

PROGRAM FOR ECONOMIC GROWTH

Priority Actions to Restart the Economy

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BUCHAREST
ROMANIA



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A Document Objectives

- The objective of this paper is to present the actions that the Foreign Investors Council (FIC) considers as most important in order to **return to economic growth in Romania in a short period of time**
- In order to restart economic growth, **actions are needed on multiple fronts**, under a planned approach and **the private sector is fully committed to working together with the state authorities** to implement the necessary measures as quickly as possible
- The effects of the measures proposed by FIC vary according to:
 - **Time horizon** - Some would yield immediate results in the economy while others would require a longer time for the effects to be observed
 - **Coverage** - Some measures would have an economy-wide impact while others would be felt mostly in one or more sectors
 - **Intended target** - Some measures aim at improving the economic performance measured directly through macroeconomic indicators (GDP growth, fall in unemployment, etc) while others aim at improving processes/mechanisms design and implementation
- The vast majority of these measures do not involve additional budget costs.
- In order to facilitate their prioritization for implementation, the actions have been ranked based on two criteria:
 - **Practicability**- The need and the easiness of implementation
 - **Impact**- Estimated potential of positive impact on restarting growth

DISCLAIMER

This document has been prepared by the Foreign Investors Council (FIC) as a proposal intended to smooth the return of the Romanian economy to long term growth in a sustainable manner. The information herein has been collected from, and any opinion herein is based upon sources believed reliable. All opinions, forecasts and estimates herein reflect our judgement at the date of this document. This document cannot be reproduced, distributed or published without the prior consent of the Foreign Investors Council.



B The economic background requires a “call to action”

- Romania is likely to see the second consecutive year of recession, unlike the CEE 4 countries* (2010).
- **The high rate of increase in the fiscal deficit** became the bane of Romanian economy, while there are still steps that need to be taken in order to complete the transformation of the private sector; there is a **strong need for fiscal consolidation** as the high share of personnel expenditure and social allowances leave little room for investments.
- Although the country still offers significant business opportunities, **investments are likely to recover more slowly** following the recent move to hike VAT to 24%.
- **Consumption is already subdued** and downside pressures remain in sight in second half of 2010
- **Industry has been the only upward driver in terms of GDP**, supported by foreign demand; the domestic counterpart has been sluggish.
- **Exports** perked up in 2010, but they **offer limited impetus in terms of economic growth.**
- **Inflation rate increased to 7.6% y/y in August** following the hike in VAT; CPI will be well above the targeted range as of end-2010 and structural reform are highly needed to reduce the inflation rate to low and stable levels on long term.
- **Registered unemployment rate stood at 7.4% as of end-August** from as little as 4.4% in 2008; further pressures from restructuring public sector and not only.
- **RON remains highly sensitive to investors’ risk perception** on Romania and this could create additional pressures on inflation and banks’ loan portfolios.
- **Monetary policy has eased significantly** in the first half of 2010 and the key rate was cut by 175 basis points (6.25%); it could remain unchanged until end-2010 provided that investors’ sentiment improves and pressures on RON ease.
- **A third year of economic contraction should be avoided** and investors’ sentiment should be restored
- Since the fiscal consolidation is highly needed and there is a very narrow fiscal space, past experience teach us that CAPEX are usually the first to be cut.
- Some of the moves have been already discussed and are in process of implementation.

*CEE4: Czech Republic, Hungary, Poland, Slovakia; the estimations for the contraction of the Romanian economy are currently varying between -0.5% and -3%, while for CEE4 an economic growth of approx. 2% is expected

C Directional Targets 2011-2015

The targets below are for discussion purposes only. The final targets should be set by the proposed Economic Development Council.

INDICATOR	ACTUAL	TARGET 2015
GDP/capita (nominal) – € tsd.	5.5 (2009)	8.5¹
Competitiveness – European countries ranking	30	25²
Consumer confidence³	-63 (Jun-10)	-18³
FDIs (net inflows cumulated) - €bn.	39 (2005-2010)	min 25 (2011-2015)
EU funds absorption – € bn.	~1.5 (2007- Jun-10)	min 10-13 (2011-2015)
- Structural	~0.9 (2007- Jun-10)	min 7-9 (2011-2015)
- Agriculture⁴	~0.6 (2007- Jun-10)	min 3-4 (2011-2015)
Registered unemployment – %	7.4 (Jun-10)	5
Budget deficit (ESA, incl. arrears)	8.3% (2009)	max 3%

¹ Assuming an annual average real growth rate of around 3% during 2011-2015; slight RON appreciation and slight decrease in the total number of inhabitants.

² World Economic Forum, GCI 2009-2010; For example Czech Republic ranks currently the 15th, Portugal the 20th and Hungary the 26th

³ EC, seasonally adjusted figures; Romania should return to the average level seen in pre-crises

⁴ Without payments under European Agricultural Guarantee Fund



D RESTARTING ECONOMIC GROWTH – MAIN 12 ACTIONS



D Assessing the impact of the main 12 measures*

The implementation of the main 12 measures to restart economic growth could generate:

- A cumulative increase in real GDP of up to 11.6% in the next five years; potential GDP will increase by around 2 percentage points on average on medium term.
- The impact over the labor market could be: about 250tsd new jobs on medium term.
- A supplementary increase in budget revenues of around 8.5% on medium term.
- Budget costs: EUR 864mn for the period 2011-2015 (the equivalent of 0.73% of the GDP estimated for 2010); low impact on budget costs as the moves aimed at improving the fiscal conditions will generate fiscal space that could be used to support infrastructure projects.
- The indirect impact of the measures proposed could generate an additional economic growth of around 15-20% from the direct impact in the long run – “virtuous circle”.

