2000 Country Reports on Economic Policy and Trade Practices
Released by the Bureau of Economic and Business Affairs
U.S. Department of State, March 2001

ROMANIA

Key Economic Indicators

(Millions of U.S. dollars unless otherwise indicated)

	1998	1999	2000 1/
Income, Production and Employment:			
Nominal GDP (billion current lei) 2/	338,670.0	521,735.5	748,457.8
Real Lei GDP Growth (pct) 3/	-5.4	-3.2	1.5
GDP by Sector (million USD):	38,157.4	34,026.9	34,537.3
Agriculture	6,067.0	4,729.7	4,256.8
Manufacturing	12,057.7	9,459.5	10,187.0
Services	20,032.7	19,837.7	20,093.5
Per Capita GDP	1,695.6	1,512.3	1,528.1
Labor Force (millions)	8.9	8.7	8.6
Unemployment Rate (pct)	10.3	11.5	10.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	48.9	44.9	42.5
Consumer Price Inflation (pct)	40.6	54.8	40.0
Exchange Rate (Lei/US$ annual average)			
Official	8,872.6	15,333.0	21,671.0
Parallel	9,020.0	15,300.0	21,700.0
Balance of Payments and Trade:			
Total Exports FOB 4/	8,302.0	8,504.7	10,562.8
Exports to U.S. 4/	319.7	316.9	387.5
Total Imports CIF 4/	11,821.0	9,592.1	11,836.6
Imports from U.S. 4/	499.0	362.4	288.0
Trade Balance (FOB/CIF) 4/	-3,519.0	-1,087.4	-1,273.8
Balance with U.S.	-179.3	-45.5	99.5
External Public and Public Guaranteed Debt	6,966.9	6,090.4	6,594.0
Fiscal Deficit/GDP (pct)	3.1	3.9	3.5
Current Account Deficit/GDP (pct)	7.9	3.8	2.7
Debt Service Payments/GDP (pct)	5.9	10.4	6.2
Gold and Foreign Exchange Reserves	2,300.3	2,492.9	3,090.3
Aid from U.S.	38.0	56.0	36.0
Aid from All Other Sources	204.0	172.8	322.0

1/ 2000 figures are all estimates based on available monthly data in October.
2/ GDP at factor cost.

3/ Percentage changes calculated in local currency.
4/ Merchandise trade.

1. General Policy Framework

For Romania, 2000 has been an election year when market-based economic reforms continued at an insufficient pace. A lower current account deficit, an impressive surge of exports, moderately tight fiscal policy, modest progress in privatization, a certain revival of industrial demand and therefore significant industrial output increase represented the foundation of a tiny GDP growth in 2000.

GDP is expected to rise around 1.5 percent in 2000. At the same time, the informal economy has increased to 50 percent of the formal economy. The current account deficit narrowed and external public debt slightly increased. Improved tax collection and tight public spending caused the consolidated budget deficit to drop to 3.5 percent of GDP, in line with the target set by the IMF. Public direct and guaranteed external debt service is projected to reach 6.2 percent of the GDP in 2000, down from 10.4 percent in 1999. As a result of full and timely servicing of the foreign debt, as well as increased official foreign exchange reserves (up 36.9 percent in September 2000 from September 1999), Fitch-IBCA decided in November 2000 to upgrade Romania's long-term rating from "B-" to "B" in both foreign and local currency.

Romania is committed to becoming a member of the European Union (EU), which is by far its largest trading partner and which invited Romania to open accession negotiations. Trade with the EU now accounts for 63 percent of Romania's merchandise exports and 57 percent of imports. Trade with the United States accounts for only 3.9 percent of Romania's exports and 2.7 percent of its imports. In 2000 U.S. exports to Romania are projected to drop by 19 percent.

2. Exchange Rate Policy

The foreign exchange market was liberalized in February 1997. The leu is fully convertible for current account transactions and foreign investment. The leu depreciated substantially in 2000. For the first three-quarters of the year, the nominal devaluation was 32.4 percent, while the real one was 2.5 percent. The central bank has been committed to increase the official foreign exchange reserves in the short run and has remained committed to full convertibility in the capital account, but the necessary conditions for the latter are not yet in place and may take a few years.

