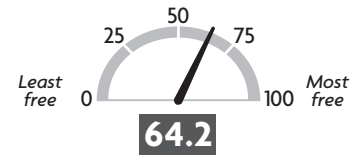


ROMANIA

Economic Freedom Score



World Rank: **63**

Regional Rank: **29**

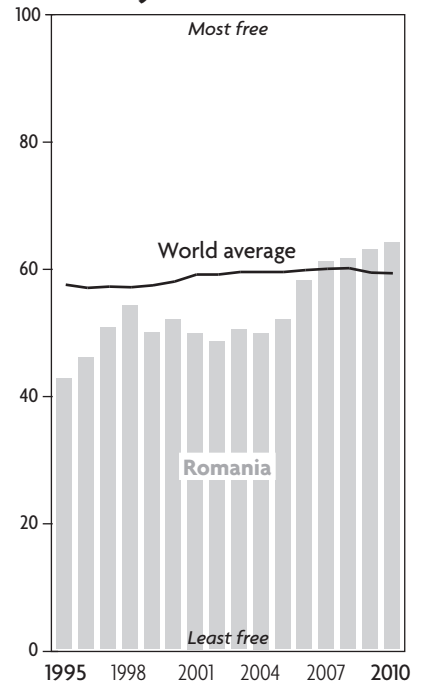
Romania's economic freedom score is 64.2, making its economy the 63rd freest in the 2010 *Index*. Its score is 1.0 point better than last year, reflecting improvements in half of the 10 economic freedoms. Romania is ranked 29th out of 43 countries in the Europe region, and its overall score is higher than the world average.

The Romanian economy has continued its transition to greater economic freedom, achieving an average economic growth rate of over 6 percent over the past five years. The overall entrepreneurial framework has become more streamlined and efficient, and the tax regime is competitive with a flat rate of 16 percent for both individual and corporate taxes. Other recent structural reforms include privatization in the banking sector, a reduction in the public-sector wage bill, and tax administration reform.

Romania lags behind many other countries in the region, however, in terms of deeper structural reforms, facing ongoing institutional challenges to overall economic freedom as a result of widespread corruption and a rigid labor market that undermines dynamic job growth. Although Romania has made some progress in the fight against corruption, the judiciary remains vulnerable to political interference and inefficiency.

BACKGROUND: Romania has been a fast-growing member of the European Union and NATO, and the government has been implementing economic reforms that are consistent with the Maastricht criteria. The current ruling coalition is composed of the Democratic Liberal Party, the Social Democratic Party, and the Conservative Party. GDP reached 7.8 percent in 2008 but slowed significantly in 2009 as a result of the global economic crisis. Overall, macroeconomic improvements have spurred the growth of the middle class and have helped to reduce poverty. Parliamentary elections were scheduled for November 2009.

Country's Score Over Time



Quick Facts

Population: 21.5 million

GDP (PPP): \$302.6 billion

9.2% growth in 2008

6.3% 5-year compound annual growth

\$14,065 per capita

Unemployment: 5.8%

Inflation (CPI): 7.8%

FDI Inflow: \$13.3 billion

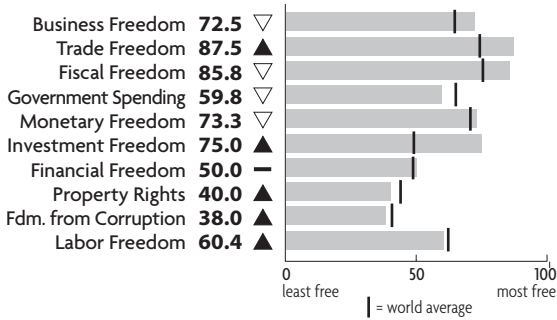
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

ROMANIA'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 72.5

The overall freedom to start, operate, and close a business is relatively well protected under Romania's regulatory environment. Starting a business takes 10 days, compared to the world average of 35 days. Obtaining a business license takes about the same as the world average of 18 procedures. Closing a business can be a lengthy process.

TRADE FREEDOM — 87.5

Romania's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.3 percent in 2008. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Romanian policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Restrictions on biotechnology and sanitary and phytosanitary regulations exceed EU policy, and corruption and the enforcement of intellectual property rights are problematic. Ten points were deducted from Romania's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 85.8

Romania has relatively low flat tax rates. Both the income tax rate and the corporate tax rate are 16 percent. Other taxes include a value-added tax (VAT) and a real property tax. In the most recent year, overall tax revenue as a percentage of GDP was 30.1 percent.

GOVERNMENT SPENDING — 59.8

Total government expenditures, including consumption and transfer payments, are moderately high and climbing. In the most recent year, government spending equaled 36.6 percent of GDP. Expenditures increased dramatically in the run-up to the elections in late 2008. Privatization of large-scale companies has been sluggish.

MONETARY FREEDOM — 73.3

Inflation has been moderately high, averaging 7.0 percent between 2006 and 2008. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural

products. It also influences prices through regulation, subsidies, and state-owned enterprises and utilities. Ten points were deducted from Romania's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 75

Foreign and domestic investments receive equal treatment under the law. Deterrents to investment include judicial and legislative unpredictability, frequent changes in the regulatory environment, and cumbersome and non-transparent bureaucracy. Residents and non-residents may hold foreign exchange accounts. Payments, capital transactions, and transfers face some reporting requirements and restrictions. EU citizens may own land, subject to reciprocity in their home countries, and foreign investors may purchase non-agricultural land for business use.

FINANCIAL FREEDOM — 50

Romania's financial supervision and regulation are largely consistent with international standards. Significant reforms since the late 1990s include the privatization of many state-owned banks. Banking is relatively sound and stable, with a satisfactory level of capitalization. Foreign-owned banks account for close to 90 percent of total assets. However, Romania's financial intermediation rate remains one of the lowest in the region. The state still owns the National Saving Bank, which accounts for around 4.5 percent of total assets. Capital markets are underdeveloped, and most trading involves government debt.

PROPERTY RIGHTS — 40

Investors have expressed concern about unpredictable changes in legislation and weak enforcement of contracts and laws. The judicial system suffers from corruption, inefficiency, and excessive workloads. Since the 2006 privatization of the Romanian Commercial Bank, Romania's mortgage market has been almost entirely private (the state-owned National Savings Bank also offers mortgage loans). Romania is a signatory to international conventions concerning intellectual property rights, but enforcement of legislation protecting patents, trademarks, and copyrights is very weak.

FREEDOM FROM CORRUPTION — 38

Corruption is perceived as widespread. Romania ranks 70th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. The government's Anticorruption Strategy, which includes enforcement of laws and procedures to combat money laundering and tax evasion, has had some success. Accession to the EU also spurred gains against corruption. Nevertheless, foreign investors complain of government and business corruption in the customs service, in municipal zoning offices, and among local financial authorities.

LABOR FREEDOM — 60.4

Romania's labor regulations are rigid. The non-salary cost of employing a worker is very high, and dismissing an employee is difficult. Regulations on work hours are not flexible.