Doing Business in Romania

2014

by

FRD - Factor Regional Development Center
About FRD Center

- One of the pioneer private Market Entry consulting firms in Romania, operating in the current formula since 2000

- Services provided include:
  - Market research
  - Business matchmaking
  - Market opportunities assessment
  - Liaison with authorities
  - Product introduction and market development
  - M&A advisory and support

- Clients are Governmental agencies, Foreign embassies, Private companies, SMEs, Professional associations, Chambers of commerce from Ireland, Spain, Canada, Poland, The Netherlands, UK, USA, Israel, India, China, Denmark, South Africa etc.
Romania at a glance
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<table>
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<tbody>
<tr>
<td><strong>Area</strong></td>
<td>238,391 km² (land: 229,891 km²)</td>
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<tr>
<td><strong>Population</strong></td>
<td>21,729,871 (July 2014 est.)</td>
</tr>
<tr>
<td><strong>Real GDP growth rate</strong></td>
<td>3.5 in 2013; 2.5% in 2014 (est.)</td>
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<tr>
<td><strong>University degrees</strong></td>
<td>approx. 20% of population</td>
</tr>
<tr>
<td><strong>Native language</strong></td>
<td>Romanian</td>
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<tr>
<td><strong>Foreign languages</strong></td>
<td>English, German, French, Spanish, Italian etc.</td>
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<tr>
<td></td>
<td>spoken in business</td>
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<td><strong>Religion</strong></td>
<td>86.8% Eastern Orthodox</td>
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<td><strong>Government</strong></td>
<td>Parliamentary democracy</td>
</tr>
<tr>
<td><strong>Currency</strong></td>
<td>1 EUR = 4.5 RON</td>
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<td>(on January 07, 2014)</td>
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<td><strong>Main memberships</strong></td>
<td>European Union (2007)</td>
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<td>NATO (2004)</td>
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General – Location and access

- Romania is located in SE Europe bordering Hungary, Serbia, Bulgaria, Rep. of Moldova and Ukraine
- It has maritime ports to the Black Sea and river ports to the Danube
- A man-made canal connects the Danube with the Black Sea
- Its rails network counts 10,627 kms
- The road infrastructure consists of 530 kms of motorways and over 16.887 kms of national roads
- Main international airport is next to Bucharest, others in Central, NE and SE Romania
General – population

- Romania numbers almost 22 million inhabitants out of which 52.8% is urban population

- Main ethnic minorities are: Hungarians (6.5%) followed by Germans, Ukrainians, Turks, Rroma, Bulgarians etc.

- Bucharest, the capital, numbers approx. 2 million citizens. There are 10 cities with over 200,000 inhabitants of which 4 with over 300,000 residents

- The administrative territory of Romania is divided into “judete” (counties). Romania has 41 counties and the Bucharest municipality

- Romania has eight development regions: North-East, North-West, Centre, South-East, South Muntenia, South-West Oltenia, West and Bucharest-Ilfov
Employment

- In Q4 of 2013, the employment rate for working age population (15-64 years) was of 59.5%

- In Q4 of 2013, the economically active population of Romania was of 9.91 million persons, out of which 9.19 million employed persons and 718,000 unemployed persons

- Unemployment rate rose to 7.2% in Q4 of 2013 from 6.9% a year earlier

- The unemployment rate reached the highest level (24.3%) among young persons (15-24 years)

- In December 2013, the average gross nominal earnings were 2430 RON (540 EUR)
Currency

- The national currency is the Leu (pl. Lei) with the subdivision Ban (pl. Bani)
- In economic and business circles the currency is generally referred to as the RON (New Leu) to distinguish from the ROL (Old Leu) which functioned until July 2005, when a denomination was performed and four zeroes were eliminated from the old currency
- The current approx. exchange rate is 1 EUR = 4.5 RON
- The average official rates in 2013:
  - 1 EUR = 4.4 RON
  - 1 USD = 3.3 RON
- The RON/EUR exchange rate has been fairly stable since 2011, with small variations
- In 2014, Romania meets all the euro convergence criteria and sets 2019 as a self-imposed deadline for the euro adoption
Macroeconomic data

- In 2013 Romania registered the highest real GDP growth rate in the EU countries: 3.5%. The forecasted real GDP growth rate for 2014 is 2.3%

- Starting with 2010, the inflation rate in Romania has been on a declining trend. The inflation rate reached 1.55% in 2013, the country’s lowest rate since 1990. The annual average inflation is forecasted to record 2.4% in 2014

- The GDP in 2012 was estimated at 138 bn EUR (source: World Bank)

- The estimated GDP for Q4 2013 is 164537.9 mil RON (~37 bn EUR). According to a study by AT Kearney, Romania’s shadow economy represented 28.4% of the GDP in 2013

- Romania ended the year 2013 with a budget deficit of 2.5% of the GDP
Investment

- Compared to 2012, the net investments in the national economy decreased by 9.3% in 2013. In 2012, as against 2011, the investments in the national economy increased by 12.3%.

