

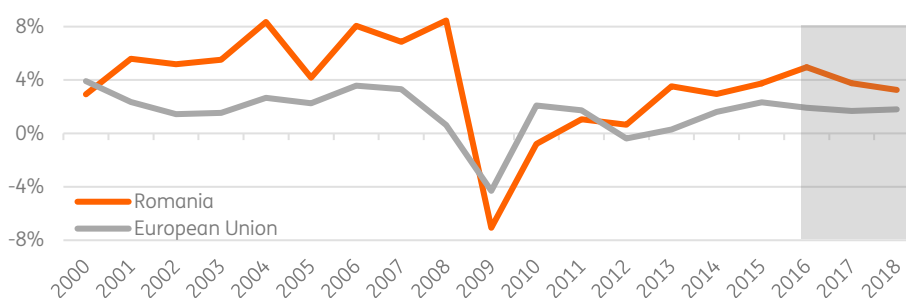
## Romania: high potential, but risks remain

Romania was hit exceptionally hard by the global financial crisis but growth figures have since recovered strongly. Like most Eastern European countries, Romania is now expected to outpace the European Union in terms of economic growth. As its industries and demand for foreign products are expected to show ongoing high growth, business opportunities are likely to become manifest. However, doing business in Romania does require overcoming various significant hurdles.

### Which sectors are expected to grow most in Romania?

Figure 1 shows Romania's economic growth since the start of the century. The country experienced high economic growth in the early 2000's but was hit hard by the global financial crisis. In 2009 Romania received a \$26 billion emergency assistance package from the IMF, the EU, and other international lenders. In 2012 Romania returned to a healthy growth path with unemployment declining (and at a level below EU-average) and low public debt (below 40% of GDP). In 2016, Romania was the fastest growing economy in the EU. We expect Romania's economy to continue to show growth rates far above the EU average in the coming years.

Figure 1. Economic growth (GDP, annual percentage change)



Source: ING

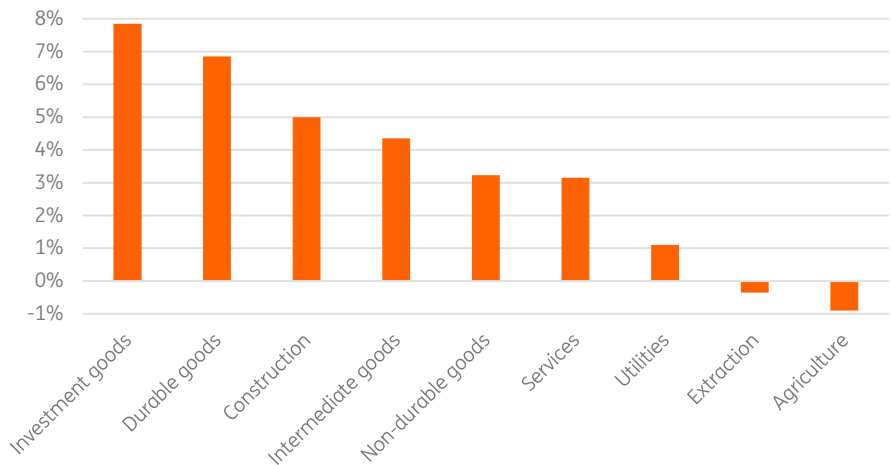
Figure 2 shows the sector forecasts for the coming years. Growth expectations for investment goods, durable goods and construction are particularly high. Romania is expected to shift away from extraction and textiles production towards bodies & parts and motor vehicles that is expected to expand by some 10% annually.

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Figure 2. Sector growth expectations, average 2017/2018



Source: Oxford Economics

### What shapes the Romanian economy?

The Romanian economy is comprised of services (53.9%), industry (41.3%) and agriculture (4.8%). Romania joined the EU in 2007, together with Bulgaria. GDP per capita is €8,100 on average, less than a third of the EU average of €28,800. With a total population of 20 million people and a relatively low GDP per capita, Romania is a relatively small market by western European standards.

Romania ranks 62nd out of 138 countries in the World Economic Forum's 2016-17 Global Competitiveness Index. This index measures the set of institutions, policies, and factors which drive medium-term economic growth. Figure 3 illustrates Romania's weak and strong points according to the sub-components of this index. While Romania has a relatively strong macroeconomic environment, the country is lacking in the fields of infrastructure and innovation. Most problematic for doing business is the lack of access to financing, inefficient government bureaucracy, high taxes, an inadequately educated workforce (although the labour market is flexible) and a high level of corruption, leading to a diversion of public funds, favouritism and an overall low trust in politicians.

