (RON) = 100 Bani	
Capital:	Bucureşti 1.9 million inhabitants	
Major cities and population:	Constanța Cluj-Napoca Timişoara Braşov Brăila Bacău Sibiu	340,000 inhabitants 333,000 inhabitants 328,000 inhabitants 312,000 inhabitants 232,000 inhabitants 209,000 inhabitants 169,000 inhabitants
Ethnic groups:	89.5% Romanians, 6.6% Hungarians, 2.5% Roma, 0.4% Tartars, 0.3% Germans, 0.3% Ukrainians, 0.2% Russians, 0.2% other groups	
Religion:	86.7% Romanian-Orthodox, 4.7% Roman Catholic, 3.2% Reformed, 1.5% Pentecostal, 0.9% Greek Orthodox, 0.6% Baptists, 0.3% Muslims, 2.1% other	
Natural resources:	Oil, natural gas, coal, salt, iron, bauxite, copper, tin, gold, silver	
Most important sectors:	Textiles, automobile subcontracting, foodstuffs	
Membership in international organisations:	EU, UNO, WTO, NATO, IMF, CEFTA	

RISK ASSESSMENT

Coface Country Assessment

B

Growth sustained by supportive policies

Following a sharp slowdown in 2014, there should a slight improvement in economic activity and moderate growth in 2015. Internal demand will be boosted by the relaxation in fiscal policy which could encompass a reduction in social contributions, a reduction in VAT (VAT cut down from 24% to 9% in June 2015 for agro food products), and a revaluation of pensions and public sector wages. In addition, the Central Bank will hold its policy interest rate at a low level (1.75% in May 2015), at least whilst inflation remains below the target level of 2.5%, and could further cut the mandatory reserve rate for credit. Against this background the continued reduction of foreign currency denominated debt (more than half of credit outstanding ist in foreign currencies) by the economic players should end up being offset by the increase in their debt denominated in the leu. This expansion will, however, be moderate because the local banks, 90% of which are subsidiaries of Austrian, French, Greek and Dutch groups, will continue to repay their debts to their parent companies, whilst increasing their domestic deposit base. In addition, caution remains the order of the day given the scale of non-performing loans and the problems of enforcing the guarantees. Consumption will also be boosted by increased private sector wages, as well as a programme to assist debt repayment by low and medium income households. The decline in company investments will ease thanks namely to the continuation of the loan guarantee programme for the SME sector, as well as tax exemptions on reinvested profits. Public sector investment will continue to disappoint, despite the amount of European funds that are available, because of bureaucratic complications and the shortage of appropriate local structures slowing the use of these. Exports (wood, cereals, oil crops, fertilizers, metals, medicines, machines, clothing) will grow at a moderate rate because they are mainly shipped to Europe, and will feel the benefits above all of improved sales of cars and tires (1/4 of exports) by the local subsidiaries of foreign manufacturers. Since the start of the Ukrainian crisis sales to Russia, consisting mainly of machines, as well as vehicles and automobile parts, have slowed but account for only around 1% of GDP.

Moderate public and external deficits

With the fiscal easing, public deficit is expected to increase moderately, still allowing for a stabilisation of the debt. Any improvement will depend on reducing tax evasion, linked with an underground economy estimated at 30% of GDP, and the improved management of state-owned companies, often lossmaking. There are ongoing privatisations in the energy and transport sectors. The current account deficit will remain at a moderate level, even if the trade deficit is likely to slightly widen with the upturn in investments and the strength of consumption. The surplus in services generated thanks to tourism, emigrant remittances, together with the deficit in revenues linked to the repatriation of dividends and the payment of interest on the external debt (64% of GDP, one-third for the State) will remain. The current account deficit is easily financed by FDI from a number of sources (Europe, China, etc.) and recourse to the market. The purchasing of land by European farmers will also contribute to this. A precautionary extended credit facility from the IMF and a credit line from the EU are complementary to the currency reserves which are the equivalent of six months of imports.

Continued cohabitation

In November 2014, Klaus Johannis, a Lutheran from the small German-speaking community, leader of the National-Liberal centre-right party, was easily elected as President against Victor Ponta, Prime Minister in a social-democrat government with a solid majority in parliament from the legislative elections of December 2012, but personally weakened by his failure and his indictment for money laundering, forgery and tax evasion by National Anticorruption Directorate. The withdrawal of the party of the Magyar community (7% of the population), unhappy about being refused greater autonomy, will not alter the situation. There is thus an ongoing cohabitation, at least until the next elections in 2016, unless there is an early dissolution decreed by the President. The government will continue its economic policies, whilst the President, similarly to his predecessor, will implement a programme to counter corruption and modernise the legal system. As the head of state responsible for foreign policy and national security he will continue close relations with western countries and support for Moldavia. Moves towards achieving energy independence will continue with the imminent construction of two new nuclear reactors by China and, eventually the development of the gas fields in the Black Sea and shale gas on the continent. There is a plan for the construction of a connection to the Trans-Adriatic pipeline supplied in gas by Azerbaijan. The country, however, currently only receives 20% of its gas supplies from Russia.