- Net FDI flow in 2012 stood at EUR 2,138 million, out of which:
  - Foreign direct investors’ net equity stakes in FDI enterprises in Romania worth EUR 795 million (37.2% of net FDI flow)
  - Net credit of direct investment enterprises from foreign direct investors: EUR 1,343 million (62.8%)

- At the end of December 2013, there were 192,416 companies registered in Romania with foreign participation in social capital, total foreign investment amounting to EUR 37.7 billion.

- Romania’s rate of absorption of EU structural and cohesion funds was 29.87% at the end of 2013. For the period 2014-2020 some 39 bn EUR are allocated for Romania, out of which 21.8 bn EUR are funds generated by the cohesion policy.
Trade

- Starting with 2007, Romania has become a member of the European Union. As a result, intra-communitarian movement of goods is free. More information is available on the web site of the Romanian National Customs Authority (www.customs.ro)

- According to the World Bank Doing Business rating for ease of doing business, Romania is ranked 73 worldwide, compared to the Europe & Central Asia regional average of 71 and a 75 of the Czech Republic

- Globally, Romania stands at 52 in the ranking of 189 economies on the strength of investor protection index
International trade

- The Romanian FOB exports in the first eleven months of 2013 recorded 45,705.6 million EUR, up by 9% compared to the similar period of 2012.

- The CIF imports in the first eleven months of 2013 in Romania recorded 50,913 million EUR and this represents an increase by 0.5% compared to the similar period of 2012.

- The FOB-CIF trade deficit in the first eleven months of 2013 in Romania recorded 5,207.4 million EUR.

- European Commission reaffirmed that Romania has met all the necessary criteria and is ready to join the Schengen Agreement as soon as possible. More details at http://www.schengen.mai.gov.ro/English/index.htm
Transportation infrastructure

- Main international airport is in Bucharest. There are 14 other airports in Romania, most of them international, in cities such as: Timisoara, Arad, Oradea, Cluj, Targu Mures, Sibiu, Satu Mare, Iasi, Craiova, Constanta

- The Romanian road system is fairly undeveloped, with a very limited highway network, but new highways are currently under construction and existing national roads are being upgraded

- The railways network counts 10,627 kms, the majority undergoing significant modernization projects

- The biggest port in Romania and in the entire Black Sea region is Constanta. It can host vessels of over 150,000 tones. Mangalia and Sulina are free ports. There are also several river ports on the Danube. Braila, Galati and Tulcea are both sea and river ports
Taxation

- In Romania corporate tax is 16% (flat), individual tax is 16% (flat), payroll tax is approx. 45% and VAT is typically 24% (lower VAT rate applies for medicines, books, newspapers, hotel etc.)

- Romania made paying taxes easier for companies by introducing an electronic payment system and a unified return for social security contributions. It also abolished the annual minimum tax.

- Foreign legal entities that obtain income from immovable property (sale, lease) located in Romania or from the sale - assignment of participation titles in a Romanian legal entity are required to pay 16% profit tax

- Relief from double taxation for resident taxpayers may be provided by way of a tax treaty. Romania has concluded Double Taxation Avoidance Treaties with more than 80 countries around the world
Legal

- Romania has a civil law system, based on French, Belgian, Italian and German models.
- The principles, the structure and the manner of organization of the Romanian judiciary are established by the Romanian Constitution and Law no.304/2004 regarding the judicial organization, republished. Justice is made in the name of law and is accomplished through the following courts:
  1. High Court of Cassation and Justice
  2. Courts of Appeal
  3. Tribunals, specialized tribunals
  4. Military courts
  5. First instance courts
- The tribunals are organized at every county level and in Bucharest and have the premises in the county residence city.
- In Romania hand-shake type of agreements are not to be counted upon. Written formalities are a must.
Cultural aspects