### How easy is it to do business in Romania?

The World Bank ranks Romania 37th out of 189 countries in the Doing Business Index of 2016. This index summarises the ease with which business can be conducted, mostly analysing the complexity of regulations and the protection of property rights. Romania ranks between the Czech Republic (36th) and Bulgaria (38<sup>th</sup>).

On average, starting a business in Romania takes 8 days, equal to the average in the OECD. Some things do take (very) long: getting a construction permit takes 257 days. It requires 15 steps, and some of them may take up to 90 days. Getting electricity takes 182 days. It requires 8 steps, and the longest one can take up to 60 days. Resolving insolvencies in Romania takes 3 to 5 years.

**Figure 3. World Economic Forum Competitiveness Pillars scores**

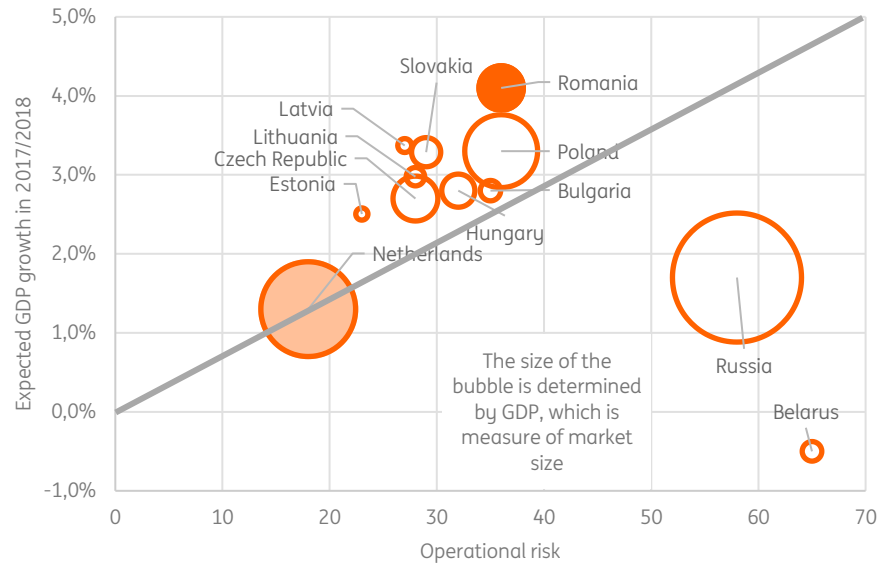


Source: World Economic Forum, the competitiveness index ranks countries on 12 pillars, with a maximum score of 7 (best) and a minimum score of 0 (worst). Other affairs take less time than in the average in OECD country: registering properties only takes 19 days, and enforcing contracts takes 512 days (against 553 in the OECD). In terms of costs, the outcomes are also mixed. Starting a business and registering properties costs less than in OECD high-income countries. But getting electricity is much more expensive, almost 9 times higher than in OECD high-income countries. The World Bank does note that Romania has been making strong progress in two fields: enforcing contracts (26<sup>th</sup>) and resolving insolvencies (49<sup>th</sup>).

**Is it risky to do business in Romania?**

Figure 4 provides, for a number of Eastern European countries, an overview of the operational risk associated with running a business and the possible opportunities in terms of expected market growth. The size of the bubble indicates the market size. The Netherlands has been added for reference. We see that the expected future growth is relatively high for Romania compared to other Eastern European Markets. However, at the same time operational risk is also relatively high. This illustrates that there is a clear trade-off between risk and return when doing business in Romania.

