



2011 Romania Competitiveness Report

*Statistical Assessment
and Executive Survey of
Romanian Economic Policy*

www.amcham.ro



Romania Competitiveness Report 2011

The Competitiveness Report is a joint project of American Chambers of Commerce. The Romania Competitiveness Report is a product of AmCham Romania and AmCham Czech Republic. AmCham Czech Republic prepared the statistical assessment and common survey questions and made the initial statistical analysis. AmCham Romania took the assessment and finalized the analysis, including identifying policy recommendations.



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Competitiveness.

Probably one of the most important words in the economy today.
But what does it mean?

While its meaning is pretty clear for companies and it refers to the ability to sell products and services in a given market, while it is an established feature for human beings in their quest for survival and prosperity, while it has a clear definition for politicians: the capability to win more votes than the opponent, the economists still debate its definition and relevance for a country. Democracies require the existence of multiple stakeholders with divergent interests. The economies operating under a capitalist model work with profit driven strategies. Unions aim at higher salaries and social benefits for workers. Playing in the team of Europe today means also adopting rules that – at least in the short term – may work against a smaller country's interests. In such a context, how can governments decide what policies to pursue in order for the country to become more competitive?

While we do not aim at making policies, our report focuses on what could make businesses in Romania more competitive with the belief that supporting their success will lead to higher GDP per capita, higher profit margins, and higher standards of living for the citizens. A more competitive economy would improve our country's profile on the world economic scene. The businesses we refer to in this report are not just the large companies, but all types: manufacturing, services, national champions and small. It is our belief that Romania's future is not solely linked to the economic performance of the large multinational companies present here, but by the success of small and medium enterprises able to compete locally and internationally, and to generate a solid middle class equipped to absorb the inherent effects of the cycles of growth and recession that capitalism lives by. The report is not meant as a ranking exercise, which is relative in time and can be misleading. Although it does make comparisons, the report does so in order to understand better how Romania's performance varies from its fellow European economies. It identifies the areas of possible advantage or disadvantage while warning that the advantages are only as good as the policies that generate them.

This report is not intended to award or punish present or past policy makers. The measures it studies last longer than an election cycle to develop and produce results and therefore no blame or credit should be taken for lagging or positive results.

The report is not comprehensive nor pretends to cover the entire economic puzzle. We have tried to get as many pieces of it for Romania and produce a coherent and objective picture of what the numbers and the operators have told us.

This is the first Competitiveness Report of Romania and we are all very excited and hopeful that the policy makers will use our work to make our country better and more attractive to investment.

This report is a work of many dedicated professionals from all over the world and on behalf of the American Chamber of Commerce in Romania I would like to express our gratitude for their commitment and hard work.

Alexandra Gatej

President of the American Chamber of Commerce in Romania

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Where Romania Ranks in Competitiveness

	Ranking
World Economic Forum's The Global Competitiveness Report 2011-2012 (www.weforum.org)	77
IMD World Competitiveness Scoreboard (www.imd.ch/wcc)	50
Doing Business 2011, World Bank (www.worldbank.org)	72
Legatum Prosperity Index (2011) (www.prosperity.com)	58





The methodology of the report was elaborated and first used by AmCham Czech Republic in 2009, when the 2009 Czech Republic Competitiveness Report was issued. For comparability reasons, in 2011, AmCham Romania, as well as other AmChams participating to this joint project, adopted AmCham Czech Republic's model and methodology. AmCham Romania acknowledges AmCham Czech Republic for putting together this instrument that provides an useful tool to the way we work with the Romanian authorities.

How the Report Was Constructed

Other excellent competitive 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 to how government policy impacts competitiveness.

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

- **General** covers macro outcomes of the other five policy areas combined: the indicators listed represent the desired outcome of economic policy.
- **Legislative framework** weighs the effectiveness of legislation.
- **Public administration** assesses how effectively and efficiently regulation is enforced.
- **Physical Infrastructure** describes how government policy has built up the necessary supporting landscape for business.
- **Human Resources** addresses how policy has influenced the labor force, education and research.
- **Fiscal/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 hard, but lagging 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 on how the country performed against the EU average, because EU is the benchmark for Romania.

For each of the policy areas, the EU index scores were totaled up and divided the sum 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 legislative framework was more difficult. No such comparison exists in any form for all EU countries. Such a survey had to be created from scratch. 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 all do not share the same philosophy (and often have a different understanding of it even if we believe we agree). Other AmChams in the comparative countries were then enlisted to help locate knowledgeable sources to inform us how well the seven countries achieved these principles.

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

Sources. The primary statistical sources have been Eurostat and national statistical offices. Also the OECD, the Legatum Prosperity Index, the European Central Bank, the International Labor Office, the World Health Organization, international airports, the IMF and the World Bank were 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 economic impact of policies and also the cost in money and other resources of implementing those policies.

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, 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 were not possible to include.

Some entire areas of economic policy - real estate, for instance - were not included for lack of data covering all 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.



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**.



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



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

*European Average = 1.0



Overall Competitiveness Score

Indexed against the European Union average, the policy of Romania helped the country perform slightly above average in general indicators and public administration. The country is performing below average in physical infrastructure, human resources and fiscal & monetary.

Romania's score in the general indicators is heavily biased by one advantage: a low comparative level of government subsidies. Otherwise, the country had 8 disadvantageous indicators to 5 advantageous. In public administration, the indicators were more balanced: 10 advantages to 10 disadvantages. Physical infrastructure and human resource results were less balanced: combined, the country has more than double the disadvantages (27) to advantages (10).

Overall, Romania had 25 advantages and 49 disadvantages. It had 22 neutral indicators. This outcome suggests that the country may have to leverage some of its advantages (or lower its performance in some of its advantages) to improve its performance across the board.

Within the seven country comparison group, Romania performs around the average in general indicators, public administration and physical infrastructure, and below the average in human resources and fiscal and monetary policy. The country's overall performance is at a slight competitive disadvantage to the other six countries in the regional subset.

To improve upon this performance, Romania has to craft policies which address deficiencies in infrastructure and human resources. Both areas will likely require significant improvement, which will be difficult to achieve without substantial increases in the amount of fixed capital in the country.

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General Policy Competitiveness

- Stimulate R&D and innovation throughout the country by:
 1. Stimulating the establishment of industrial clusters and technology transfer infrastructure to encourage development and commercialization of new patents.
 2. Create an action plan to set up a technological hub in Southeast Europe with an outstanding commercial research center.
 3. Define breakthrough projects to enable knowledge transfer to Romania by bringing in global expertise (e.g. ELI Magurele project).
- Increase accountability by strengthening transparency of the public administration.
- Stimulate investments 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.
- Define a strategic framework for energy investment and enforce a predictable and stable regulatory environment aimed at supporting economic competitiveness. Promote green energies in Romania's energy mix.
- Use EU funding to develop physical infrastructure, doubled with private public partnerships, and strengthen the competitiveness of Romanian companies on the local and foreign markets. The improvement of EU funds absorption should remain a top priority of the Government. Quarterly targets for EU funds absorption rate which should be very closely monitored and a corrective mechanism should be put in place.
- Empower National Competitiveness Council (CoNaCo) to harmonize, implement and promote integrated policies aimed at increasing the competitiveness of Romania. The policies should be adopted by the Government and Parliament and monitored on a permanent basis.

Legal framework

- Improve enforcement and oversight of the existing legal framework, including reform of the judiciary to include more training for judges and court officers, and reduce the time required to resolve cases.
- As investors seek predictability and stability in legislative and regulatory processes, the Government should commit to enforce the existing norms related to regulatory impact assessment. This involves soliciting meaningful public consultation with stakeholders in the formulation of regulations, increasing the transparency of the legislative process, and publishing the regulations in their consolidated/updated form.
- Enforce impact assessment for new regulations and policies to account for their effects on sustainable growth and the stability of the business environment.
- Prioritize and accelerate cadastral works to all counties, including appropriate budgetary allocations, to realize the benefits of the new Civil Code for real estate transfers.
- Resolve inconsistencies in the PPP legislation and increase Romania's institutional capacity to carry out investment projects by using PPP framework and financial engineering instruments.

Public Administration

- Increase transparency and accountability of the public administration and 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 (SOEs), either as a code of conduct, or as a law.
- Increase implementation of Internet based "e-services" by the administration to spur efficiency, reduce costs, and improve the quality of public interaction with government services.
- Increase the quality and accountability of public service, and build administrative capacity at both central and local level by 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 analyses where appropriate as part of the public procurement process.

Physical Infrastructure

- Develop a comprehensive and coordinated plan to improve Romanian infrastructure towards EU standards of quality and coverage. Ensure the plan's implementation 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.
- Develop a clear energy strategy, invest in intelligent utility network infrastructure coordinated with the 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 attracting the available EU funds for transport infrastructure by ensuring co-financing sources from the state budget, as well as on developing a well-structured public private partnership (e.g. for the construction and operation of a highway section).

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 the highly skilled specialists in the country and reverse the brain drain, building on the positive experience of the IT sector.
- 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 centers 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, counseling, internships, and apprenticeships.
 5. Promoting greater involvement of experienced specialists, including retirees.

Fiscal & Monetary Policy

- Improve the structure and efficiency of government expenditures. Budgetary policy should prioritise long term, growth-enhancing items, mainly in the areas of education and healthcare, R&D and innovation, as well as investment in networks, including high-speed Internet, energy and transport interconnections, these also being the key areas of the „Europe 2020“ strategy. Prioritize public investment expenditures based on a cost/benefit analysis and ensure multi-annual budgeting.
- Deep reform of the tax administration, modernise and simplify tax collection, reduce tax evasion and reduce the taxpayer compliance burden.
- Stimulate lending in local currency and the development of a local currency debt market. Prompt long-term saving behavior of population through encouraging the participation to private pension funds, to private healthcare insurance plans, stimulating the activity of the saving – lending banks (*bausparkasse*).
- 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.

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Global Competitiveness Rankings

Global Competitiveness Rankings	EU27	Austria		Bulgaria		Czech Republic		Hungary		Poland		Romania		Slovakia	
	average	result	% EU avg.*	result	% EU avg.*	result	% EU avg.*	result	% EU avg.*	result	% EU avg.*	result	% EU avg.*	result	% EU avg.*
World Bank Doing Business (June 2011)	39	32	1.22	59	0.66	64	0.61	51	0.76	62	0.63	72	0.54	48	0.81
IMD World Competitiveness (Scoreboard 2011)	31	18	1.72	55	0.56	30	1.03	47	0.66	34	0.91	50	0.62	48	0.65
WEF Global Competitiveness Index (2011-2012)	37	19	1.95	74	0.50	38	0.97	48	0.77	41	0.90	77	0.48	68	0.54
Legatum Prosperity Index (2011)	25	14	1.79	48	0.52	26	0.96	36	0.69	28	0.89	58	0.43	32	0.78
Average Score	33	20.75	1.67	59	0.56	39.5	0.89	45.5	0.72	41.25	0.83	64.25	0.52	49	0.70

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Country Comparative Scores

Country Comparative Scores	General Indicators	Public Administration	Physical Infrastructure	Human Resources	Fiscal/Financial	Overall
Austria	1.10	1.14	1.20	1.15	2.17	6.76
Bulgaria	0.66	1.30	0.86	0.67	1.71	5.20
Czech Republic	1.04	1.02	0.90	0.94	1.29	5.19
Hungary	0.86	1.07	0.96	0.85	0.61	4.35
Poland	1.03	1.06	0.88	0.88	0.67	4.52
Romania	1.04	1.14	0.85	0.93	0.61	4.51
Slovakia	1.09	1.06	0.74	0.81	1.93	5.63

Romania Volatility Scores	General Indicators	Public Administration	Physical Infrastructure	Human Resources	Fiscal/Financial	Overall
Advantages	5	10	5	5	0	25
Neutral	3	9	1	8	1	22
Disadvantages	8	10	10	17	4	49

Comparative Country Score	General Indicators	Public Administration	Physical Infrastructure	Human Resource	Fiscal/Financial	Overall
Country Group Average	0.97	1.11	0.91	0.71	1.28	4.98
Romania Score to the Country Group Average	1.04	1.14	0.85	0.51	0.61	4.15
Romania Ratio to the Country Group Average	1.07	1.03	0.94	0.72	0.47	0.83
Romania Rank in the Country Group Average	4	2	5	7	6	6

General Indicators

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



General Indicators

Economic Performance

Several indicators could be used to assess the performance of the 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 and geography-these indicators do not assess comprehensively the impact of economic policy on economic performance and should not be used as a proxy to assess a policy success or failure.