- Though they may appear abrupt or unreceptive at first, Romanians on the whole are considered among the friendliest and most hospitable people in Europe, with big hearts, a unique sense of humour and a strong cultural heritage.
- Families are patriarchal. The father is the head of the family. Romanians expect the most senior person, by age or position, to make decisions that are in the best interest of the group.
- Over 80% of the population is declared as Christian Orthodox – many are active practicants and observe Lent, especially before Easter and Christmas.
- In regards to communication, eye contact can be very direct and is a sign of respect. Looking away will be interpreted either as lack of interest or rudeness.
- In professional context, communication is rather formal and on a Mr / Mrs and last-name basis.
Main sector highlights
Banking

- The banking sector of Romania finances mainly the Romanian economy, providing about 92% of the total financing granted by the Romanian financial system.
- At the end of December 2012, 40 banks were operating in Romania.
- The banking sector’s assets stood at €83 billion, their weight against the Gross Domestic Product (GDP) amounting to 62%.
- The structure of the Romanian banking sector at the end of 2012 included:
  - 2 banks with fully or majority state-owned capital
  - 3 banking institutions with majority domestic private capital
  - 26 banks with majority foreign capital
  - 8 branches of foreign banks
  - 1 credit cooperative
Agriculture

● The agricultural land represents 37.73% of the total land in Romania (some 14.7 mil ha)

● The country has some 3.9 million agricultural holdings, representing 32% of the total number of farms in the EU-27. The average surface of an agricultural holding in Romania is 3.4 hectares

● Out of the agricultural surface, 64.1% is arable land, 22.5% pastures, 10.7% hayfields and 2.7% vineyards and orchards

● The contribution of agriculture, forestry and fishing to the nominal value of the GDP in Romania was approximately 5% in 2012
Agriculture (cont.)

- In 2013, record levels of cereal production have been registered. The domestic production of wheat and rye totalled 7.3 million tonnes, the highest level in the last eight years and the second highest in the last 43 years.

- Compared to 2012, the production of wheat and rye in 2013 increased by 37%. Furthermore, the domestic production of barley recorded 1.5 million tonnes in 2013, the highest level in the last 23 years.

- Livestock of cattle - over 2 million heads in June 2013
- Pigs population – over 4.5 million heads in May 2013
- Sheep population – over 8.8 million heads in 2012
Industrial sector

- The contribution of Industry to the value of the GDP in Romania was approximately 30% in 2013.
- Industrial output increased with 7.1% in 2013 compared to 2012.
- In 2013, the industrial sector received 41.7% of the total net investments in the Romanian economy.
- In 2012, industry benefited by a EUR 1,828 million-worth of net FDI flow (accounting for 85.5% of the 2012 net FDI flow).
- New industrial orders increased in the first 11 months on 2013 with 7.6% compared with the similar period of 2012.
- Some of the main industrial sectors in Romania are represented by automotive manufacturing, oil & gas, metal works, IT&C, chemicals, food production, textiles, furniture, paper and plastic.
Doing business
Business vehicles

- Limited liability companies (SRL) and joint stock companies (SA) are the most common types of companies.

- Individuals and legal entities may freely enter into partnerships and set up companies to develop business activities.

- According to the Company Law (Law 31/1990, as republished and subsequently amended) there are five types of companies: Limited liability company (SRL), Joint stock company (SA), General partnership (SNC), Limited partnership (SCS) and Limited partnership by shares (SCA).
Company registration

- The registration procedure has been simplified during the past 10 years (Law no. 359/2004)

- For example, setting up a company that just has standard office activities can take under 10 days and cost a few hundred EUR

- All companies must be registered with the Romanian Trade Registry Office (which offers a “one-stop” company registration office) and they acquire a legal status as from their registration date and obtain a registration certificate and a unique CUI code (tax identification number)

- Except for special activities, it is fairly cheap and fast to obtain all necessary authorizations and permits to register a company and start activity (e.g., permits for health and safety conditions, environmental compliance, work protection, sanitary-veterinary conditions etc.)
Company reporting

- All types of companies must file financial statements and other statements, with the relevant authority, on paper or in electronic format, on a monthly / quarterly / yearly basis, depending on the type of statement.

- Romanian companies listed in an EU/EEA securities market follow IFRSs since 2005.