**Figure 4. Operational risk and expected economic growth in 2017/2018**

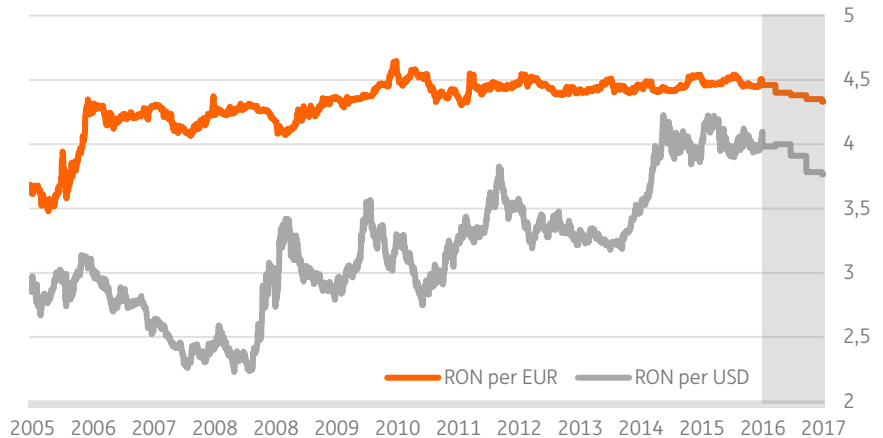


Source: IMF, ING, Economist Intelligence Unit, the operational risk measure summarizes on a scale of 0 – 100 (where 100 represents maximum risk) the following risk elements: security, political stability, government effectiveness, the legal and regulatory environment, macroeconomic risks, foreign trade and payments issues, labour markets, financial risks, tax policy and the standard of local infrastructure.

**The Romanian currency**

The Romanian currency, the leu, depreciated strongly in the years leading up to the global financial crisis but has remained fairly stable around 4.5 leu per euro since 2011 as the central bank started to heavily manage the exchange rate. Indeed, in the last three years the leu has traded within a 4.38-4.54 range. This also means that the divergence we see between the leu/euro and the leu/usd exchange rate is actually reflects the euro/usd exchange rate. ING thinks the leu is slightly undervalued, and expects a 2.5% annual appreciation in the coming years.

**Figure 5. Exchange rates**



Source: Macrobond, ING Forecasts

### The international trade environment in Romania

According to the 2016 Doing Business Index, Romania ranks joint 1st in terms of the ease of trading across the border. As a member of European Union since 2007, Romania can freely trade goods, services and capital with other EU member states. The EU import average tariff on agriculture is about 12.5%, while the average tariff on non-agriculture goods is just 3.9%. In addition, Romania has been a member of General Agreement on Tariff and Trade (GATT) since 1971 and is now a member of its successor the World Trade Organisation (WTO) the In 2007.

### Imports

Romania's top 3 import partners in 2015 were Germany, Italy and Hungary. Within this top 3, imports from Germany are expected to grow the fastest over 2017-2018, with an annual average growth rate of 7.1%.

**Table 1. Imports of goods by country of origin**

	Import partner	Imports 2015, US\$bn	Average growth 2017-18F
1	Germany	15.6	7.1%
2	Italy	9.0	5.1%
3	Hungary	6.0	2.2%
4	France	4.6	5.1%
5	Poland	3.9	8.1%
6	Kazakhstan	3.7	7.9%
7	China	3.5	7.3%
8	Russian Federation	3.0	1.3%
9	Austria	2.9	7.5%
10	Netherlands	2.9	3.2%

Source: ING Trade Model, UNCTAD

Other manufactured goods (for Romania consisting mostly of leather goods and paper (-related) materials), forms the country's largest import product group (US\$16.5bn, 21% of total imports). Other large import product groups are office, telecom & electrical equipment (US\$12.2bn, 15% of total), and industrial machinery (US\$8.8bn, 11% of total). ING expects that ores and metals will see a large increase the coming years (+7.4% annually) and so will office, telecom & electrical equipment (+6.0%) and road vehicles and transport equipment (+6.0%).

**Table 2. Imports by product group**

Product group	Import 2015, US\$bn	Average growth 2017-18F
Other manufactured goods	16.5	5.7%
Office, telecom and electrical equipment	12.2	6.3%
Industrial machinery	8.8	5.3%
Fuels	7.6	3.9%
Road vehicles & transport equipment	6.9	6.0%
Chemicals	6.7	5.1%
Basic food	5.4	3.8%
Textiles	5.4	2.5%
Pharmaceuticals	3.6	5.6%
Other products	3.0	4.5%
Ores and metals	1.9	7.4%
Agriculture and raw materials	0.9	5.1%
Beverages and tobacco	0.6	2.8%

Source: ING Trade Model, UNCTAD

### **Concluding remarks**

Romania entered the EU just before Europe experienced the worst financial crisis since decades. The economy has recovered, however, and has been showing healthy economic growth figures. As the economy continues to expand its industry and its imports, Romania may will offer ample chances under the condition that associated risks and specifics of doing business in Romania are adequately managed.

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