Romania's economy is characterized by a low level of investment (29% of the EU average in fixed capital assets), and a comparatively low return on existing investment (80% of EU average in GDP per euro in fixed capital assets). On the other hand, the country is getting a better return than average for every euro spent on employment, indicating that the cost of the workforce relative to its output could be a slight competitive advantage for the country. Economic policy needs to address these two basic indicators, but must also understand their relationship. Investment to increase productivity and value-added will improve the rate of return and competitiveness of Romanian business, in turn attracting additional investment. Policies and decisions that encourage domestic investment, including modernization and the deployment of new technology, could also attract foreign investment.

With Romania's comparatively low level of FDI considering the benchmarking group, government policies should formulate a coherent policy framework aimed at attracting FDI, encouraging knowledge transfer and investment in human capital as a means of increasing competitiveness and sustainably financing the current account deficit. In order to substantiate these comments, an excerpt from the General Indicators table is given below.

Romania Economic Performance	Country Result	EU Average
GDP per capita, euro (nominal)	5700	24400
Return on Fixed Capital, (GDP/Gross Fixed Capital)	4.38	5.42
Return on Employment (GDP/Employment compensation)	2.5	2.02
FDI per capita	386	1768

Capital investments aimed at increasing productivity would not only provide a path to growth, but increase Romania's ability to compete, export, and provide stable and growing employment. While Romania scores high amongst EU countries in terms of total investment as a percentage of GDP, this is because it is still in the process of catching up. The installed base of capital investment in other countries is larger. Maintaining investment momentum is important for Romania, despite the current economic conditions, and the transformation of the economy offers many opportunities.

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 efficiency and effectiveness of public policies. 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).

There is scope for a coherent framework of targeted support instruments financed from public sources for sectors with direct relationships to investment and economic growth. These include sectors such as infrastructure, R&D and innovation, and human resources development.

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 constraints to supply. Furthermore, the structure of the energy sector, including its source of supply and distribution, has an important effect on the competitiveness of the economy, as well as environmental costs and benefits.

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

Government Accountability

Government's ability to formulate and implement effective economic policy relies on putting the public interest before the private one and holding public officials accountable to the public they serve. This aspect will be dealt with in more detail in the section pertaining to public administration, but one indication of perception is included in Transparency International's Corruption Index. Romania compares poorly with the rest of the EU in terms of corruption related perception.

Overall

Romania's overall ranking in general policy indicators is based on its performance in three main areas: low level of government subsidies, CO2 emissions per capita and the ratio of household consumption to government consumption. Main areas where Romania's performance needs urgent improvement are: GDP per capita, compensation of employees, Gross Fixed Capital, FDI per capita, energy intensity of the economy, productivity and corruption. Therefore, despite the relatively solid score, policymakers should discount the three major advantages and calculate a new score using the remaining thirteen indicators. That score - 65% of the EU average - reflects the challenge that policymakers must address if they are to make the economy more competitive.

General Indicators People	EU27	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, 2010	65.9	73.10	1.11	na	na	66.00	1.00	55.90	0.85	60.20	0.91	49.00	0.74	59.00	0.90
% population 65+ to total labor force, 2010	4.6	5.30	0.87	na	na	4.70	0.98	3.40	1.35	4.70	0.98	na	na	1.70	2.71
Household consumption per capita, EUR, 2010	14247	18571	1.30	2895	0.20	7143	0.50	5200	0.36	5681	0.40	3535	0.25	7037	0.49
Compensation of employees, per capita, 2010	12069	17024	1.41	1711	0.14	6286	0.52	4200	0.35	3455	0.29	2279	0.19	4630	0.38
Household savings rate , as % of disposable income, 2010	12.31	13.45	1.09	na	na	10.28	0.84	8.15	0.66	9.91	0.81	na	na	11.26	0.91
People subsum			5.78		0.34		3.84		3.57		3.39		1.18		5.39
People subscore			1.16		0.17		0.77		0.71		0.68		0.39		1.08
General Indicators Economic Performance	EU27	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, 2010	24400	34100	1.40	4800	0.20	14200	0.58	9700	0.40	9300	0.38	5700	0.23	12100	0.50
Gross National Savings, % GDP	18.48	25.13	1.36	24.14	1.31	19.91	1.08	19.36	1.05	17.25	0.93	22.24	1.20	20.23	1.09
Gross Fixed Capital, EUR per capita	4500	7000	1.56	1100	0.24	3500	0.78	1700	0.38	1800	0.40	1300	0.29	2700	0.60
FDI per capita, 2009-2010	1768	-2129.88	0.00	731.05	0.41	913.24	0.52	-3863.50	0.00	577.96	0.33	386	0.22	96.48	0.05
Total Investment, as % GDP	21.19	21.10	1.00	na	na	22.40	1.06	20.90	0.99	21.20	1.00	26.20	1.24	20.60	0.97
Business Investment to Total Investment, ratio	0.76	0.94	1.23	na	na	0.74	0.97	0.87	1.13	0.75	0.99	0.77	1.00	0.89	1.16
Current Account Balance per capita, 4Q average, EUR million, 20103Q-2011Q4	-1088	2002	1.79	268	1.35	-1112	0.99	769	1.47	-2717	0.58	-978	1.03	-192.75	1.23
Government Subsidies as % GDP, 2009	3.49	4.06	0.86	2.15	1.62	0.69	5.06	2.07	1.69	0.76	4.59	0.67	5.21	0.94	3.71
Household Consumption to Government Consumption ratio, 2010	2.62	2.84	1.08	3.67	1.40	2.34	0.89	2.48	0.95	3.24	1.24	3.80	1.45	2.92	1.12
Economic Performance subsum			10.27		6.53		11.92		8.05		10.44		11.87		10.44
Economic Performance subscore			1.14		.93		1.32		0.89		1.16		1.32		1.16
General Indicators Energy	EU27	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, 2009	165.2	136.24	1.21	842.54	0.20	514.09	0.32	413.48	0.40	363.72	0.45	576.90	0.29	496.57	0.33
Co2 emissions per capita, metric ton per capita, 2008	8.2	8.80	0.93	7.50	0.91	11.60	0.71	5.60	1.46	8.50	0.96	4.80	1.71	7.40	1.11

Energy subsum		2..14		1.11		1.03		1.86		1.42		1.99		1.44
Energy subscore		1.07		0.56		0.51		0.93		0.71		1.00		0.72

General Indicators Tourism	EU27	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)
Tourist Trips per bed, 2010	19	7	0.37	1	0.05	22	1.16	25	1.32	45	2.37	17	0.89	32	1.68

General Indicators Corruption	EU27	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)
TI Corruption Index	6.3	7.9	1.25	3.6	0.57	4.6	0.73	4.7	0.75	5.3	0.84	3.7	0.59	4.3	0.68

Volatility Assessment	Austria	Bulgaria	Czech Repub.	Hungary	Poland	Romania	Slovakia
Advantages (score of 1.15 or more)	8	4	2	5	3	5	3
Neutral (score between .85 and 1.15)	8	1	7	5	7	3	8
Disadvantages (score below.85)	2	8	9	8	8	8	7

General Indicators	Austria	Bulgaria	Czech Republic	Hungary	Poland	Romania	Slovakia
Overall Score	1,10	0.66	1.04	0.86	1.03	1.04	1.09

Policy Learning Points

- 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.
 - Create an action plan to set up a technological hub in Southeast Europe with an outstanding commercial research center.
 - Define breakthrough projects to enable knowledge transfer to Romania by bringing in global expertise (e.g. ELI Magurele project).
- Increase accountability by strengthening transparency of the public administration.
- Stimulate investments 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.
- Define a strategic framework for energy investment and enforce a predictable and stable regulatory environment aimed at supporting economic competitiveness. Promote green energies in Romania's energy mix.
- Use EU funding to develop physical infrastructure, doubled with private public partnerships and strengthen the competitiveness of Romanian companies on the local and foreign markets. The improvement of EU funds absorption should remain a top priority of the Government. Quarterly targets for EU funds absorption rate which should be very closely monitored and a corrective mechanism should be put in place.
- Empower National Competitiveness Council (CoNaCo) to harmonize, implement and promote integrated policies aimed at increasing the competitiveness of Romania. The policies should be adopted by the Government and Parliament and monitored on a permanent basis.

Legal Framework

Since the legal framework of a country is a complex and internally interlocked system, the overall legal climate develops at a slower pace than its economic indicators.

Still, the Competitiveness Report aims at covering both the economic progress and the assessment of the quality of a legal framework. We have looked into areas of law which, in our opinion, have the greatest influence on the competitiveness of a country. These areas of law cover the regulation of labor issues, taxes, judicial system, capital markets, starting a business, competition, insolvency, e-government, intellectual rights protection and real estate.



Legal Framework

Labor Law

Romanian labor legislation consists of a comprehensive Labor Code that provides the overarching legal framework and generally regulates labor law relationships, while certain labor aspects are regulated by special laws (such as the Social Dialogue Law 62/2011). Traditionally, labor legislation was viewed as heavily favoring employee and, in 2011, in an attempt to support the labor market by providing more flexibility to employers, substantial amendments have been enacted. Among others, the recent amendments to the Labor Code place an increased emphasis on performance, by extensions of trial periods and of dismissal and resignation notices and seek to facilitate the use of fixed-term employment, temporary work and other more flexible work forms. Nonetheless, dismissals remain difficult to perform, as they may occur only based on certain statutory dismissal reasons, which are viewed as narrow, and upon observing complex formalities. For example, there is a mandatory notice period in case of termination of contracts, which does not progressively reflect the duration of employment, but it cannot be shorter than 20 working days. Romanian law does not provide for the minimum severance pay in case of dismissal of employees, such severance payments are usually a subject to negotiation between parties.

The employee may be held liable for damages caused to the employer, but the amount of such damages, to the extent to which it exceeds a maximal threshold set out by the Labor Code, must be established in court, through litigation. The general statutory limit of employee's liability for damage caused to the employer, in case the parties agree to settle it outside the court, is 5 times the minimum gross monthly wage applicable country-wide and approved by Government decision (for 2011, such maximal limit is of approximately EUR 800).

The Romanian law does regulate part-time work and home-working, 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, part-time contracts, generally with the employee's cooperation). The monthly average gross salary is RON 2,022, approximately EUR 480, but the Government - established minimal monthly salary for 2011 is of RON 670, approximately EUR 160. In case of a court dispute regarding validity of termination of an employment relationship (if the court decides the termination was void), the employee is reintegrated and his/her contract is retroactively considered valid, with the employee being entitled to his/her salary for the period of court proceedings. The Social Dialogue Law 62/2011 has been enacted in May 2011, unifying the legal framework applicable to trade unions and employers' organizations. Among others, the concept of collective bargaining agreement at national level has been eliminated. Therefore, collective bargaining agreements may be concluded only at the industry and company level and will be applicable only to the parties that have negotiated and signed them.

