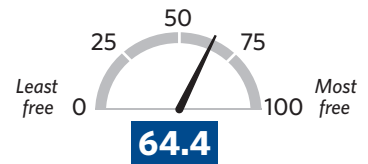


ROMANIA

Economic Freedom Score



World Rank: **62** Regional Rank: **28**

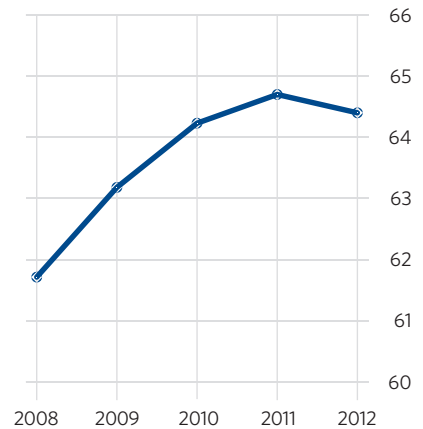
Romania's economic freedom score is 64.4, making its economy the 62nd freest in the 2012 *Index*. Its score is 0.3 point worse than last year, reflecting deterioration in freedom from corruption, business freedom, and the management of government spending. Romania is ranked 28th out of 43 countries in the Europe region, and its overall score is higher than the world average.

The Romanian economy has benefitted substantially from its openness and flexibility over the past decade. However, economic dynamism has slowed in recent years, and the economy has been forced to endure sharp adjustments. Poor management of public finance has resulted in large budget deficits, putting greater pressure on the government to cut spending.

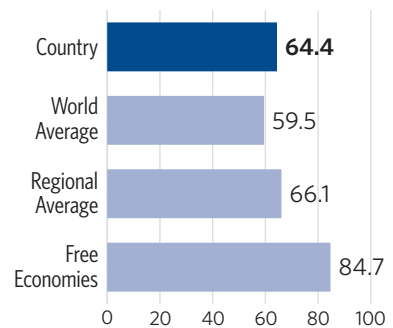
Previous structural reforms have included privatization in the banking sector, implementation of competitive flat tax rates, and modernization of the regulatory environment. However, deeper institutional reforms in such areas as public finance management and the labor market have become more critical than ever. The judiciary remains inefficient and vulnerable to political interference. Corruption continues to undermine the prospects for long-term economic development.

BACKGROUND: The Romanian government fell in October 2009 and was replaced by an unstable coalition composed of the Democratic Liberal Party and the Hungarian Union of Democrats in Romania. Traian Basescu won the presidency in December 2009 for the second time. An austerity package announced by Basescu in May 2010 was strongly opposed by trade unions and opposition parties, which threatened strikes. 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. Macroeconomic improvements have spurred the growth of the middle class and helped to reduce poverty. GDP contracted in 2009 and 2010, and Romania's IMF borrowing agreement imposed some austerity measures, but positive growth resumed in 2011.

Freedom Trend



Country Comparisons



Quick Facts

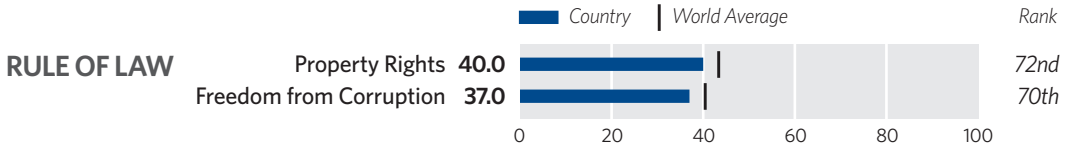
- Population:** 21.4 million
- GDP (PPP):** \$254.2 billion
- 1.3% growth in 2010
- 5-year compound annual growth 2.5%
- \$11,860 per capita
- Unemployment:** 8.2%
- Inflation (CPI):** 6.1%
- FDI Inflow:** \$3.5 billion
- Public Debt:** 31.7% of GDP

How Do We Measure Economic Freedom?

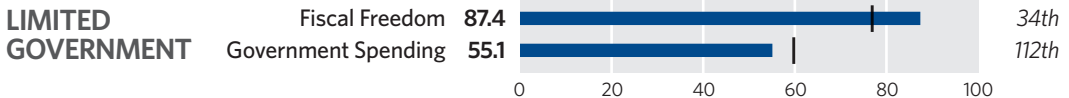
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
Data compiled as of September 2011.

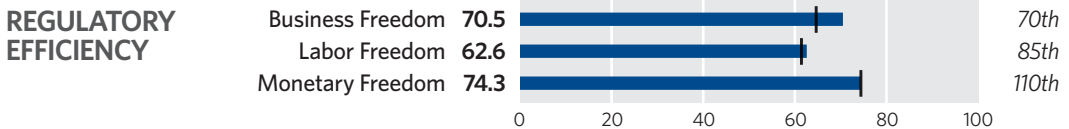
THE TEN ECONOMIC FREEDOMS



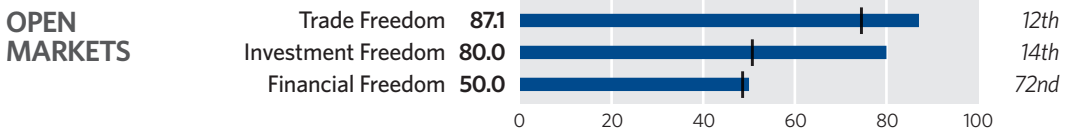
The rule of law is uneven, and contracts are not always strongly upheld. The judicial system suffers from political interference, inefficiency, and excessive workloads. Romania is a signatory to international conventions concerning intellectual property rights, but enforcement of legislation protecting patents, trademarks, and copyrights is very weak. Mistrust of government continues due to widespread public-sector corruption.



Both the income and corporate tax rates are a flat 16 percent. Other taxes include a value-added tax (VAT) and an environmental tax, with the overall tax burden amounting to 27.4 percent of total domestic income. Government spending has risen to a level equivalent to 38.7 percent of total domestic output. The deficit has been chronically high in recent years, and public debt has reached over 30 percent of GDP.



The process for business registration and operation has been streamlined. Launching a business takes six procedures and 14 days in comparison to the world averages of seven procedures and 30 days. However, efficient bankruptcy procedures and rules have not been fully implemented. Labor regulations remain rigid, although several amendments to improve the flexibility of the labor code have been made. Inflationary pressure is increasing.



The trade weighted average tariff rate is low as in other members of the European Union, but layers of non-tariff barriers increase the cost of trade. Foreign investment is encouraged officially but discouraged in practice by regulatory inconsistency, unpredictability, and non-transparency. Despite the relatively stable and open banking environment, the level of financial intermediation remains one of the lowest in the region.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+0.6	Business Freedom	-1.5	Trade Freedom	-0.5
Freedom from Corruption	-1.0	Government Spending	-2.5	Labor Freedom	+1.8	Investment Freedom	0
				Monetary Freedom	-0.1	Financial Freedom	0