3. Structural Policies

Economic reform has resulted in the passage of a wide variety of legislation affecting virtually every sector: commerce, privatization, intellectual property, banking, labor, foreign investment, environment, and taxation. While new legislation is necessary to create a basis for a market economy, rapid and erratic regulatory change has slowed the pace of trade and investment. Implementation has also been a serious problem.

Romania continues to make significant progress in its agricultural reform program. (Note: Agriculture accounts for about one-fifth of GDP, and about 35 percent of formal and informal employment is dependent on it). Prices are determined by market forces, and there are no export quotas. Over the past two years tariffs have been reduced by 66 percent. Modest progress has been made in agricultural sector privatization, and further privatization is on track within the ASAL program agreed with the World Bank.

However, deep-seated problems remain in the agricultural sector. Among them:

the continued pervasive state presence, including price controls, state management of a large proportion of arable land, state ownership of input supply, storage, marketing, and agro-processing enterprises;

incomplete land reform, which has left many fragmented holdings, for which property rights are still not well-defined;

almost nil financial services, few private input suppliers, and no extension services;

agricultural coupons for diesel oil that arrive too late to be helpful for agricultural production.

The pace of reform in heavy industry has been very slow. The state has retained ownership of 65 percent of the industrial sector. While the government remains committed to privatizing or liquidating most of these firms, implementation has proved difficult. Meanwhile, industrial subsidies are still largely concentrated in loss-making industries instead of in potential growth sectors, such as IT or food processing.

4. Debt Management Policies

At the end of September 2000 Romania's medium and long-term external debt amounted to $8.8 billion, from $8.6 billion at the end of 1999. The National Bank's foreign exchange reserves amounted to $3.1 billion, gold included, and the commercial banks' reserves reached $4.5 billion in September 1999. Also, Romania has claims against foreign countries amounting to $3 billion.

The Romanian government succeeded in avoiding default in 1999, and since then has increased foreign exchange reserves, while cutting the current account deficit by more than 50 percent. After long negotiations and months of delay, the government concluded with the IMF a new standby loan, the first tranche ($73 million) of which was released in August 1999. However, the current Romanian government has failed to receive the second tranche of $117 million, out of the $450 million. The World Bank concluded at the same time a $300 million PSAL I agreement with Romania. The government received half of the loan in August 1999, and the World Bank is considering releasing the second tranche as soon as the IMF board takes a decision. Under the PSAL I agreement with the World Bank, the government has pledged to reform the banking sector, close loss-making firms and improve the business environment. In the meantime, the government succeeded in international private capital markets with one issue in July 1999 that attracted $50 million and two Eurobonds in 2000 totaling EURO 300 million.

5. Significant Barriers to U.S. Exports

Traditionally defined trade and investment barriers are not a significant problem in Romania, as there are no laws that directly prejudice foreign trade or business operations. Tariff preferences resulting from Romania's Association Agreement with the EU have disadvantaged U.S. exports in several sectors, including agriculture, telephonic equipment, computers, and beverages. For example, the duty on tires is 30.5 percent from the United States, and 18.4 percent from the EU and falling.

Bureaucratic red tape and uncertainties in the legal framework make doing business in Romania difficult. There is little experience with Western methods of negotiating contracts and, once concluded, enforcement is not uniform. In addition, delays in reconciling conflicting property claims, arising from seizures during the World War II and Communist eras, have resulted in a situation in which purchasers are potentially subject to legal challenge by former owners and title insurance is not available. The absence of clear legal recourse to recover claims against debtors is a further complication for foreign investors. Romania's customs regime imposes minimum reference prices, which is inconsistent with its WTO obligations. This has hindered U.S. exports to Romania, particularly of poultry and distilled spirits; in June 2000 the United States initiated a WTO dispute settlement case challenging Romania's use of minimum reference prices.

The cost of doing business in Romania is high, particularly for office rentals, transportation and telecommunication services. Lack of an efficient, modern payment system further delays transactions in Romania. Capital requirements for foreign investors are not onerous, but local capital remains very expensive. Also, taxes on both profits and operations are steep. Investors complain of inconsistency in Romania's policy on tax incentives for foreign companies. Previously foreign companies qualified for some tax exemptions, based on the size of their investment. Given significant fiscal constraints and under IMF pressure, the Romanian government rescinded this in 1999, except for the case of the French car maker, Renault, which purchased the national Romanian car manufacturing company, Dacia Pitesti.