RISK ASSESSMENT

Strength
Large domestic market
Sizeable agricultural potential
Oil and gas production
Diversified manufacturing base (automobile, etc.)
Stability of the leu against the euro
Member of the EU and NATO

Weaknesses
Shrinking population
Failings in administration and justice
Large scale grey economy
Weak transport infrastructure
Issue with integration of Hungarian, Roma minorities

FOREIGN TRADE & ECONOMIC KEY DATA

Romania's Top Trading Partners

Imports in MEUR	2011	2012	2013	2014
EU 27	39,944	40,147	41,867	44,103
Germany	7,934	8,569	8,936	9,413
Italy	5,393	5,824	6,074	6,398
Hungary	3,839	4,146	4,324	4,555
France	2,824	3,050	3,181	3,351

Exports in MEUR	2011	2012	2013	2014
EU 27	32,155	31,586	34,508	37,305
Germany	6,501	6,371	6,960	7,525
Italy	5,316	5,210	5,692	6,153
France	2,836	2,779	3,036	3,282
Hungary	1,503	1,473	1,609	1,740

Source: Romanian Statistical Institute

Economic Key Data

Key Data	2012	2013	2014 (e)	2015 (f)
GDP growth (%)	0.6	3.5	2.8	3.3
Inflation (yearly average) (%)	3.4	3.2	1.1	0.3
Budget balance (in % of GDP)	-3.0	-2.2	-1.5	-2.5
Current account (in % of GDP)	-4.7	-1.4	-0.5	-1.6
Public debt (in % of GDP)	37.3	37.9	39.0	39.0

(e) estimate
(f) forecast
Source: Coface

INSOLVENCY

Top 5 sectors 👍
Health and social care
IT
Other personal service activities
Other services rendered to enterprises
Financial intermediation

Flop 5 sectors 👎
Constructions
Manufacture of textiles, clothing and footwear
Sewage and garbage removal; sanitation and similar activities
Hotels and restaurants (HORECA)
Food and drinks

Romania's Biggest Insolvencies in 2014

	Company Name	Sector	No. of Employees	Total Debt EUR	Town
1.	TEHNOLOGICA RADION SRL	Constructions	2,161	86,078,573	Bucuresti
2.	MAREX SA	Food and drinks	384	53,699,011	Braila
3.	VEGETAL TRADING SRL	Agriculture	41	52,233,226	Braila
4.	PLANOIL SRL	Wholesale and distribution	25	13,304,178	Bucuresti
5.	ELIT SRL	Food and drinks	1,096	9,380,227	Alba

Insolvencies in 2014

The insolvency statistics confirm that positive developments were also recorded on a micro level. Insolvencies in Romania fell by 27.9% in 2014, compared to 2013. Nevertheless, the insolvency rate, at 4.5%, remains the highest in the CEE region. Despite the better performance of sectors dependent on consumer demand, retail companies are widely represented in the insolvency statistics. Their share in total bankruptcies is equal to 23%. It should be noted this also results from the high number of retail entities within the overall structure of Romanian companies. Also as regards to insolvency rates within sectors, the construction sector continues to be the negative performer, where 1 in 10 companies became insolvent last year. Challenges remain in other supply side sectors, as industrial production slowed down to a lower pace of growth compared to the previous year. Despite the improvement in general insolvency statistics, Coface has seen that business in Romania is still suffering from long receivable collection terms.

New amendments to law pertaining to insolvancy

The new Insolvency law no. 85/2014 regarding the procedures of preventing insolvency and of insolvency has been published in the Official Gazette, Part I, no. 466 of June 25th, 2014 and entered into force on June 28th, 2014.

This law applies to professionals, except the ones performing independent professions, as well as the ones for which there are special dispositions regarding the insolvency regime. Also, the procedure applies to autonomous administrations.

The law unifies in a sole normative act:

- General legislation regarding insolvency applicable to all economic operators;
- Special legislation, incident to credit institutions and insurance/reinsurance companies;
- Regulating the insolvency of groups of companies;
- Regulation the cross-border insolvency.

The request for opening the insolvency procedure

The insolvency procedure will start based on a request submitted at the court of law by the debtor or by creditors, as well as by any individuals or institutions expressly provided by law, eg. the Financial Regulator.

INSOLVENCY

The debtor is obliged to address a request for opening the insolvency procedure to the court of law within 30 days since the appearance of the insolvency. The debtor's request will be solved by the court of law within 10 days since its registration, in the council chamber, without summoning the parties, and it will issue an order of relief. Within 10 days since the receipt of the notice regarding the order of relief, upon the debtor's request, the creditors may submit a petition to oppose the conclusion of the order of relief. In case of accepting the opposition of creditors, the syndic judge will revoke through a court decision, the conclusion of the order of relief.