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

Taxes

The length of court proceedings has always been a problem in Romania. Certain steps have been taken, for example, a New Civil Procedure Code that should enter into force in 2012, was adopted. Still, Romania reports an average length of proceedings with respect to a challenge of a tax decision of 2 years. One of the most important rights of a taxpayer towards tax authorities should be a right to obtain a statement of reasons for each material decision imposed by the Tax Administration. In Romania, this is a standard. Another cornerstone of fair tax administration is a suspensive effect of an appeal against Tax Administration's decisions. In Romania, no suspensive effect is granted, irrespective if it is an administrative appeal to the relevant department of the Tax Administration or an appeal in court. This favors the Tax Administration, which can collect taxes from taxpayers at the very beginning and return excessive payments only following a relevant court decision. In Romania, the principle *in dubio contra fiscum* (=when legislation is unclear, it should be interpreted in the benefit of the taxpayer) is not regulated in the fiscal legislation and should be, similarly with the *in dubio pro reo* principle applicable in civil cases. This would eliminate abuses against taxpayers, strengthen the position of tax inspectors and increase responsibility of law makers when drafting legislation.

It is possible that the Tax Administration provides a binding interpretation of a company's tax matter, which all tax offices are then obliged to observe. In Romania, this is called „advance individual tax ruling“ and refers to taxpayer's future operations. It is valid and binding upon the Tax Administration only if the taxpayer complies with its terms and conditions. The taxpayer must provide its standpoint with respect to regulations applicable to the subject matter and may have prior meetings with the Tax Administration. If the taxpayer disagrees with the content of the ruling, it may notify the Tax Administration, in which case the solution will no longer be considered binding. However, the procedure is rather complicated and takes a long time, so a relatively low number of binding rulings have been issued so far. To increase transparency, the Tax Administration should publish, as in other EU member states, a report showing the number of requested vs. issued binding rulings, as well as advance price arrangements.

The Fiscal Code entered into force on January 1, 2004 and regulates the main direct and indirect taxes applicable to taxpayers, natural or legal persons. Since then around 70 normative acts amending the Fiscal Code were issued, the stability and predictability of the Romanian tax system being seriously damaged, generating uncertainties in companies' business plans. Romania introduced a flat rate system ever since 2005, the applicable rate being 16%. The country's tax system is favorable to employees with higher salaries although the rate of social security contributions is rather high. With the gross pay of EUR 1,000; EUR 2,000; EUR 3,000, the take-home net pay/employer's costs is EUR 701/EUR 1,275; EUR 1,403/EUR 2,600; and EUR 2,162/EUR 3,826 respectively. The calculation base for social security contributions is capped at 5 times the gross monthly salary on economy (approximately EUR 2,335).

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, and (ii) special allowances for expenses related to R&D activities. From a personal income tax perspective, the income earned by employees working on software creation is free of personal income tax subject to certain conditions to be fulfilled by both the employer and the employee. There are also specific incentives available with applicability limited only to certain social security contributions such as the unemployment contributions (e.g. for employers hiring new graduates / persons with disabilities / unemployed persons over the age of 45 years / sole family supporters).

Judiciary

Romania reports an overload in courts; among the causes of the overload experts listed: 1. The amount of actions filed, 2. Ineffective organization of courts, 3. Lack of qualified (judiciary) professionals, 4. Low quality of administrative operation of the courts, 5. Excessive formalism. Certain steps to prevent the overload have been taken, the Parliament adopting in December 2010 the Law no. 202 regarding measures to accelerate the dispute resolution, which encourages parties to settle their disputes outside the judicial process, using the alternative dispute resolution methods such as mediation. Among other measures, the respective law limited also the admissibility of the appeals in petty cases. The activity of the courts is supervised by the Romanian supreme judicial self-administration body, namely the Superior Council of Magistracy. In exercise of its duties the Superior Council of Magistracy publishes yearly reports regarding the state of justice where it analyzes the judiciary system, both in terms of quality and quantity. According to the latest such report, released at the end of 2010, the average length of the commercial cases is approximately 1,5 years, whilst the share of the first instance decisions annulled or corrected in appeal is 9,5 %. Continuous training of judges is a cornerstone to quality judicial decisions. Romania has implemented a system of mandatory further legal education.

It is considered a shortage of the system that judges do not receive, nor are they obliged to receive any non-legal education in order to get better acquainted with the background of cases, especially in the commercial / business area. "Not enough judges" is a common problem, too. Romania has employed a provision under which a judge can be transferred to another court based on his/her consent. E-tools such as e-filing, e-files, e-decisions, recording of hearings have been implemented partially: electronic file (all the documents in an electronic form, accessible online); electronic decisions (automated decisions in simple or petty cases with a possibility to return to standard procedure if protested) and electronic recording (and filing of the record of the court session).

Capital Markets

The Romanian law in this area was harmonized with relevant EU law. The particular feature of the Romanian capital market is that there are two regulated securities markets, the Bucharest Stock Exchange and the Sibiu Stock Exchange, each having its own trading, registration and settlement systems as well as maintaining separate central depositories. The entity that maintains evidence of securities is also in charge of settlement and clearing. According to market regulations, the investors' assets must be separated from the intermediaries' assets. The market regulator (National Securities' Commission) keeps track, through regular inspections, of the internal separation procedures, as well as of the intermediaries' practice and can block the alienation of the

investors' assets, if it is performed illegally.

The Central Depository is connected to international clearing systems, by opening accounts with foreign central depositories. No mid- and long-term strategy for the development of the country's capital markets is regularly published. There is no taxation on the issuing of securities in Romania. Romanian law does not allow self registration.

The Government issues fixed-rate bonds rather than inflation-indexed government bonds, although the latter would also be possible. At the beginning of 2004, the Romanian government issued such bonds for a period of approximately 3-4 years. The Ministry of Public Finance has indicated, in its Strategy for Public Debt Administration for 2011-2013, that the possibility to restart the issuance of inflation-indexed bonds will be analyzed for the purpose of enhancing the maturity of the debt portfolio and implicitly for diminishing the refinancing risk.

There are structures similar to SICAV (*Société d'Investissement À Capital Variable*) in Romania. REIT (*Real Estate Investment Trust*) is not regulated as such, but can be structured as a closed-end fund (with qualified investors), or as "another undertaking for collective investment", or as an open company that invests in real estate.

Romania has a 3-pillar pension system: 1st pillar, which consists of the pay-as-you-go system, financed from contributions and state budget revenues (individual contribution amounts to 9.5% of gross earnings); 2nd pillar, which consists of the compulsory pension insurance, based on individual capitalized savings (the target is 8% of gross earnings by 2016); and 3rd pillar, i.e. supplementary contributions, in which participation is voluntary.

Starting a business

It seems to be favorable to start a business in Romania, according to the following indicators we have collected:

(i) shareholders may limit their liability towards third parties (e.g. 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 timeframes for incorporating a company with the relevant Romanian registrar (i.e. the Trade Registry) or for registering various corporate changes (e.g. new directors, share capital increases/decreases, etc) are of 3-5 business days from the date the Trade Registry considers that the incorporation/registration file is complete; (iv) the costs (e.g. Trade Registry fees) for incorporating a company are rather low.

As regards the authorization/licensing formalities, the Trade Registry will also process the forms required for the authorization of a company's activities. However, in case of activities which require special authorizations or licenses (e.g. environmentally hazardous activities, insurance or banking activities, etc), the applicant needs to ensure that it fulfills the conditions imposed under Romanian law for carrying-out such activities and to obtain each authorization or license from the competent authorities, after the company's incorporation. In this case, the authorization procedure may prove rather burdensome and lengthy, in terms of the required formalities. Other formalities required upon incorporation, such as fiscal registration or opening of a bank account also need to be performed separately by the Company's representatives, with the fiscal authorities or the chosen bank.

Companies incorporated in Romania acquire Romanian



nationality, irrespective of the nationality of its shareholders. Any person wishing to become a shareholder in a Romanian company must have full legal capacity (i.e. unrestricted ability to hold and exercise any type of rights and obligations) and good standing (i.e. the person should not have been convicted for one or several crimes such as: fraudulent management, breach of trust, use of forgeries, etc). Romania is not a member of the European Business Register (EBR) network, so it has no direct access to company information from countries in the EBR network.

Competition

Further to the existing case law of the Competition Council, the majority of the mergers notified to the Council were granted an unconditional clearance. The legal framework applicable to merger clearance was significantly amended in August 2010, in order to align it to EU legislation. Simplified procedures are available; the review period following the date of submitting the notification is 45 days, provided that the notification is deemed complete by the Council and no further clarifications/information are required. The standard proceeding, including a potential investigation launched by the Council, may take up to 5 months. There is also a legal fiction of clearance, if the authority does not make a decision with respect to the notified merger within the required timeframe. De-concentration orders are very rare. Fines for gun-jumping (implementation of a merger in the absence of clearance from the Council) reach up to 10% of the total annual turnover for the year preceding the sanction. The success ratio of judicial review of the authorities' decisions is as high as approximately 75%. Competition advocacy is allowed in Romania. Notification of a merger is mandatory if (1) a worldwide aggregated turnover reaches EUR 10 mil generated by the undertakings involved, and (2) a turnover of EUR 4 mil is generated by each of at least two of the undertakings involved in such operation. In Romania, the fee for filling a notification is RON 4,775, approximately EUR 1,137. Under Romanian law, the criminal sanction for the organization or participation in a cartel is imprisonment between 6 months and 3 years or a fine and limitation on certain rights. Public tendering is not viewed as efficient and transparent. Bid rigging is expressly prohibited under the law. There is also no obligation for a claimant/bidder in a tender, who initiates proceedings, to provide a deposit along with the submission of their claim, in order to eliminate unreasonable claims.

Insolvency

The Romanian Insolvency Law (Law 85/2006) allows for the non-liquidation method; a debtor has the option to reorganize or enter straight into bankruptcy proceedings. Although, theoretically, the reorganization is a possibility for the debtor to recover from insolvency, in practice the majority of insolvency files are bankruptcy files (90%). The main cause for the low number of reorganizations is the creditors' absence 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. Generally, the creditors receive the payments decided under the reorganization plan or the amounts obtained following disposal of the debtor's assets, such amounts depending on, among others, the market value of the assets. In such capacity as secured creditors, they have a privileged position in the order of distribution of liquidation amounts.

The law does not provide for a limitation of the collateral's economic value, such limitation may occur however upon valuation of the debtor's assets performed in the insolvency procedure, in accordance with the international valuation standards, by a valuator appointed by the judicial administrator/liquidator or deterioration of the market conditions in respect to the encumbered asset. The creditors may not independently enforce their rights against the debtor after the date when the debtor was declared insolvent by the court. Also, upon opening of the insolvency procedure, as a rule, the debtor's rights of self management are severely limited, including the right of disposal of assets. Although the limitation of the debtor's right of disposal of assets is meant to ensure protection for the creditors against other creditors' independent enforcements and against the insolvent debtor fraudulently decreasing the value of its estate, said rules are sometimes applied excessively 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 be performed. According to Law 85/2006 the liquidation of the debtor's estate is performed by the judicial administrator/liquidator, under the control of the judge and not directly by the creditors. However, the 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 assets disposals may also limit the possibility to obtain the greatest value. Publication of significant aspects of the insolvency procedure is carried out through the Insolvency Procedures Bulletin (www.buletinulinsolventei.ro).