- The accounting framework in Romania is governed by the following main laws:
  - Accounting Law 82 / 1991 (revised)
  - Order of Ministry of Public Finance 907/27.05.2005
  - Order of Ministry of Public Finance 1752 /17.11.2005
  - Order of Ministry of Public Finance 2001/22.11.2006
  - Order of Ministry of Public Finance 1121/4.07.2006
Foreign companies

- The most common forms of business vehicle used by local and foreign companies are private Joint Stock companies (SA) and Limited Liability companies (SRL). Listed companies can only take the form of Joint Stock companies.

- According to Decree-Law 122/1990, foreign companies may set up representative offices in Romania. A Representative Office is not distinct from the parent company it represents, but rather acts in the parent company's name and on its behalf with a specific mandate to do so.

- Companies, irrespective of type, are managed by one or several directors. There are no special requirements with respect to the citizenship of a company's directors.
Branches and Subsidiaries of Foreign Companies

- A foreign company may do business in Romania, among other, through either a subsidiary or a branch.

- While a subsidiary has a legal status and is considered as a Romanian entity, the branch is just an extension of the parent company and therefore has no legal status and no financial independence.

- The new Romanian Civil Code approved under Law no. 71/2011, in line with generally accepted international practice, states that a corporation is governed by its incorporation law. Therefore, in Romania, a branch of a foreign company is subject to the national law of the parent company.
Summary of main taxes

- Standard Corporate Tax: fixed rate of 16%
- Tax for nightclubs and gambling operations: 5% of total revenue, or 16% of profit, whichever is higher
- Tax on micro-enterprises (turnover < EUR 100,000): 3% of the turnover
- Tax for representative offices: annual flat tax of EUR 4,000
- Standard Individual Tax: flat rate of 16%
- Social Security Contributions – of various types, paid both by Employer and by Employee
- Standard Withholding Tax: 16%
- Tax on capital gains from transfers of securities: 16%
- Standard VAT rate: 24%
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- Standard VAT rate: 24%
Corporate taxpayers

The following entities are subject to corporate tax in Romania:

- Romanian companies
- Foreign companies which have a permanent establishment in Romania
- Foreign companies or individuals which carry out activities in Romania through partnerships or associations that do not qualify as a Romanian legal entity
- Foreign companies which realize income in connection with immovable property located in Romania or from the sale of shares in Romanian companies
- Public institutions on income derived from economic activities
- NGOs on income derived from economic activities exceeding EUR 15,000 in one year
Individual taxpayers

- Foreign individuals liable to Romanian income tax must submit monthly income tax returns and pay tax (16%) by the 25th of each month for the previous month.

- Foreign citizens earning salary income for activities carried out in Romania and who are liable to Romanian income tax must register with the fiscal authorities.
Employment of foreign nationals

- Nationals of EU/EEA member states do not require Romanian work permits

- Non-EU/EEA individuals who are employed by EU/EEA-based companies, who are assigned to work in Romania and have a valid residence permit in the respective EU/EEA country, are not required to obtain Romanian work permits, but only residence permits from the local Immigration Office.

- Currently, the Romanian immigration authorities issue a personal number to each non-Romanian national applying for a registration certificate/residence permit, and the same number is also used for tax purposes, as a personal tax number of the individual.
Business etiquette

- Although Romanians are generally amiable, initially business communication is somewhat reserved and formal. Expect to spend time getting to know people before engaging into the business purpose of your visit.

- When doing business in Romania shake hands with people upon arrival and also when leaving. It is preferable to wait for a woman to extend her hand.

- Meeting schedules are not rigid in Romania. There may be an agenda, but it serves as a guideline for the discussion and can act as a springboard to other business. Also, punctuality is relative.

- Negotiations can be tough. Decisions are only made by the most senior member of the Romanian side. Avoid confrontational behaviour or high-pressure sales tactics.

- It is a relationship-driven culture but at the same time very private. It takes a while to earn trust, but once this happens it opens many doors.

- Remain flexible in your approach when doing business in Romania.
Disclaimer and sources

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- Sources for this presentation include:
  - KPMG “Investment in Romania” 2013
  - PLC “Doing Business in Romania” 2013
  - World bank Group publications
  - FRD Center consultants’ publications
Contact

FRD Center provides market entry consulting services since 2000.

For tailor-made market research and market entry support to the markets in CE, SE and Eastern Europe, please do not hesitate to contact our team directly.

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