Any creditor is entitled to request the opening of the insolvency procedure if it owes over the alleged insolvency of the debtor an outstanding debt, liquid and chargeable in the amount of Lei 40.000 (in the previous regulation the limit was of Lei 45.000), older than 60 days (in the previous regulation the age was of 90 days). The syndic judge will communicate to debtor, in a copy, the request for opening the insolvency procedure and the debtor must either appeal, either to acknowledge the existence of the insolvency within 10 days since the receipt of the request. If the syndic judge concludes that the debtor is not bankrupt, it will reject the creditors' request. If the syndic judge concludes that the debtor is bankrupt, it will reject is appeal and will open the procedure through a decision.

Insolvency procedure

The law regulates two forms of insolvency procedure:

- General procedure, representing the procedure through which a bankrupt debtor, but who does not fulfill the procedure provided by insolvency law in order to come under the simplified procedure, enters successively in the observation period and, subsequently, either in the judicial reorganization, either, directly, in bankruptcy.
- Simplified procedure represents the procedure through which a debtor fulfilling some conditions such as, for example: does not own any good in the patrimony of articles of incorporation or the accountancy documents could not be found, the administrator cannot be found etc., or, upon its request, enters straightly into bankruptcy, either once with opening the insolvency procedure, or after a short observation period of maximum 20 days (in the previous regulation the observation period was of maximum 50 days).

The observation period is the period between the date of opening the procedure and the date of confirming the reorganization plan, or, as the case may be, the date of entering into bankruptcy. Within the observation period there will be established the causes leading to insolvency and the responsible for it, of there are chances for reorganizations, as well as what is the debtor's asset and liability.

Bankruptcy and closing the procedure

The bankruptcy procedure means the procedure that applies to the debtor in order to liquidate his wealth and cover the liabilities, being followed by the erasing the debtor from the register he is enrolled in. the syndic judge shall decide, by a sentence, or, depending on the case, by court resolution, the going bankrupt.

The liquidation of assets pertaining to the debtor`s wealth shall be done by the judicial liquidator under the control of the syndic judge. The funds obtained from the selling of the debtor`s assets shall be distributed as follows: Taxes, stamps, expenses made to preserve, administrate and sell the assets; The utility providers` debts arisen during the performing of the procedure; the salaries of the persons employed for the interest of all the creditors; The debts of creditors that benefit from a preference clause created during the performing of the procedure; The debts of debtors that benefit from a preference clause arisen during the performing of the procedure and before the procedure; When the secured debt is not entirely covered by the sale, the rest of the debt shall be moved in the category of unsecured debts.

The debtors from a certain category shall receive amount of money distributed only after the full satiation of those from the higher category, and within the same category, if the money is not sufficient then the debtors shall receive a bankruptcy quota representing the sum that is commensurate with the percentage that their debt has in the given category.

The bankruptcy procedure shall be closed after the syndic judge approves the final report, when all the funds or the assets of the debtor`s wealth were distributed.

CHECKLIST FOR BUSINESS OPERATIONS

The following table summarizes relevant information for investors and exporters.

Corporate law	■ Minimum capital for a stock company: RON 2,500.00 (approx. EUR 566.00 based on the average exchange rate in 2013) ■ Minimum capital for a limited liability company: RON 200.00 (approx. EUR 45.00 based on the average exchange rate in 2013)
Tax law	■ 24% VAT ■ 16% flat rate for personal and corporate income tax ■ 10% tax on dividends paid to domestic companies ■ 6% withholding tax ■ New double taxation treaty with Austria as of 1.1.2007
Investments	■ Foreign investors may establish any legal form of business entity ■ No specific approvals required ■ Ownership of up to 100% of Romanian companies is possible
Foreign exchange	■ No restrictions on the purchase of foreign currency ■ Accounts with foreign banks require official approval
Labour law	■ Average gross wage RON 2,059 (approx. EUR 466.- based on the exchange rate in 2013) ■ Law is very strict on working time ■ Easing of restrictions on fixed-term contracts ■ Nationwide collective agreement
Customs	■ VAT on imports ■ Member of Customs Union since EU accession
Travel and residence	■ Since accession no restrictions for EU citizens

Corruption

Romania was 69th in the International Corruption Perceptions Index 2014. In comparison, Germany was ranked 12th and Austria was ranked 23rd.

The Corruption Perceptions Index is issued by Transparency International, and lists countries according to the perceived level of public sector corruption. This perception is based on surveys of managers and experts, and related solely to the public sector.

Doing Business

The Doing Business Index issued by the World Bank (www.doingbusiness.org) expresses the ease of doing business in a particular country. In this ranking, Romania was ranked 48th in 2015. Germany and Austria were rated 14th and 21st, respectively.

This index consists of ten different sub-indexes that determine whether laws or other regulations exist in certain areas and whether or how they are applied. For example, the subcategories deal with the payment of taxes, hiring of staff and the founding and closing of companies.

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