E-Government

The Romanian e-Government solution is called the „e-guvernare” portal. It is not mandatory for private legal entities and individuals to use e-Government; its purpose is to facilitate the access of citizens and legal entities to local/central authorities and, to date, it remains optional for its beneficiaries. Conversion of documents, electronic signature, and e-archiving are regulated. Nonetheless, the portal is a mandatory tool for the public institutions that have adopted it. There is no obligatory use of electronic data boxes for the communication between public authorities, legal entities and citizens, and no mandatory e-delivery of documents. There is no specific provision of law on e-proceeding in Romania, but each institution which adopted the e-Government system created its own manner of e-delivery of documents. Also, some authorities (e.g. the tax authorities) and some courts are beginning to accept electronic filings. Nevertheless, for evidence purposes, a hard copy document should still be submitted. Most of Romanian authorities (e.g. courts, trade registries etc) still request that documents be submitted in hard copy, in person or through registered mail. As regards e-documents, under the terms of E-Signature Law 455/2001, e-documents carrying electronic signatures are assimilated to a document under private signature, if accepted by the other party. In order to benefit of the e-Government services, citizens and legal entities alike must register as users on the „e-guvernare” portal, but clearer rules on e-IDs should be implemented. According to data we have collected, the majority of the Romanian public is not aware of the benefits of e-Government services.

Intellectual Property Rights

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 - (the „industrial rights“), and sole judges at the first instance courts. The Bucharest courts have almost exclusive jurisdiction for trademarks and patents because the State Office for Trademarks and Inventions, which is frequently involved in any IP-related conflicts, is located in Bucharest. Romanian IP legislation is generally harmonized with the EU law. Improvements can be achieved 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 approval. Release of seized goods against deposit is possible.

SMEs are not treated differently, compared with large corporations. Still, the size of the enterprise may be considered by the authority/court within its discretion when imposing a fine. In Romania, generally, Internet Service Providers are not liable for publishing, copying or disseminating infringing content by the Internet user, however, certain restrictive measures may be imposed by a court of law (e.g. blocking 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 equipments 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. A cross-border cooperation in terms of IPR enforcement is effective; 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 police force.

Real Estate

Under Romania's new Civil Code provisions, the transfer of ownership should become effective upon registration in the Land Registry, but these provisions will only become operational from the date when the cadastre works will be completed at the level of each territorial unit. Therefore efforts should be made so as to complete as fast as possible the cadastre works. Currently, the transfer of ownership is effective as of the date of the underlying agreement (for immovables, such agreement is under authenticated form). Generally, the protection of the bona fide buyer is recognized, as the person who acquired in good faith a right to own a real estate property registered in the Land Registry, is deemed to be the holder of that right, although there are exceptions.

Direct foreign acquisition of agricultural and forest land will be available to citizens of EU member states/persons domiciled in Romania/in another EU state, including EU's legal persons, 7 years after Romania's accession to the EU (i.e. from January 2014), while plots of land may be acquired 5 years following Romania's accession (i.e. from January 2012).

The sale of real estate by natural persons is generally subject to a transfer tax (2% or 3%, depending on the purchase price and duration of ownership). This duty does not apply to legal entities-sellers.

It is suggested that better and faster transfer of information between the Land Registry and other public authorities should be ensured. It is suggested that excerpts from the Land Registry records and copies of the cadastre entries should be made available on-line. Under the new Romanian Civil Code the mortgage is established by the underlying notary (authentic) deed, but it obtains opposability and priority upon registration in the Land Registry. Generally, a mortgage has priority over any other receivable when it is submitted by the mortgagee to the liquidator, but there may be other debts preferred by the law that may take precedence (e.g. liquidation enforcement costs and taxes, other previously registered mortgages).

There are no tax credits for building renovation available, but the local councils may grant certain tax exemptions to owners who perform thermal rehabilitation works or other works resulting in an increase of the ambient and architectural quality of the buildings.

The legislation does not restrict foreign shareholding (foreign natural or legal persons) in companies that are Romanian legal entities. EU companies may acquire real estate under the same conditions as Romanian citizens or entities. To date, indirect acquisition of real estate in Romania is commonly accomplished by acquiring 100% of the shares in a Romanian company holding ownership right over a real estate.

Recently a public-private partnership law was enacted. It is suggested that this law is not attractive enough for foreign investors.

As for transfer of a real estate between related parties, the fiscal authorities may adjust the taxes of any implicated party, in order to reflect the market price of the asset(s) subject to such transaction, which should be on an arm's length basis. However, currently, there is no possibility to perform an on-line check of the relevant corporate documents of the relevant parties. There is no general standard used for property transfer agreements, however, each notary usually has a commonly used draft that is submitted, by request, to the parties as a basis for negotiation.

Policy Learning Points

- Improve enforcement and oversight of the existing legal framework, including reform of the judiciary to include more training for judges and court officers, and reduce the time required to resolve cases.
- As investors seek predictability and stability in legislative and regulatory processes, the Government should commit to enforce the existing norms related to regulatory impact assessment. This involves soliciting meaningful public consultation with stakeholders in the formulation of regulations, increasing the transparency of the legislative process and publishing the regulations in their consolidated/updated form.
- Enforce impact assessment for new regulations and policies to account for their effects on sustainable growth and the stability of the business environment.
- Prioritize and accelerate cadastral works to all counties, including appropriate budgetary allocations, to realize the benefits of the new Civil Code for real estate transfers.
- Resolve inconsistencies in the PPP legislation and increase Romania's institutional capacity to carry out investment projects by using PPP framework and financial engineering instruments.

Survey

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?

	1 (worst)	2	3	4	5	6	7	8	9	10 (best)	Rating Average
Company formation	2.8%	6.8%	11.3%	14.1%	15.3%	15.8%	16.4%	12.4%	5.1%	0.0%	5.38
Competition	6.2%	3.4%	14.1%	15.3%	16.4%	13.6%	16.9%	7.9%	4.5%	1.7%	5.19
Intellectual Property	3.4%	6.8%	13.1%	12.5%	20.5%	14.8%	13.1%	11.4%	2.3%	2.3%	5.23
Consumer Rights	1.7%	5.1%	14.1%	10.7%	19.8%	15.8%	15.8%	10.2%	5.1%	1.7%	5.46
Contractual Relations	3.4%	7.4%	12.5%	10.2%	17.0%	14.8%	20.5%	11.4%	2.8%	0.0%	5.30
Labor Relations	1.7%	6.8%	8.5%	13.6%	18.1%	18.1%	16.4%	13.0%	2.3%	1.7%	5.50
Product Liability	2.8%	3.4%	11.4%	12.5%	25.0%	16.5%	15.9%	8.5%	3.4%	0.6%	5.34
Environmental Protection	5.6%	14.7%	14.7%	12.4%	20.9%	14.1%	7.3%	9.0%	0.6%	0.6%	4.53

- Are you satisfied with doing business in Romania?
- Do you want to contribute with ideas for improving policies that make Romania a better home to your business?
- Would you like to run your business in a more competitive economy?
- **Join AmCham** and have your say reflected in the advocacy papers and recommendations that AmCham is advancing to the authorities for making Romania more competitive and attractive for doing business!



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Public Administration

Public administration covers the efficiency of how the government administers the institutions that regulate the economy. Indicators for public administration are divided into four areas: cost, efficiency, judiciary and overall governance.

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Public Administration

Cost of Government

Cost indicators estimate the regulatory burden placed on the economy. These indicators range across two primary areas: the amount of tax revenue the government requires to perform its functions, and the amount of debt incurred by the government in relation to administrative costs.

Romania has a comparatively low overall tax burden. Its implicit tax rate on labor is one of the lowest in Europe, and its levies on production and commercial profit are near the European average. In 2010 the level of debt to GDP was lower than the EU average, but the country paid low levels of interest for financing its debt which suggests that current agreements with the IMF and the EC, coupled with internal reforms, are a strong anchor even during turbulent economic times. Judging from current statistics, however, taxes do not represent a major competitive disadvantage, consequently their reform would not be the highest priority to generate economic growth.

Efficiency of Government

From the point of view of administrative efficiency, EU member states range from high government cost and low administrative effectiveness, to balanced situations where high cost is matched by high effectiveness. Romania displays relatively low level of cost, and a better than EU average performance in the selected efficiency indicators.

The relative performance of the country is primarily explained by the low administrative costs of its social security system and the relatively high, but still low number of procurement procedures advertised at the EU level. It is important to note that the good scores in social security mean only that the country is doing better in that area than most of Europe, which has a major competitive imbalance in this area. Romania doing less poorly may mean that reforms need not to be as severe as those in other country; however, this does not mean that reforms are not necessary. The country still pays out more in benefits than it collects in contributions: this clearly is unsustainable.

However, increasing the quality of public services across the board, at both local and central level of government, is considered a significant factor for spurring competitiveness and encouraging investment.

The performance of Romania's public administration is severely constrained by inefficiency. One reason for this inefficiency is the low level of automation or e-government in administrative processes. The strategic deployment of IT, especially to routine, public-facing processes, could have significant effects on reducing costs, increasing transparency and strengthening government accountability. The Government should use available EU funds to invest in greater efficiency in this area.

Judiciary

The judiciary serves as the mediator and final arbiter of business disputes, and Romania's judicial system is performing near the European average. Reducing the costs and time needed for judicial proceedings would make the significant contribution to economic growth.

Overall Performance

This segment attempts to measure an area of government performance that is 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. The report relies for its ratings entirely on the work of Legatum's Prosperity Index and the World Governance Index.

Romania scores at 58% of the EU average in this area, with low scores in governance and social capital. This result is reflected in the executive survey conducted by AmCham Romania, in which respondents ranked public administration at 2 on a scale of 1 to 10. While some may be tempted to dismiss low scores in social capital as a soft indicator, public trust in government is essential. It allows elected officials to lead effectively, and to take difficult decisions requiring shared costs for large parts of the population.

Summary

Romania has an advantage in the cost of government service, average performance in administration and low scores in integrity and quality. Successfully addressing integrity and the quality of public services would distinguish Romania from other countries in the region with similar problems based on below average scores. Romania could invest EU funds to improve the efficiency and performance of public administration (such as e-government).

Policy Learning Points

- Increase transparency and accountability in the 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 spur efficiency, reduce costs, and improve the quality of public interaction with government services.
- Increase the quality of public service and build administrative capacity at both central and local level, by 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 analyses where appropriate as part of the public procurement process.

Overall Governance Sum		12.11		5.02		7.70		6.32		8.10		4.68		6.72
Overall Governance Score		1.51		0.63		0.96		0.79		1.01		0.58		0.84

Public Administration Costs	EU27	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)
Cost - Total General Government Revenue, %GDP, 2010	44.1	48.1	0.92	34.9	1.26	39.3	1.12	45.2	0.98	37.5	1.18	34	1.30	32.3	1.37
Cost - General Government Debt, % GDP, 2010	80.2	71.8	1.12	16.3	4.92	37.6	2.13	81.3	0.99	55	1.46	31	2.59	41	1.96
Cost - Interest Payment, % current revenue, 2009	6	7	0.86	2	3.00	4	1.50	11	0.55	8	0.75	2	3.00	5	1.20
Cost - Implicit tax rate on labor, ratio of taxes and social security to total employee compensation, 2009	36	40.3	0.89	25.5	1.41	36.4	0.99	41	0.88	30.7	1.17	24.3	1.48	31.2	1.15
Cost - Taxes on production and import, % GDP, 2010	13	14.5	0.90	14.9	0.87	11.2	1.16	16.9	0.77	13.6	0.96	12.1	1.07	10.1	1.29
Cost - Average Tax Wedge, Two earner family with two children, 2008	26.92	36.8	0.73	na	na	30.4	0.89	36.07	0.75	29.49	0.91	na	na	26.91	1.00
Cost - Total tax rate as % of Commercial Profit	45.6	55.5	0.82	29	1.57	48.8	0.93	53.3	0.86	42.3	1.08	44.9	1.02	48.7	0.94

Public Administration subsum		6.23		13.04		8.72		5.76		7.50		10.46		8.90
Public Administration subscore		0.89		1.86		1.25		0.82		1.07		1.74		1.27