There are few formal barriers to investment in Romania. The Foreign Investment Law allows for full foreign ownership of investment projects (including land, for as long as the investment is in place). There are no legal restrictions on the repatriation of profits and equity capital. The continually changing legal regime for investment and privatization, however, forms a significant barrier to investment. Government approval of joint ventures requires extensive documentation. U.S. investment in Romania totaled $314.1 million by July 1999, putting the United States in fourth place among foreign investors.

Romania is a member of the World Trade Organization, but not a signatory to the agreement on government procurement.

6. Export Subsidies Policies

The Romanian government does not provide export subsidies but does attempt to make exporting attractive to Romanian companies. In addition, income derived from exports is taxed at a significantly lower rate (5 versus 25 percent). For example, the government provides refunds of import duties for goods that are then processed for export. The Romanian Export-Import Bank engages in trade promotion activities on behalf of Romanian exporters, and has lately become more of an analysis bank.

There are no general licensing requirements for exports from Romania, but the government does prohibit or control the export of certain strategic goods and technologies. There are also export controls on imported or domestically produced goods of proliferation concern.

7. Protection of U.S. Intellectual Property Rights

Romania has enacted significant legislation in intellectual property protection. Patent, copyright and trademark laws are in place. In the past year, Romania has adopted pipeline protection for pharmaceuticals. Enforcement is limited and ineffective.

Pirated copies of audio and video cassettes, CDs, and software are readily available. In a few cases, pirated films were broadcast on local cable television channels. There are no known exports of pirated products from Romania.

Romania is a member of the Bern Convention, the World Intellectual Property Organization, the Paris Intellectual Property Convention, the Patents Cooperation Treaty, the Madrid Convention, and the Hague Convention on Industrial Design, Drawings and Models. As a country in transition, Romania will implement the WTO agreement on intellectual property on January 1, 2000. Industrial property law amendments needed for full compliance with TRIPS have already been drafted, but not yet enacted. The TRIPS-consistent Copyright and Neighboring Rights Law is very inefficiently implemented, mainly due to the lack of coordination among the government enforcement agencies, police, prosecutors and judges, as well as due to each of these organizations' lack of focus. The Business Software Association estimates that currently, pirated products account for about 80 percent of the Romanian market, down from 95 percent prior to the law's coming into force. In order to help solve this problem, the government drafted a bill regulating the customs right to check the intellectual property ramifications of imports, a draft that is still in the Parliament for action.

8. Worker Rights

a. *The Right of Association:* All workers (except public employees) have the right to associate freely and to form and join labor unions without prior authorization. Labor unions are free from government or political party control but may engage in political activity. Labor unions may join federations and affiliate with international bodies, and representatives of foreign and international organizations may freely visit and advise Romanian trade unions.

b. *The Right to Organize and Bargain Collectively:* Workers have the right to bargain collectively. Basic wage scales for employees of state-owned enterprises are established through collective bargaining with the state. There are no legal limitations on the right to strike, except in sectors the government considers critical to the public interest (e.g. defense, health care, transportation).

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced or compulsory labor. The Ministry of Labor and Social Protection effectively enforces this prohibition.

d. *Minimum Age for Employment of Children:* The minimum age for employment is 16. Children over 14 may work with the consent of their parents, but only "according to their physical development, aptitude, and knowledge." Working children under 16 have the right to continue their education, and employers are required to assist in this regard.

e. *Acceptable Conditions of Work:* Minimum wage rates are generally observed and enforced. The Labor Code provides for a standard work week of 40 hours with overtime for work in excess of 40 hours, and paid vacation of 18 to 24 days annually. Employers are required to pay additional benefits and allowances to workers engaged in dangerous occupations. The Ministry of Labor and Social Protection has established safety standards for most industries, but enforcement is inadequate and employers generally ignore the Ministry's recommendations. Labor organizations continue to press for healthier, safer working conditions. On average, women experience a higher rate of unemployment than men and earn lower wages despite educational equality.

f. *Rights in Sectors with U.S. Investment:* Conditions do not appear to differ in goods producing sectors in which U.S. capital is invested.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		-15
Total Manufacturing		15
Food & Kindred Products	(1)	
Chemicals & Allied Products	(1)	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	(1)	
Electric & Electronic Equipment	0	

Transportation Equipment	1	
Other Manufacturing	-3	
Wholesale Trade		9
Banking		0
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		48

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis