

**Regional Economic Integration and Internationalisation
of Business Activity: Challenges and Opportunities for
Innovative and Competitive Industries in the UNECE Region**

**ROMANIA - ONE YEAR ON FROM ACCESSION.
How attractive is the Romanian Economy and
for how long can it be competitive?**

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ROMANIA – NEW EU MEMBER (2007)

Population:	21.6 million
Estimated GDP 2006:	€103 billion
Estimated GDP 2007:	€117 billion
GDP per capita PPP (2006):	€8800 (37% of EU)
GDP growth 2006:	7.7 %
Unemployment rate:	5%



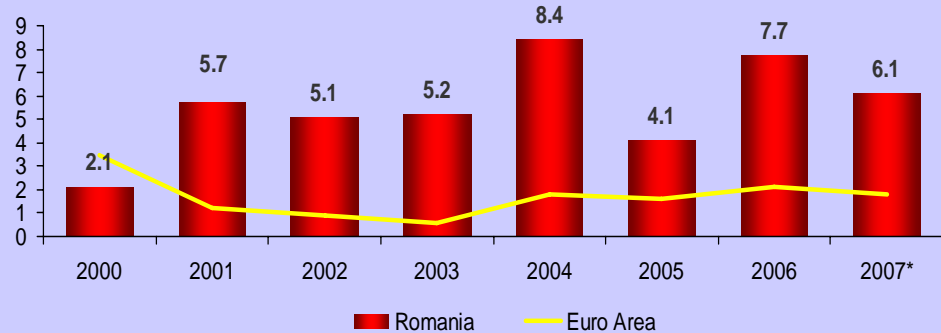
Selected EU-NMS: the Global Competitiveness Index

	Romania (efficiency driven)		Bulgaria (efficiency driven)		Czech Republic (transition 2-3)		Hungary (transition 2-3)	
	Rank (out of 131)	Score (1-7)	Rank (out of 131)	Score (1-7)	Rank (out of 131)	Score (1-7)	Rank (out of 131)	Score (1-7)
Global Competitive Index 2007-2008	74	4.0	79	3.9	33	4.6	47	4.4
Global Competitive Index 2006-2007 (out of 122)	73	4.0	74	4.0	31	4.7	38	4.5
Basic requirements	88	4.1	76	4.2	42	4.8	55	4.5
1st pillar: institutions	94	3.4	109	3.2	69	3.8	54	4.1
2nd pillar: infrastructure	100	2.6	84	2.9	41	4.2	54	3.9
3rd pillar: macroeconomic stability	84	4.6	47	5.2	43	5.3	107	4.2
4th pillar: health and primary education	52	5.6	56	5.6	29	6.1	41	5.9
Efficiency enhancers	62	4.0	72	3.8	30	4.5	40	4.3
5th pillar: higher education and training	54	4.1	66	4.0	28	4.8	33	4.6
6th pillar: goods market efficiency	74	4.0	90	3.9	38	4.7	59	4.3
7th pillar: labour market efficiency	85	4.1	73	4.3	35	4.6	58	4.4
8th pillar: financial market sophistication	78	4.0	74	4.1	53	4.6	51	4.6
9th pillar: technological readiness	59	3.3	65	3.1	35	4.1	41	3.9
10th pillar: market size	43	4.2	61	3.7	38	4.4	41	4.3
Innovation and sophistication factors	73	3.5	91	3.3	28	4.3	43	4.0
11th pillar: business sophistication	73	4.0	92	3.6	30	4.7	46	4.3
12th pillar: innovation	76	3.1	88	3.0	27	3.9	37	3.6
Business Competitiveness Index (out of 127)	73		83		32		47	
Sophistication of company operations and strategy	81		95		31		56	
Quality of the national business environment	74		77		32		46	

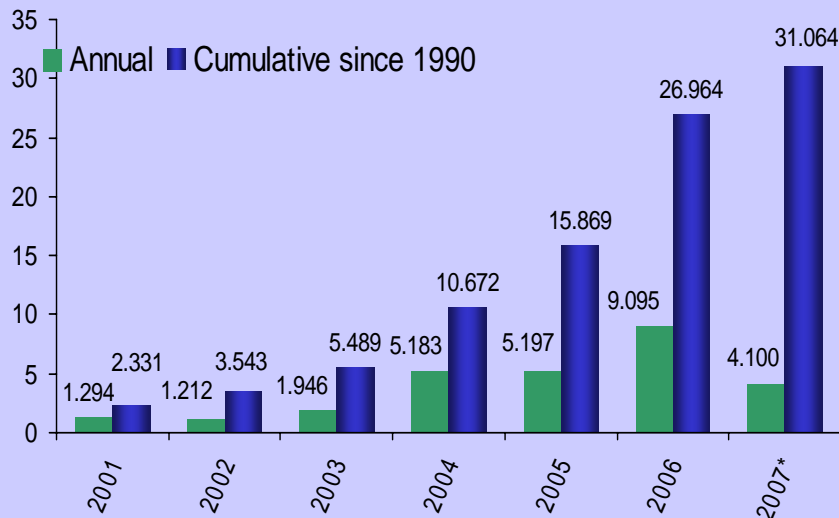
ROMANIA - SUSTAINABLE ECONOMIC GROWTH

- Average real growth of nearly 6% in the last 5 years
- 7.7% growth in 2006 is one of the best in the European Union
- Medium term average growth forecast of 6% until 2009 is helped by being the 2nd fastest reforming country in the world (World Bank), by a proactive fiscal policy (flat tax at 16%) and by EU accession

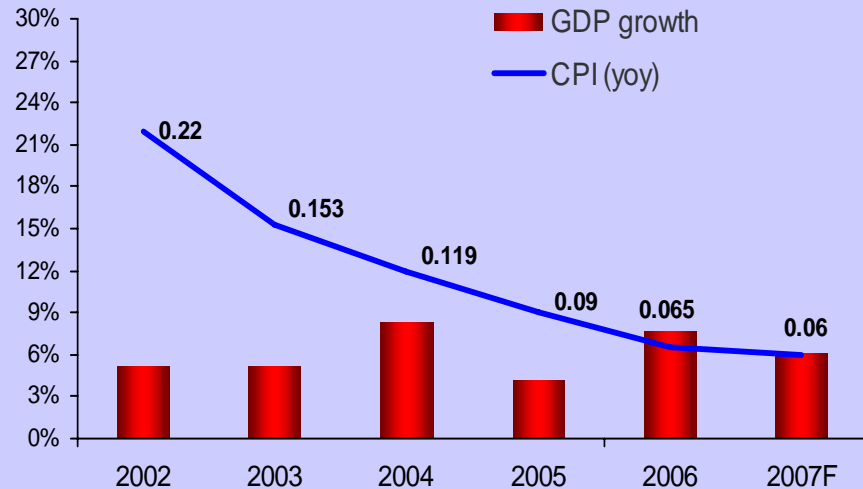
GDP real growth, %



FDI

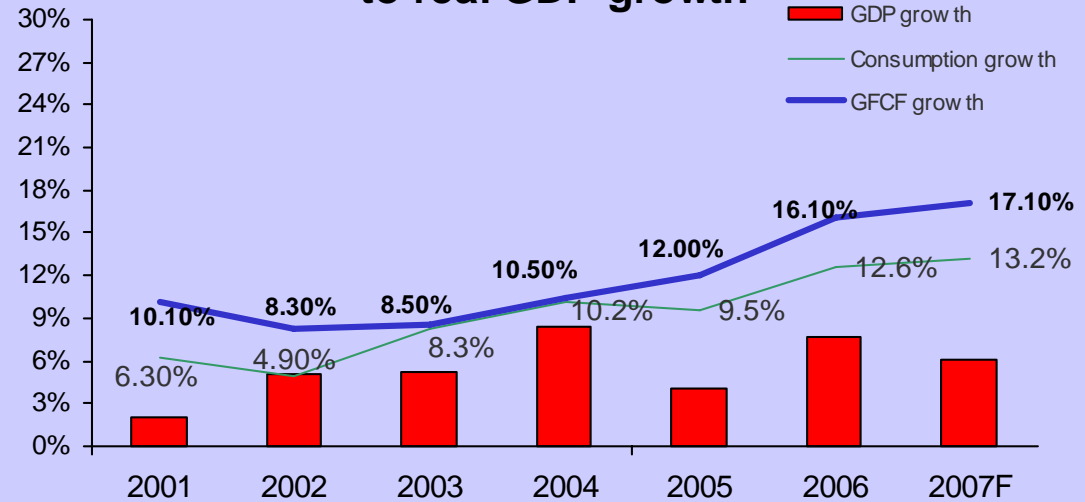


GDP growth vs. Inflation Rate



ROMANIA - SUSTAINABLE ECONOMIC GROWTH

Consumption vs. GFCF contributions to real GDP growth



Wage rate vs. Productivity rate



ROMANIA - SUSTAINABLE ECONOMIC GROWTH

- **Manufacturing** - main component of Romanian industry (2004: 79.4% of the industrial production, 85.4% of the total labour force in the industrial field).

Automotive industry growth of nearly 30% in 2005 and 2006.

Success of Renault Logan, an inexpensive salon car is driving increased exports and creating counter-moves in the market.

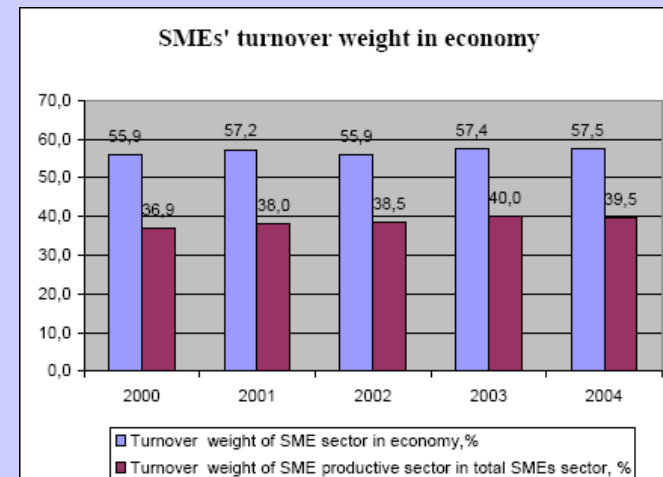
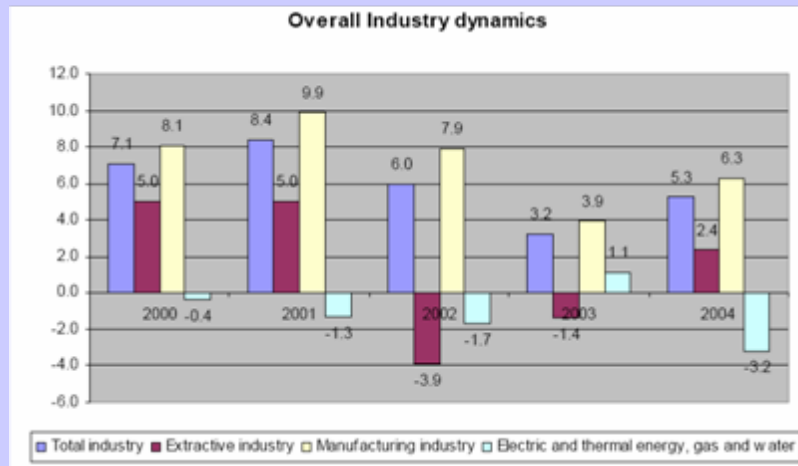
- **The service sector** is better integrated in the Internal Market, being adaptive, dynamic and even innovative.
- Five main types of renewable energy resources: wind, hydro, solar, biomass, geo-thermal, with considerable documented potential.

The interconnection potential of the country, both for electricity and gas, should be further expanded given the need of consolidating the regional markets and improving security of supply, in line with EU energy policy.

- **R&D** lack of activity, poor infrastructure and low performances in the beginning of this century pushed to gradual increase in public expenditure for R&D (to reach by 2010 the Lisbon Strategy objective, of 3% from GDP).

- Cluster type behaviour has started to emerge, but public intervention may be needed to bridge the remaining market gap through:

- stimulating more cooperative behaviour;
- support for SMEs to become long term suppliers for large companies.

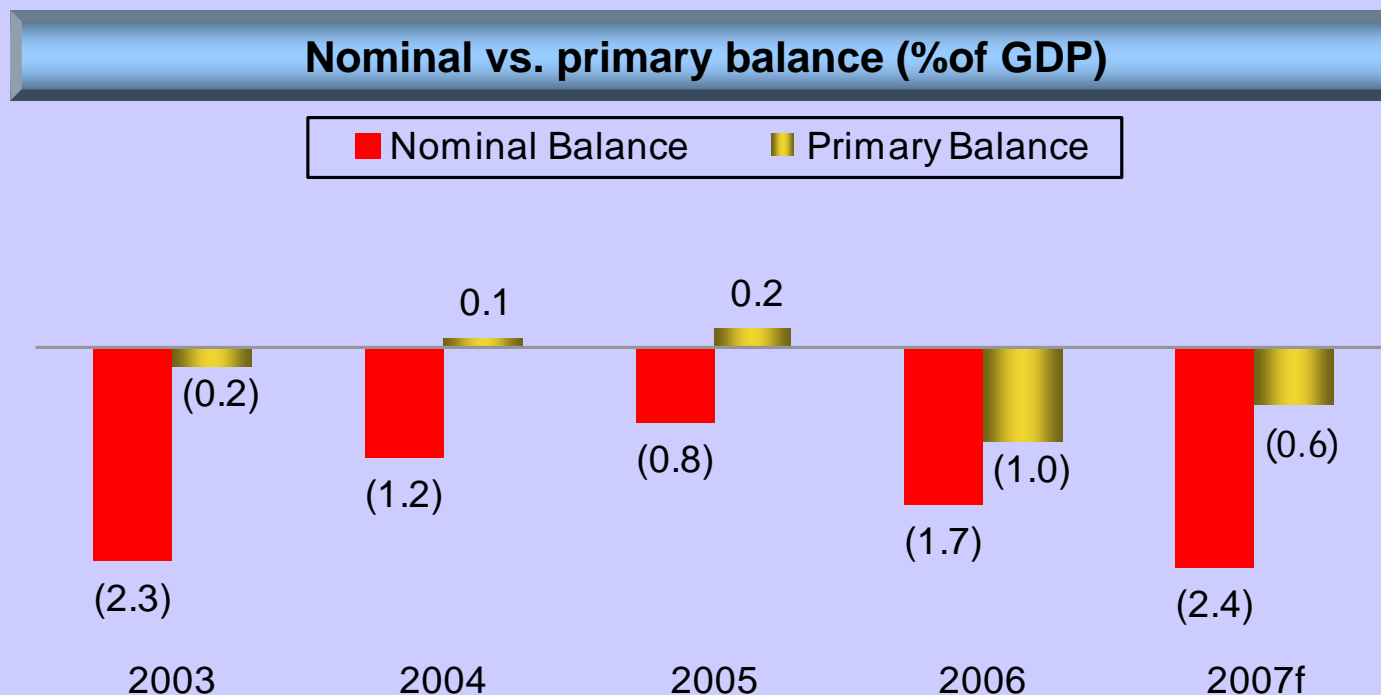


CONTAINED FISCAL POLICY AND CONSTRUCTIVE BUDGET

✓ Starting January 2005, the Government introduced a 16% flat tax on profits and incomes, which meant a decrease by 9 percent of the corporate tax and significant reductions for the taxes paid by population (which used to be between 18 – 40%). Despite reducing the direct taxation rate, the consolidated budget revenues increased ever since by more than 12-13% annually, in real terms.

✓ Increased budget deficit in 2006 (forecast at 2,5%, but lower in execution at 1.7%), with 2007 target below the Maastricht criteria of 3%, at 2,8% of GDP (recently revised at 2.4%)

✓ Due to both better tax collection rate and expenditure back loading, there was budgetary surplus registered by the end of November 2006, as well as by the end of October 2007.