Public Administration Efficiency	EU27	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 - Government Budget Surplus/Deficit, % GDP, 2010	-6.6	-4.6	1.15	-3.1	1.26	-4.8	1.13	-4.2	1.18	-7.8	0.91	-6.9	0.98	-7.7	0.92
Efficiency - Public Employees to Total Population, ratio	0.07	0.06	1.17	0.05	1.4	0.06	1.17	0.08	0.80	0.04	1.75	0.08	0.88	0.05	1.4
Efficiency - Social Benefits, % of GDP, 2010	17	19.7	0.86	12.6	1.35	13.8	1.23	15.9	1.07	14.8	1.15	13.2	1.29	14.1	1.21
Efficiency - Social Contributions, % of GDP, 2010	13.9	16.3	0.85	7.1	1.96	15.3	0.91	12.1	1.15	11.1	1.25	9.6	1.45	12.5	1.11
Efficiency - Social Contributions: Social Benefits Ration	0.82	0.83	1.01	0.56	0.69	1.11	1.36	0.76	0.93	0.75	0.92	0.73	0.89	0.89	1.08
Efficiency - Administrative Costs as % Social Contribution, 2009	3	1.7	1.76	2.4	1.25	3.1	0.97	1.9	1.58	1.6	1.88	1.1	2.73	2.7	1.11
Efficiency - E-government on-line availability	84.28	100	1.19	70	0.83	73.75	0.88	65.79	0.78	78.75	0.93	60	0.71	62.5	0.74
Efficiency - Public procurement advertised in the EU Official Journal (as a % of total public procurement), 2009	3.6	2.3	0.64	12.2	3.39	5.2	1.44	6.3	1.75	8.2	2.28	6.5	1.81	6.8	1.89
Efficiency - Time to prepare and pay taxes annually, 2010	229	170	1.35	616	0.37	557	0.41	277	0.83	325	0.70	222	1.03	257	0.89
Efficiency - Days to start a business, 2010	13	28	0.46	18	0.72	20	0.65	4	3.25	32	0.41	10	1.30	16	0.81
Efficiency - Licensing Procedures	5.8	8	0.73	4	1.45	9	0.64	4	1.45	6	0.97	6	0.97	6	0.97
Efficiency - Days to Register Property	30.7	21	1.46	15	2.05	25	1.23	17	1.81	152	0.20	26	1.18	17	1.81

Public Administration Efficiency subsum		12.74		16.69		12.00		16.64		13.31		15.24		13.92
Public Administration Efficiency subscore		1.06		1.39		1.00		1.39		1.11		1.27		1.16

Public Administration Judiciary	EU27	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	556	397	1.40	564	0.99	611	0.91	395	1.41	830	0.67	512	1.09	565	0.98
Judiciary - Cost as % of Claim	20.6	18	1.14	23.8	0.87	33	0.62	15	1.37	12	1.72	28.9	0.71	30	0.69
Judiciary - Cost % of Estate to Close business	10.5	18	0.58	9	1.17	17	0.62	15	0.70	20	0.53	11	0.95	18	0.58

Public Administration Judiciary subsum		3.13		3.02		2.15		3.48		2.91		2.75		2.25
Public Administration Judiciary subscore		1.04		1.01		0.72		1.16		0.97		0.92		0.75

Public Administration Overall Governance	EU27	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	84.29	95.7	1.14	62.6	0.74	78.7	0.93	74.9	0.89	81	0.96	61.1	0.72	73	0.87
Overall Governance - Political Stability	72.57	88.7	1.22	57.5	0.79	82.1	1.13	71.2	0.98	83.5	1.15	54.7	0.75	85.8	1.18
Overall Governance - Rule of Law	82.83	96.7	1.17	53.1	0.64	80.1	0.97	73	0.88	69.2	0.84	56.4	0.68	66.4	0.80
Overall Governance - Control of Corruption	78.94	92.3	1.17	52.2	0.66	65.6	0.83	66.5	0.84	70.3	0.89	53.6	0.68	64.6	0.82
Overall Governance - Governance Ranking	25.2	11	2.29	49	0.51	30	0.84	33	0.76	36	0.70	67	0.38	39	0.65
Overall Governance - Safety & Security Ranking	23	16	1.44	39	0.59	21	1.10	27	0.85	25	0.92	42	0.55	33	0.70
Overall Governance - Personal Freedom Ranking	32.52	25	1.30	58	0.56	40	0.81	53	0.61	36	0.90	60	0.54	38	0.86
Overall Governance - Social Capital Ranking	38.2	16	2.39	74	0.52	35	1.09	77	0.50	22	1.74	103	0.37	45	0.85

Public Administration Overal Govern. subsum		12.11		5.02		7.70		6.32		8.10		4.68		6.72
Public Administration Overal Govern. subscore		1.51		0.63		0.96		0.79		1.01		0.58		0.84

Volatility Assessment	Austria	Bulgaria	Czech Repub.	Hungary	Poland	Romania	Slovakia
Advantages (score of 1.15 or more)	12	13	6	8	9	10	9
Neutral (score between .85 and 1.15)	13	4	19	12	13	9	13
Disadvantages (score below.85)	5	12	5	10	8	10	8

Survey

In comparison with other European countries, on a scale of 1 (worst) to 10 (best), how would you rate the public administration of the country?											
	1 (worst)	2	3	4	5	6	7	8	9	10 (best)	Rating Average
Public Administration in Romania	15.3%	24.9%	20.3%	17.5%	12.4%	6.8%	2.3%	0.6%	0.0%	0.0%	3.19

Physical Infrastructure

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



Physical Infrastructure

ICT

ICT and intensive knowledge-based services are key enabling factors for spurring economic growth. Further investment in broadband and the development of IT skills across the population will consolidate economic growth trend. Romania's IT infrastructure is lopsided; where Internet connections exist, Romania has the bandwidth speed connection competitive at EU level. However, less than half of Romanians are connected to the Internet.

Agricultural

The country has more arable land than the average EU country, but derives less value per hectare from it. Increasing the competitiveness of this sector requires not only greater productivity per hectare through mechanization, irrigation, and better skills, but also a land ownership structure that will encourage economies of scale that would allow these necessary investments. The evolution of the sector puts Romania in a favorable position to capitalize on organic farming, which is environmentally protective, has great export potential and contributes to the general health of the population.

Energy

There is not [yet] enough 2010 data for Romania to perform a fruitful competitiveness analysis. Romania's electricity has both a regulated and a liberalized segment, where electricity can be freely traded among participants. Romania has the largest power sector in Southeast Europe (23 GW installed capacity) however most of the assets are state-owned and many need further modernization. A combination of nuclear, hydro, coal, gas and wind energy production assets give Romania a generally strong competitive position in the region. Romania is a net exporter of electricity and has a growing renewable energy sector.

Tourism

The impact of government policy on tourism is hard to quantify. Tourist nights per bed was selected as the primary indicator because it can be studied as a measure of tourism's economic activity. However, it does not distinguish business travelers from tourists, and at best, is a poor proxy to measure 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 the development of commercial tourism infrastructure. Nevertheless, even on this limited measure, Romania is performing below the EU average (74%) in tourism. Policymakers and the industry would benefit from an in-depth study of the potential for tourism and the capacity of existing infrastructure to serve the current market and potential growth.

Transport

This topic is divided into road, rail and air.

Romania's road infrastructure is among the least developed in Europe in terms of coverage, and scores poorly in both connectivity with other EU member states and safety, which are themselves indicative of low quality. Romania currently has approximately 300 kilometers of highway. A comprehensive study of the country's road infrastructure and its effects on economic growth and productivity would identify obstacles to growth, and well as areas where investments would produce the greatest positive effects (e.g. encourage investments, enable exports).

The volume of air travel is well below the EU average for both passengers and freight. This measure is closely related to the general level of economic activity – tourism and business. A coherent policy for promoting Romania as a hub for international air traffic in the region could change the current situation.

Summary

Romania's physical infrastructure requires further investment to reach EU levels of development. Such improvements would benefit the economy overall by connecting rural areas to larger markets, improving productivity, reducing transport costs, and generally encouraging development and more economic activity. Fortunately for the country, 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 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

- Develop a comprehensive and coordinated plan to improve Romanian infrastructure towards EU standards of quality and coverage. Ensure the plan's implementation 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.
- Develop a clear energy strategy, invest in intelligent utility network infrastructure coordinated with the 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 a well-structured public private partnership (e.g. for the construction and operation of a highway section).

Physical Infrastructure sum		20.36		12.94		17.10		17.21		16.81		13.67		14.10
Physical Infrastructure score		1.20		0.81		0.90		0.96		0.88		0.85		0.74

Physical Infrastructure Communication	EU27	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.)	84	75	0.89	61	0.73	85	1.01	78	0.93	66	0.79	49	0.58	71	0.85
Households having a broadband connection	61	64	1.05	26	0.43	54	0.89	52	0.85	57	0.93	23	0.38	49	0.80
Broadband penetration rate - Number of broadband access lines per 100 inhabitants	25.7	23.5	0.91	13.9	0.54	20.4	0.79	19.7	0.77	14.9	0.58	13.7	0.53	15.5	0.60
Level of Internet access - households - Percentage of households who have Internet access at home	70	73	1.04	33	0.47	61	0.87	60	0.86	63	0.90	42	0.60	67	0.96
Price of a 10 minute local call, Euro, 2008	0.38	0.49	0.78	0.16	2.38	0.65	0.58	0.39	0.97	0.56	0.68	0.22	1.73	0.75	0.51

Physical Infrastructure Communication subsum		4.67		4.54		4.15		4.38		3.88		3.82		3.72
Physical Infrastructure Communication subscore		0.93		0.91		0.83		0.88		0.78		0.76		0.74

Physical Infrastructure Agriculture	EU27	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 per capita	3.44	3.8	1.10	4.01	1.17	3.35	0.97	4.22	1.23	4.05	1.18	6.4	1.86	3.59	1.04
Agricultural Value at current prices, per hectare, 2010	24.39	24.74	1.01	24.72	1.01	24.3	1.00	40.06	1.64	22.72	0.93	18.71	0.77	20.76	0.85

Physical Infrastructure Agriculture subsum		2.12		2.18		1.97		2.87		2.11		2.63		1.89
Physical Infrastructure Agriculture subscore		1.06		1.09		0.99		1.43		1.05		1.31		0.95

Physical Infrastructure Energy	EU27	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 primary energy supply per unit of GDP Tonnes of oil equivalent (toe) per thousand 2000 US dollars of GDP calculated using PPPs	0.14	0.12	1.17	na	na	0.21	0.67	0.16	0.88	0.18	0.78	na	na	0.19	0.74
Total primary energy supply per capita Tonnes of oil equivalent (toe) per capita	3.5	3.9	0.90	na	na	4.42	0.79	2.65	1.32	2.59	1.35	na	na	3.37	1.04
Contribution of renewables to energy supply as a percentage of total primary energy supply	17	25.8	1.52	na	na	5.1	0.30	6.1	0.36	6	0.35	na	na	5.1	0.30
Market Share of the largest generator in the electricity market	41.6	na	na	na	na	73.7	0.56	43.1	0.97	18.1	2.30	29.3	1.42	81.7	0.51
Electricity prices for Industry: January 2010 – June 2010 (in EUR per Kwh), Standard consumer rate: consumption 500-2000 MWh, VAT excluded	10.37	na	na	6.49	1.60	10.33	1.00	na	na	9.79	1.06	8.5	1.22	11.74	0.88

Physical Infrastructure Energy subsum		3.58		1.60		3.33		3.52		5.84		2.64		3.47
Physical Infrastructure Energy subscore		1.19		1.60		0.67		0.88		1.17		1.32		0.69

Physical Infrastructure Transportation	EU27	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	143	202	1.41	55	0.38	69	0.48	127	0.89	22	0.15	15	0.10	72	0.50
Roads - People killed per million inhabitants, Eurostat	90	91	0.99	126	0.71	122	0.74	128	0.70	143	0.63	114	0.79	104	0.87
Railroads - Total Kms per million people, 2009	770	992	1.29	775	1.01	1493	1.94	921	1.20	998	1.30	954	1.24	671	0.87
Railroads - Maximum Speed Rail, kilometers per million people, 2009, Eurostat	470	745	1.59	546	1.16	912	1.94	739	1.57	533	1.13	502	1.07	671	1.43
Airplane Passengers per capita, 2010Q3-Q4, Eurostat	0.9	1.5	1.67	0.5	0.56	0.7	0.78	0.5	0.56	0.3	0.33	0.2	0.22	0.2	0.22
Flight Movements at Major International Airports, per thousand inhabitants, 2010	11.9	29.3	2.46	6.2	0.52	14.6	1.23	10	0.84	3.1	0.26	5	0.42	5	0.42

Physical Infrastructure Trasportation subsum		9.40		4.34		7.10		5.76		3.81		3.84		4.31
Physical Infrastructure Trasportation subscore		1.57		0.72		1.18		0.96		0.63		0.64		0.72

Physical Infrastructure Tourism	EU27	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 bed, 2010	67	39	0.58	19	0.28	37	0.55	46	0.69	79	1.18	49.35	0.74	48	0.72

Volatility Assessment	Austria	Bulgaria	Czech Repub.	Hungary	Poland	Romania	Slovakia
Advantages (score of 1.15 or more)	7	3	3	5	5	5	1
Neutral (score between .85 and 1.15)	8	3	6	7	5	1	8
Disadvantages (score below.85)	2	9	10	6	9	10	10

Survey

On a scale of 1 (worst) to 10 (best), how would you rate the country's physical infrastructure:												
	1 (worst)	2	3	4	5	6	7	8	9	10 (best)	Rating Average	
Transport	19.9%	24.4%	21.6%	13.1%	9.7%	6.8%	4.0%	0.6%	0.0%	0.0%	3.07	
Energy	1.7%	4.5%	15.3%	17.6%	15.3%	17.6%	17.6%	8.5%	1.7%	0.0%	5.16	
Industrial sites	3.4%	6.9%	14.9%	18.3%	21.1%	14.9%	16.0%	3.4%	1.1%	0.0%	4.79	
Commercial space	1.1%	1.1%	3.4%	6.8%	15.9%	17.6%	20.5%	22.2%	8.5%	2.8%	6.52	
Housing	0.6%	4.5%	6.8%	12.5%	19.3%	22.2%	18.8%	11.4%	2.8%	1.1%	5.69	
Health Care	15.4%	22.9%	21.7%	17.1%	11.4%	6.3%	4.0%	0.6%	0.6%	0.0%	3.27	
Water	3.4%	6.9%	11.4%	11.4%	14.3%	18.9%	15.4%	11.4%	6.3%	0.6%	5.43	
Communications/ICT	0.0%	0.6%	2.3%	4.0%	4.0%	12.1%	17.9%	24.9%	24.3%	9.8%	7.58	

Human Resources

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 three areas: labor force, education, labor market participation and healthcare.

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17

Human Resources

Labor Force

Romania lacks data in 2 of the 5 indicators. In the three for which data are available, (i.e. productivity per hour, people employed in high tech sectors, university-educated workforce) the country is not competitive with Europe. Labor productivity represents only 42% of the EU average due not only to low endowment in physical and non-tangible capital, but also to a low level of continuous training for the active labor force. The structure of the active labor force, with a low level of university graduates compared to the EU (52% of the EU average), constrains significantly the development of high-value added sectors of the economy.

The low level of productivity is also a result of the structural transformation that is taking place in the Romanian economy. Despite great advances, the country is still freighted with many inefficient enterprises, a legacy of economic policies that neglected skills and quality of the labor force.

The increasing role of services in the economy has buoyed this measure. For such a transformation to become successful, the Government needs coherent policies to develop an education system that provides the content and skills to match labor market needs. A successful experience of Romania's IT sector is instructive; by offering globally competitive employment conditions in Romania, it has reversed the exodus of graduates from the country.

Education

The country scores poorly against the EU average (64%), and lags more closely its EU benchmarking group 2% behind Bulgaria, 6% behind Slovakia, and 8% behind Hungary. This indicates that attention to improving outcomes in this area is necessary to catch and surpass the country's direct

competitors. Several areas stand out for improvement: increased opportunities and incentives for life-long learning (16% of EU average), improved math and science scores.

Commercialization

This is an area in which all former communist countries perform far below the EU average. Only the Czech Republic scores at the EU average (government finance of research and development). Otherwise, all former communist countries are at a major competitive disadvantage compared to the rest of the EU.

In Romania, the government finances R&D at about half the EU norm and business contributes even less. The total spending (both private and public) per researcher is 21% of the EU average. Related to this under spending is Romania's poor showing in the number of patent applications: Romania is at 1% of the EU average in the number of patent applications per million citizens. R&D spending is a basic measure of innovation and value creation.

Policymakers should develop a long-term strategy for developing the capacity for applied research and taking discoveries and innovations to market. Government policy and spending should also encourage and leverage private sector R&D.

Finally, research needs to be integrated into universities to ensure that new understanding and techniques are passed along to the next wave of researchers. Romania should integrate into the newly created facilities in EU-wide research networks. The approach used in the Extreme Light Infrastructure (ELI) project has a significant potential for being replicated in other areas, like environmental protection (Danube and Black Sea area for instance).

Policy Learning Points

- 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 the highly skilled specialists in the country and reverse the brain drain, building on the positive experience of the IT sector.
- 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 centers 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, counseling, internships, and apprenticeships.
 5. Promoting greater involvement of experienced specialists, including retirees.

Total Sum		22.19		9.62		15.38		13.69		14.21		9.18		12.49
Total Score		1.11		0.53		0.77		0.68		0.75		0.51		0.62

Human Resources Labor Force	EU27	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)
Labor Force - Productivity per hour worked as % GDP	100	114.9	1.15	41.6	0.42	70	0.70	59.2	0.59	53.8	0.54	41.7	0.42	78.3	0.78
Labor Force - High Tech and Medium High Tech Manufacturing (% of total employment)	6.69	5.78	0.86	5.13	0.77	11.64	1.74	9.26	1.38	5.5	0.82	5.6	0.84	10.33	1.54
Labor Force - Working Hours per year	1704	1587	0.93	na	na	1947	1.14	1961	1.15	1939	1.14	na	na	1786	1.05
Labor Force - % non-resident tertiary students per capita, 2007	2489	3861	1.55	na	na	1921	0.77	1295	0.52	na	na	na	na	352	0.14
Labor Force - % 15-64 with tertiary education, 2010	22.7	16.4	0.72	19.4	0.85	14.5	0.64	17.2	0.76	19.8	0.87	11.9	0.52	15.1	0.67

Human Resources Labor Force subsum		5.22		2.04		4.99		4.40		3.37		1.78		4.18
Human Resources Labor Force subscore		1.04		0.68		1.00		0.88		0.84		0.59		0.84

Human Resources Education	EU27	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, 2007	92	98	1.07	87	0.95	91	0.99	89	0.97	88	0.96	91	0.99	90	0.98
Education - Students learning 2 or more languages, 2009	6.4	2.6	0.41	1	0.16	2.8	0.44	1.4	0.22	13.8	2.16	1	0.16	2.6	0.41
Education - % Total Gov Revenues spent on education	5.07	5.46	1.08	4.61	0.91	4.08	0.80	5.1	1.01	5.09	1.00	4.25	0.84	3.59	0.71
Education - Science/Math Graduates	24.5	25.9	1.06	24.8	1.01	25.8	1.05	20.2	0.82	21.4	0.87	21.9	0.89	23.2	0.95
Education - Pupil/Student Ratio (ISCED 1-3), 2009	10.1	10.6	0.95	13.5	0.75	13.5	0.75	11.4	0.89	11.4	0.89	14.1	0.72	15.2	0.66
Education - Lifelong Learning	9.3	13.8	1.48	1.4	0.15	6.8	0.73	2.7	0.29	4.7	0.51	1.5	0.16	2.8	0.30
Education - Reading Scores	485.76	470	0.97	429	0.88	478	0.98	494	1.02	500	1.03	424	0.87	477	0.98
Education - Math Scores	490.96	496	1.01	428	0.87	493	1.00	490	1.00	495	1.01	427	0.87	497	1.01
Education - Science Scores	497.12	494	0.99	439	0.88	500	1.01	503	1.01	508	1.02	428	0.86	490	0.99

Human Resources Education subsum		9.01		6.56		7.76		7.22		9.44		6.36		6.99
Human Resources Education subscore		1.00		0.73		0.86		0.80		1.05		0.71		0.78

Human Resources Commercialization, R&D	EU27	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)
Commercialization - Patent Application by non-residents per million inhabitants, 2007-2009	157	119	0.76	10	0.06	41	0.26	22	0.14	23	0.15	6	0.04	45	0.29
Commercialization - High Tech patents per million, 2007	20.22	33.61	1.66	0.23	0.01	1.55	0.08	3.85	0.19	1.01	0.05	0.75	0.04	0.77	0.04
Commercialization - Patent applications per million, 2007	114.16	200.08	1.75	1.57	0.01	17.30	0.15	18.33	0.16	5.26	0.05	1.51	0.01	6.93	0.06
R&D Expenditure, %GDP, 2009	2.01	2.75	1.37	0.53	0.26	1.53	0.76	1.15	0.57	0.68	0.34	0.47	0.23	0.48	0.24
R&D - Total spending per researcher, euro thousands, 2009	92.7	130.1	1.40	10.1	0.11	41.1	0.44	35.8	0.39	28.5	0.31	19.6	0.21	19	0.20
R&D - government funded as % of total general government expenditure	1.48	1.5	1.01	0.83	0.56	1.38	0.93	0.91	0.61	0.76	0.51	0.76	0.51	0.73	0.49

Human Resources Comm., R&D subsum			7.96		1.02		2.63		2.06		1.40		1.05		1.32
Human Resources Comm., R&D subscore			1.33		0.17		0.44		0.34		0.23		0.17		0.22

Human Resources Health Care	EU27	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)
Health Care - Quality - Healthy Years as percentage of life expectancy, avg of male and female, 2009	0.77	0.75	0.97	0.87	1.13	0.8	1.04	0.77	1.00	0.8	1.04	0.82	1.06	0.7	0.91
Health Care - Quality - People with unmet needs (expense, distance, waiting list), total, 2009	3.1	0.5	6.20	10.4	0.30	0.6	5.17	2.1	1.48	7.7	0.4	8.8	0.35	1.7	1.82
Health Care - Quality - Serious Accidents at work per 100,000 inhabitants, 2006	76	72	1.06	58	1.31	78	0.97	74	1.03	88	0.86	94	0.81	64	1.19
Health Care - Quality - People with long standing illness or health problem, % population, 2009	31.2	31.7	0.98	21.4	1.46	29.8	1.05	36	0.87	32.6	0.96	19.5	1.6	29.3	1.06
Health Care - Efficiency - Health care expenditure, per capita, euro	2215.57	3518	0.63	na	na	1078	2.06	691	3.21	599	3.7	310	7.15	1061	2.09
Health Care - Efficiency - Doctors per thousand inhabitants, 2009	2.66	4.66	0.57	3.68	0.72	3.56	0.75	3.03	0.88	2.17	1.23	2.26	1.18	3	0.89
Health Care - Efficiency - Hospital beds per thousand inhabitants, 2009	5.5	7.63	0.72	6.58	0.84	7.11	0.77	7.16	0.77	6.64	0.83	6.61	0.83	6.53	0.84
Health Care - Efficiency - Hospital beds per doctor, 2009	2.06	1.64	0.80	1.79	0.87	2	0.97	2.36	1.15	3.06	1.49	2.93	1.42	2.18	1.06
Health Care - Efficiency - Hospital patients per bed, 2009	38	36	0.95	39	1.03	29	0.76	28	0.74	24	0.63	38	1	29	1.31
Health Care - Efficiency - Hospital Days per in-patient, 2009	6.71	8.76	0.77	6.5	1.03	10.15	0.66	6.44	1.04	7.72	0.87	7.6	0.88	7.66	0.88
Health Care - Efficiency - Hospital out-patient cases per thousand inhabitants, 2009	214.07	54.79	0.26	na	na	4.39	0.02	12.03	0.06	38.68	0.18	43.34	0.2	na	na
Health Care - Efficiency - Thousand Inhabitants per technical unit (radiation, mammography, catscan, angiography), average, 2008	174	116	0.67	90	0.52	101	0.58	203	1.17	174	1	381	2.19	87	0.5