After Accession – Policy Strengths

- progress made in improving economic and business environment
- economy on a sustainable development track
- stable and consistent policy framework
- positive and quick reforms on crediting procedures and financial consolidation
- priorities: non-conflicting with the EU ones
- new strategic visions on the regional and European role Romania can play

Priorities

- **Main goals:** competitiveness – through a more encouraging business environment and attracting higher technological added value – and better jobs.
- **Main directions:**
 - Infrastructure
 - Education
 - Research
 - Healthcare
 - Rural development and agriculture
 - Energy security and efficiency

Recent strengths and opportunities

1. Propensity for Strategy building

- Post-accession Strategy (just finished Fall 2007)
- Strategy for Energy Security and Efficiency up to 2020 (Summer 2007)
- The National RDI Strategy up to 2015 (Fall 2006)
- The Sustainable Growth Strategy and the Spatial Development Strategy (being currently designed)

More consistent and systemic framework for policies

2. Experience in participating in multilateral FTAs and other economic and political regional agreements

Business Regulatory Framework

- New **Investment Law** is currently being issued -fully complying with the EU regulations and giving priority to the regional level.
- The law establishes a **general framework for the state aid**. Romania's priorities are EU's priorities, respectively:
 - regional development;
 - environment protection and rehabilitation;
 - human resources development and promotion of the social inclusion.
- Government adopted a Memorandum referring to 4 state aid schemes. The total amount of the state aid to be provided during 2007-2011
 - to 5,500 companies
 - up to 3 billion Euros

EU STRUCTURAL FUNDS: OPERATIONAL PROGRAMME FOR ECONOMIC COMPETITIVENESS

General objective:

➤ the increase of Romanian companies' productivity, in compliance with the principle of sustainable development, and reducing the disparities compared to the average productivity of EU. The target for 2007 - 2013 is an average annual growth of GDP per employed person by about 5.5%.

Specific objectives:

Consolidation and environment-friendly development of the Romanian productive sector

Establishment of a favourable environment for sustainable enterprises' development

Increase of the R&D capacity, stimulation of the cooperation between RDI institutions and enterprises, and increase of enterprises' access to RDI

Valorisation of the ICT potential and its application in the public administration and private sector (enterprises, citizens)

Increased energy efficiency and sustainable development of the energy sector

Total funding:

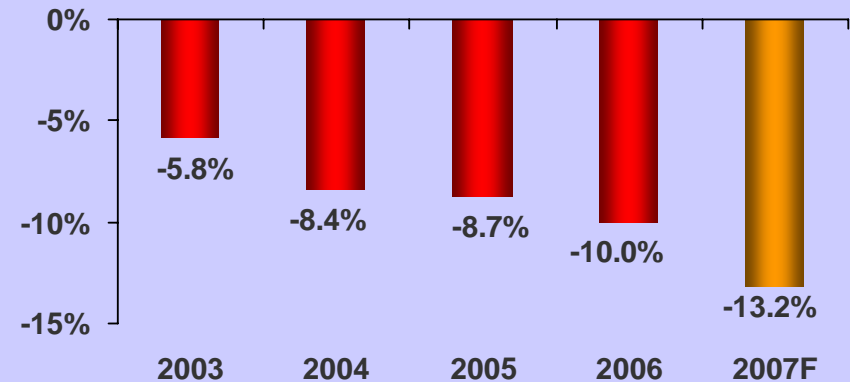
The programme accounts more than 3 bn. EUR, from structural funds and national contribution.



ROMANIA – FROM SOUND EXTERNAL POSITION TO POTENTIAL RISK?

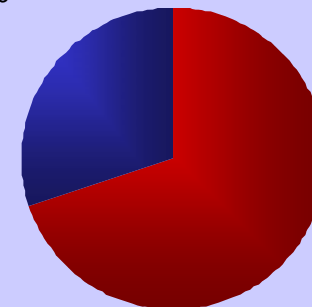
- Greenfield foreign direct investment inflows increased by EUR 1 bn in 2005 compared to 2004
- 2006- Commercial Bank of Romania privatisation (EUR 2,2 bn) leading to a record of EUR 9.1 bn
- Strong trade ties with EU (more than 70% of exports)
- Capital account liberalization finalized in September 2006
- Decrease in FDI expected in 2007
- Expansion of an increasing trade deficit
- Higher inflation than expected under an inflation-targeting regime
- Overheating due to a lax public wage policy
- Loss of “cheap labour” type of competitiveness

Current account balance (% of GDP)



Flows of exports (2007 forecast)

Others 28.9%



EU 71.2%





THANK YOU!

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