Human Resources Health Care subsum		7.96		1.02		2.63		2.06		1.40		1.05		1.32
Human Resources Health Care subscore		1.33		0.17		0.44		0.34		0.23		0.17		0.22

Volatility Assessment	Austria	Bulgaria	Czech Repub.	Hungary	Poland	Romania	Slovakia
Advantages (score of 1.15 or more)	7	2	3	4	3	5	5
Neutral (score between .85 and 1.15)	16	11	9	13	16	8	11
Disadvantages (score below.85)	9	15	18	15	13	17	15

Survey

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

	1 (worst)	2	3	4	5	6	7	8	9	10 (best)	Rating Average
Skilled Labor	0.0%	4.6%	7.4%	9.7%	14.3%	16.0%	25.1%	10.9%	12.0%	0.0%	6.09
Linguistic ability	0.0%	1.1%	3.4%	4.0%	6.9%	9.1%	22.3%	28.0%	16.6%	8.6%	7.33
Professional Service and Admin	0.6%	4.0%	7.5%	11.5%	14.9%	18.4%	18.4%	15.5%	8.0%	1.1%	5.99
Degrees in Finance	0.6%	2.3%	4.0%	7.4%	9.1%	14.9%	23.4%	22.3%	14.3%	1.7%	6.70
Marketing and Sales	1.1%	2.9%	1.7%	6.9%	8.6%	20.6%	17.1%	23.4%	14.3%	3.4%	6.76
Advanced Degrees in Science and Math	0.0%	1.2%	3.5%	7.6%	14.0%	10.5%	17.5%	21.1%	18.7%	5.8%	6.95
Internationally experienced management	1.7%	7.4%	12.0%	13.1%	15.4%	16.0%	18.9%	12.6%	2.3%	0.6%	5.37

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

	1 (worst)	2	3	4	5	6	7	8	9	10 (best)	Rating Average
Education	0.6%	3.4%	6.9%	9.7%	12.0%	17.1%	23.4%	16.6%	8.6%	1.7%	6.21
Creativity	0.6%	3.4%	6.3%	8.6%	12.1%	15.5%	19.0%	17.2%	13.2%	4.0%	6.44
Self-Motivation	2.3%	3.4%	13.2%	12.6%	17.8%	16.7%	19.0%	8.0%	4.6%	2.3%	5.50
Discipline	2.3%	7.4%	13.1%	14.9%	16.6%	23.4%	13.7%	5.1%	2.9%	0.6%	5.08
Accountability	1.7%	5.2%	16.1%	10.9%	17.2%	18.4%	14.4%	9.8%	6.3%	0.0%	5.36
Decision-making	2.9%	6.9%	9.2%	12.6%	23.0%	13.8%	19.5%	9.8%	2.3%	0.0%	5.28

On a scale of 1 (worst) to 10 (best), how effectively does the government set the direction and fund innovative research that has commercial potential?

	1 (worst)	2	3	4	5	6	7	8	9	10 (best)	Rating Average
Innovative research with commercial potential	21.5%	20.3%	19.2%	18.6%	10.5%	7.6%	1.2%	1.2%	0.0%	0.0%	3.09

On a scale of 1 (worst) to 10 (best), how competitive / well-trained would you rate Romanian university graduates employed by your company relative to graduates in other european countries?

	1 (worst)	2	3	4	5	6	7	8	9	10 (best)	Rating Average
Competitiveness of Romanian university graduates	0.0%	6.3%	9.4%	9.4%	15.6%	16.3%	20.0%	17.5%	5.0%	0.6%	5.85



Fiscal & Monetary Policy

Despite significant effort to implement austerity measures in order to keep under control the budgetary deficit, the debt to GDP level rose sharply in the past 3 years from 13% in 2008 to 31% in 2010 (European standards). While such evolutions are normal in a crisis period in the context of counter-cyclical fiscal policy, credit squeeze, on the background of the financial crisis, increased the cost of both public and private borrowing.

While recognizing virtues of agreements with international institutions for the stability of public finances, budgetary policy should increase the quality of public spending, especially by prioritizing public investment expenditure based on cost/benefit analysis and ensure multi-annual financing of growth, enabling investment projects especially in the context of higher credit cost due to stricter capital requirements in the financial sector.

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Financial and Monetary Sum		10.83		8.54		6.44		3.05		3.35		3.05		9.66
Financial and Monetary Score		2.17		1.71		1.29		0.61		0.67		0.61		1.93

Fiscal & Monetary Policy	EU27	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)
Yield 10 Year Government Bond, September 2011	4.92	2.64	1.86	5.3	0.93	3	1.64	7.64	0.64	5.74	0.86	7.43	0.66	4.25	1.16
Day to Day Money Market Rates, 09/2011	1.01	0.18	5.61	0.2	5.05	0.72	1.40	4.88	0.21	3.08	0.33	4.63	0.22	0.18	5.61
3 month interest rate, 09/2011	1.54	1.49	1.03	3.57	0.43	1.17	1.32	6.19	0.25	4.75	0.32	5.77	0.27	1.49	1.03
Credit Depth of Information Index, 2010	4.6	6	1.30	6	1.30	5	1.09	5	1.09	4	0.87	5	1.09	4	0.87
HICP/Harmonized Indices of Consumer Prices, 09/2011, (2005=100)	115.97	114.12	1.02	141.2	0.82	116.2	1.00	134.66	0.86	119.9	0.97	142.34	0.81	117.17	0.99

Volatility Assessment	Austria	Bulgaria	Czech Repub.	Hungary	Poland	Romania	Slovakia
Advantages (score of 1.15 or more)	3	2	3	0	0	0	2
Neutral (score between .85 and 1.15)	2	1	2	2	3	1	3
Disadvantages (score below .85)	0	2	0	3	2	4	0

Survey

On a scale of 1 (worst) to 10 (best), how effectively does the government manage:

	1 (worst)	2	3	4	5	6	7	8	9	10 (best)	Rating Average
Collection of Revenue	12.6%	12.6%	19.4%	16.6%	16.6%	11.4%	6.3%	2.9%	1.7%	0.0%	3.96
Issuance and Payment of Debt	11.5%	16.7%	19.5%	16.7%	14.9%	8.6%	9.2%	2.3%	0.6%	0.0%	3.84
Inflation	5.2%	4.0%	9.8%	12.1%	15.5%	18.4%	18.4%	11.5%	5.2%	0.0%	5.46
Interest Rates	4.6%	8.0%	13.2%	9.8%	16.1%	17.8%	16.1%	10.9%	2.9%	0.6%	5.18

Policy Learning Points

- Improve the structure and efficiency of government expenditures. Budgetary policy should prioritize long term „growth-enhancing items“, mainly in the areas of education and healthcare, R&D and innovation, as well as investment in networks, including high-speed Internet, energy and transport interconnections, these also being the key areas of the „Europe 2020“ strategy. Prioritize public investment expenditures based on a cost/benefit analysis and ensure multi-annual budgeting.
- Reform deeply the tax administration, modernize and simplify tax collection, reduce tax evasion and reduce the taxpayer compliance burden. Reform ANAF and establish an economically efficient public revenue collection system that facilitates private sector development.
- Stimulate lending in local currency and the development of a local currency debt market. Prompt long-term saving behavior of population by encouraging the participation to private pension funds, private healthcare insurance plans, stimulating the activity of the saving - lending banks (*bausparkasse*).
- 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. The main channel for developing the capital market should be the listing on the stock exchange of state owned companies as part of the privatization process (see the positive example of Poland).

Executive Survey

While the statistical analysis presented above gives us a strong sense of what the hard numbers say about Romania's competitive profile and which are the country's competitive strengths and disadvantages, the CEO opinion survey is an equally valuable tool in highlighting the perception on the Romanian economy, public administration and business environment of over 200 business leaders whose companies operate in Romania.

The government received fairly low marks in the various areas of economic policy. On a scale of 1 (worst) to 10 (best), the government received an average score of 3.83 on the legislative and regulatory environment, 3.08 for public administration, 2.95 for physical infrastructure development, 4.09 for human resources and 4.54 for fiscal and monetary policy. While these ratings might be somewhat surprising, they are by and large in line with the statistical indicators analyzed previously, which indicate Romania needs considerable improvements in virtually all of these areas. In terms of the legislative and regulatory framework, the government received scores ranging from a minimum average rating of 4.53 for environmental protection, to a maximum average rating of 5.50 for labor relations. Compared to other European countries, public administration in Romania has received an average score of 3.19.

Romania's physical infrastructure has also received a wide range of scores, from a low of 3.07 for transportation infrastructure and 3.27 for healthcare to a high of 6.52 for commercial space and 7.58 for communications and IT.

As for human resources, this category has generally received high praise from the CEOs. The average ratings range from 5.37 for internationally experienced management, 5.99 for professional service and admin to 6.95 for advanced degrees in science and math, and 7.33 for linguistic ability.

Similarly, the qualities of the workforce receiving the highest marks include creativity and education, whereas discipline and decision-making are perceived as particularly problematic.

On a different note, the CEOs opinions confirm the lack of competitiveness that characterizes Romanian on the R&D and innovation front. Indeed, the average rating for government effectiveness in setting the direction of and funding innovative research that has commercial potential is a paltry 3.09.

Despite these critical evaluations of the government's performance in a number of areas, over 57% of the CEOs surveyed have indicated their company will increase capital investment in Romania by either up to 50% or more over the next five years. Similarly, approximately 64% of respondents have mentioned their average number of employees in Romania will increase by either up to 50% or more. Most of these decisions seem to be motivated by local demand for their products or services and local business environment. Last, but not least, almost 62% of the CEOs surveyed have indicated their company's investment in Romania has met expectations and 19.9% have indicated it has actually surpassed expectations.



1. Business Confidence

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

Increase by 50% or more.	22.2%
Increase by up to 50%.	35.76%
Stay essentially the same.	38.4%
Decrease by up to 50%	3.2%
Decrease by 50% or more.	0.5%
Decrease to zero.	1.1%

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

Increase by 50% or more.	21.5%
Increase by up to 50%.	42.5%
Stay essentially the same.	30.6%
Decrease by up to 50%	5.9%
Decrease by 50% or more.	0.0%
Decrease to zero.	0.0%

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

Global or Regional (external) demand for your product or services	27.0%
Local demand for your product or services	63.8%
Competitive changes within your industry	35.7%
Local business environment	48.1%

4. Is your company's investment in Romania considered to have

Been an unqualified success	1.6%
Surpassed expectations	19.9%
Met expectations	61.8%
Fallen below expectations	17.2%
Been a mistake.	0.0%

5. If you personally were going to pursue another opportunity, do you think that the local market

Provides numerous possibilities for similar managerial and entrepreneurial activities	19.9%
Provides some possibilities for similar managerial and entrepreneurial activities	65.1%
Lacks realistic possibilities for similar managerial and entrepreneurial activities	15.1%

2. Policy Confidence

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?

	1 (worst)	2	3	4	5	6	7	8	9	10 (best)	Rating Average
Legislative and Regulatory Environment	8.4%	18.4%	18.4%	20.7%	16.8%	8.9%	5.0%	2.8%	0.6%	0.0%	3.83
Public Administration (cost vs. effectiveness)	16.3%	28.7%	22.5%	11.2%	10.7%	7.9%	1.7%	0.6%	0.6%	0.0%	3.08
Physical infrastructure development	20.8%	28.1%	18.5%	11.8%	12.9%	5.6%	1.7%	0.0%	0.6%	0.0%	2.95
Human Resources	9.7%	15.9%	22.2%	14.8%	13.6%	8.0%	5.7%	6.8%	2.8%	0.6%	4.09
Fiscal/ Monetary Policy	5.1%	15.7%	14.6%	14.6%	19.1%	8.4%	13.5%	6.2%	2.8%	0.0%	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?

	1 (worst)	2	3	4	5	6	7	8	9	10 (best)	Rating Average
Company formation	2.8%	6.8%	11.3%	14.1%	15.3%	15.8%	16.4%	12.4%	5.1%	0.0%	5.38
Competition	6.2%	3.4%	14.1%	15.3%	16.4%	13.6%	16.9%	7.9%	4.5%	1.7%	5.19
Intellectual Property	3.4%	6.8%	13.1%	12.5%	20.5%	14.8%	13.1%	11.4%	2.3%	2.3%	5.23
Consumer Rights	1.7%	5.1%	14.1%	10.7%	19.8%	15.8%	15.8%	10.2%	5.1%	1.7%	5.46
Contractual Relations	3.4%	7.4%	12.5%	10.2%	17.0%	14.8%	20.5%	11.4%	2.8%	0.0%	5.30
Labor Relations	1.7%	6.8%	8.5%	13.6%	18.1%	18.1%	16.4%	13.0%	2.3%	1.7%	5.50
Product Liability	2.8%	3.4%	11.4%	12.5%	25.0%	16.5%	15.9%	8.5%	3.4%	0.6%	5.34
Enviromental Protection	5.6%	14.7%	14.7%	12.4%	20.9%	14.1%	7.3%	9.0%	0.6%	0.6%	4.53

In comparison with other European countries, on a scale of 1 (worst) to 10 (best), how would you rate the public administration of the country?

	1 (worst)	2	3	4	5	6	7	8	9	10 (best)	Rating Average
Public Administration in Romania	15.3%	24.9%	20.3%	17.5%	12.4%	6.8%	2.3%	0.6%	0.0%	0.0%	3.19

On a scale of 1 (worst) to 10 (best), how would you rate the country's physical infrastructure:

	1 (worst)	2	3	4	5	6	7	8	9	10 (best)	Rating Average
Transport	19.9%	24.4%	21.6%	13.1%	9.7%	6.8%	4.0%	0.6%	0.0%	0.0%	3.07
Energy	1.7%	4.5%	15.3%	17.6%	15.3%	17.6%	17.6%	8.5%	1.7%	0.0%	5.16
Industrial sites	3.4%	6.9%	14.9%	18.3%	21.1%	14.9%	16.0%	3.4%	1.1%	0.0%	4.79
Commercial space	1.1%	1.1%	3.4%	6.8%	15.9%	17.6%	20.5%	22.2%	8.5%	2.8%	6.52
Housing	0.6%	4.5%	6.8%	12.5%	19.3%	22.2%	18.8%	11.4%	2.8%	1.1%	5.69
Health Care	15.4%	22.9%	21.7%	17.1%	11.4%	6.3%	4.0%	0.6%	0.6%	0.0%	3.27
Water	3.4%	6.9%	11.4%	11.4%	14.3%	18.9%	15.4%	11.4%	6.3%	0.6%	5.43
Communications/ICT	0.0%	0.6%	2.3%	4.0%	4.0%	12.1%	17.9%	24.9%	24.3%	9.8%	7.58

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

	1 (worst)	2	3	4	5	6	7	8	9	10 (best)	Rating Average
Skilled Labor	0.0%	4.6%	7.4%	9.7%	14.3%	16.0%	25.1%	10.9%	12.0%	0.0%	6.09
Linguistic ability	0.0%	1.1%	3.4%	4.0%	6.9%	9.1%	22.3%	28.0%	16.6%	8.6%	7.33
Professional Service and Admin	0.6%	4.0%	7.5%	11.5%	14.9%	18.4%	18.4%	15.5%	8.0%	1.1%	5.99
Degrees in Finance	0.6%	2.3%	4.0%	7.4%	9.1%	14.9%	23.4%	22.3%	14.3%	1.7%	6.70
Marketing and Sales	1.1%	2.9%	1.7%	6.9%	8.6%	20.6%	17.1%	23.4%	14.3%	3.4%	6.76
Advanced Degrees in Science and Math	0.0%	1.2%	3.5%	7.6%	14.0%	10.5%	17.5%	21.1%	18.7%	5.8%	6.95
Internationally experienced management	1.7%	7.4%	12.0%	13.1%	15.4%	16.0%	18.9%	12.6%	2.3%	0.6%	5.37

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

	1 (worst)	2	3	4	5	6	7	8	9	10 (best)	Rating Average
Education	0.6%	3.4%	6.9%	9.7%	12.0%	17.1%	23.4%	16.6%	8.6%	1.7%	6.21
Creativity	0.6%	3.4%	6.3%	8.6%	12.1%	15.5%	19.0%	17.2%	13.2%	4.0%	6.44
Self-Motivation	2.3%	3.4%	13.2%	12.6%	17.8%	16.7%	19.0%	8.0%	4.6%	2.3%	5.50
Discipline	2.3%	7.4%	13.1%	14.9%	16.6%	23.4%	13.7%	5.1%	2.9%	0.6%	5.08
Accountability	1.7%	5.2%	16.1%	10.9%	17.2%	18.4%	14.4%	9.8%	6.3%	0.0%	5.36
Decision-making	2.9%	6.9%	9.2%	12.6%	23.0%	13.8%	19.5%	9.8%	2.3%	0.0%	5.28

On a scale of 1 (worst) to 10 (best), how effectively does the government set the direction and fund innovative research that has commercial potential?

	1 (worst)	2	3	4	5	6	7	8	9	10 (best)	Rating Average
Innovative research with commercial potential	21.5%	20.3%	19.2%	18.6%	10.5%	7.6%	1.2%	1.2%	0.0%	0.0%	3.09

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

	1 (worst)	2	3	4	5	6	7	8	9	10 (best)	Rating Average
Collection of Revenue	12.6%	12.6%	19.4%	16.6%	16.6%	11.4%	6.3%	2.9%	1.7%	0.0%	3.96
Issuance and Payment of Debt	11.5%	16.7%	19.5%	16.7%	14.9%	8.6%	9.2%	2.3%	0.6%	0.0%	3.84
Inflation	5.2%	4.0%	9.8%	12.1%	15.5%	18.4%	18.4%	11.5%	5.2%	0.0%	5.46
Interest Rates	4.6%	8.0%	13.2%	9.8%	16.1%	17.8%	16.1%	10.9%	2.9%	0.6%	5.18

On a scale of 1 (worst) to 10 (best), how competitive/well-trained are Romanian graduates employed by your company relative to graduates from other European countries?

	1 (worst)	2	3	4	5	6	7	8	9	10 (best)	Rating Average
Competitiveness of Romanian university graduates	0.0%	6.3%	9.4%	9.4%	15.6%	16.3%	20.0%	17.5%	5.0%	0.6%	5.85

Romania Specific Section - Open Questions (summary)

Competitive advantages

- Market size - Romania being the 7th in size within EU - and strategic geopolitical location;
- Labor force: relatively low cost due to low salaries, available multilingual, creative, talented, flexible workforce, available technical and sector-specific skills;
- Availability of national natural resources;
- Romania's E.U. membership;
- Opportunity for large infrastructure projects/investments - water supplies, sewage systems, roads, railways, underground transportation networks, etc;
- Flat tax;
- Friendly, welcoming culture and mentality.

Constraints

- Lack of long-term national and sectoral strategies leading to lack of predictability;
- Legislative and regulatory framework: lack of predictability and stability. Characterized by incoherency and ambiguity. Overlapping pieces of legislation;
- Corruption and lack of competent personnel in public administration;
- Increased bureaucracy in: setting up a business, closing a business, obtaining construction permits, registering property;
- Poor transport infrastructure and insufficient electricity distribution network;
- Failure to access available EU funds compared with other EU states;
- Inefficient judicial system;
- High taxation levels, unstable fiscal framework;
- Unfair competition due to lack of tax compliance and tax evasion;
- Political interference over economic decisions;
- Strong unions movement;
- Few fiscal facilities for start-ups and SMEs.

Good measures adopted by the government in the last 2 years

- The adoption of the new Labor Code with the aim to foster flexibility in relations between employers and employees and to stimulate competitiveness;
- The reduction in public spending;
- „Prima Casa” project;
- The decision to cut by 25% of wages for government/state employees and decrease the number of state employees;
- Signing the agreements with the IMF – EC;
- Starting the education reform;
- Simplification of small business tax returns system;
- Maintaining the income tax exemption for software engineers;
- Stabilization of local currency.

Policy measures to be taken

- Transparently adopt and implement long-term strategies to ensure predictability;
- Modernize tax administration and increase capacity to collect state budget revenues; adopt long-term, stable policies in the area of taxation;
- Enforce multiannual budgeting;
- Make education a high priority, as it is critical for equipping future generations;
- Improve transport infrastructure strategy and implement it;
- Adopt stable and clear rules regarding authorizing and permitting procedures in all sectors ;
- Take viable measures to fight corruption in the public administration and address political parties' sponsorship issue as this is a major source of corruption;
- Drastically improve the tendering system and increase transparency in the execution of public contracts;
- Reduce bureaucracy and use IT infrastructure in public services and administration;
- Reform the administration and the judicial system;
- Increase the absorption of EU Funds;
- Provide long term support to capital markets;
- Adopt a functional public-private partnership legislation;
- Increase GDP % allocation for health and introduce additional funding through private health insurances;
- Adopt and implement consistent energy strategy and policies;
- Ensure better coordination of the public agencies to better serve the administrative needs of individuals and businesses.

Useful links:

Eurostat	epp.eurostat.ec.europa.eu
OECD	www.oecd.org
World Bank	www.doingbusiness.org
European Central Bank	www.ecb.int
IMF	www.imf.org
US Bureau of Economic Analysis	www.bea.gov
European Travel Commission	www.etc-corporate.org
Austrian Statistical Office	www.statistik.at
Austrian Central Bank	www.oenb.at
Vienna Convention Bureau	www.vienna.convention.at
Bulgarian Statistical Office	www.nsi.bg
Bulgarian National Bank	www.bnb.bg
Czech Statistical Office	www.czso.cz
Czech National Bank	www.cnb.cz
Hungarian Statistical Office	www.ksh.hu
Hungarian National Bank	www.mnb.hu
Polish Statistical Office	www.stat.gov.pl
Polish National Bank	www.nbp.pl
Polish Convention Bureau	www.poland-convention.pl
Romanian Statistical Office	www.insse.ro
Romanian National Bank	www.bnr.ro
Romanian Council for Competitiveness	www.conaco.ro
Slovak Statistical Office	portal.statistics.sk
Slovak National Bank	www.nbs.sk

Advisors on Legal Framework:

AKD Prinsen Van Wijmen B.V.B.A., Bruxelles | www.akd.eu
Allen & Overy (Czech Republic) LLP, organizační složka | www.allenoverly.com
Becker & Poliakoff, Czech Republic | www.becker-poliakoff.cz
Bohumil Havel, Právnická fakulta ZČU v Plzni
bpv Braun Haškovcová s.r.o., Czech Republic | www.bpv-bh.com
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