D Overall impact at a glance for the top 12 measures

	2011	2012	2013	2014	2015	2011-2015 cumulated
GDP additional growth (%)	2,9%	2,2%	2,2%	1,9%	1,9%	11,6%
New jobs (tsd)	84	75	32	29	20	250
Investments (EUR bn)*	1,4	1,4	1,4	1,4	1,4	7,0
Budget revenues (EUR mn)	830	786	803	800	856	4.075
Budget costs (EUR mn) (% of GDP)**	300 (0,25%)	141 (0,12%)	141 (0,12%)	141 (0,12%)	141 (0,12%)	864 (0,73%)

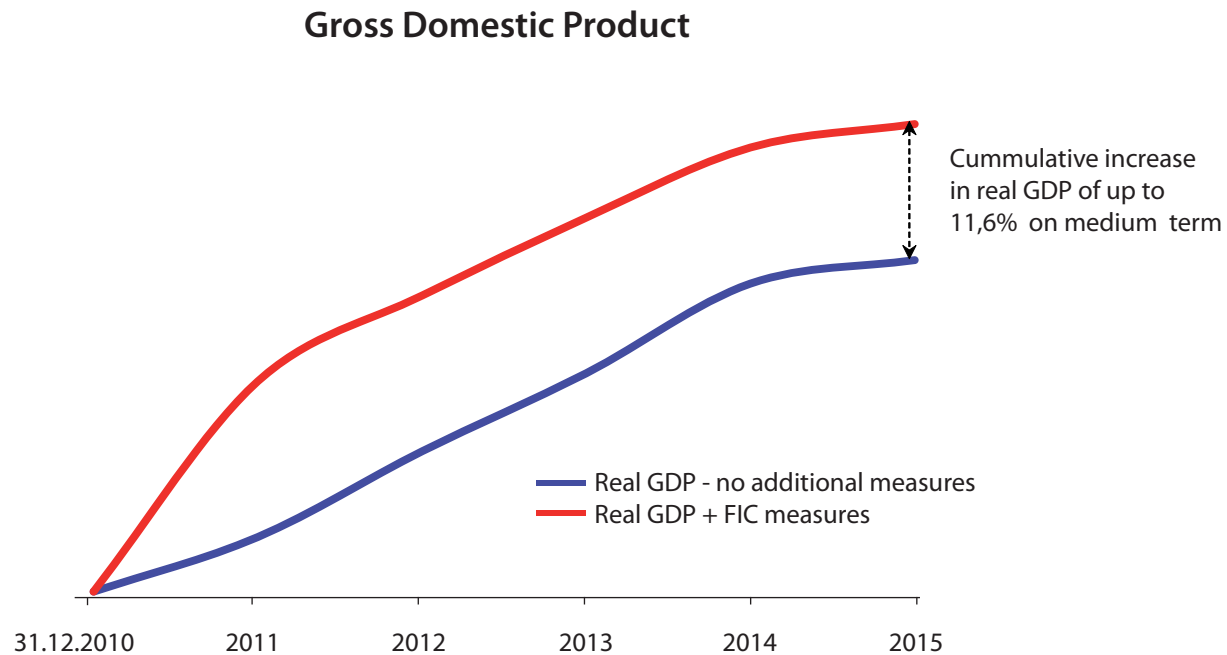
* Public investments in economy are equally distributed between 2011 and 2015. The necessary funds come mainly from the additional budget revenues generated by other measures that create fiscal space (privatizations, decrease of tax evasion, EU funds etc.)

** % of 2010 estimated GDP. The additional costs are covered by the additional budget revenues and do not have a negative effect on the final level of the budget deficit.



Note: the table contains only the direct impact of the measures. All proposed measures are assumed to be implemented starting with 2011.




D Estimated impact of the FIC measures on economic growth




D1 Stabilizing the Macroeconomic Environment

NO.	ACTION	DETAILS/ COMMENTS	ESTIMATED IMPACT
 1	Introduce a transparent Registry of Claims from the state budget at MoF with assigned maturity by claim	All valid and budgeted customers claims (VAT, project finance, state contractual payments) should be assigned payment dates in an open and transparent registry and therefore the banking system could discount such claims and restart flow of money in the economy. Many cases of bankruptcies could be thus avoided.	EUR 500mn loans ->0.9% increase in GDP -> +19,000 new employees in the medium term ->0.7% increase in budget revenues
 2	Start Prima Casa 3 Program to re-launch real estate and constructions sectors	<p>The state guarantee could cover only 50% of the loan amount, as the rest is collateralized, but the volume of the facility could be increased (i.e.: doubled). Loans of approx EUR 1.4 bil could be thus granted, through the extension of the applicants base.</p> <p>For this, the recapitalization of the SME Guarantee Fund may need to be taken into consideration.</p>	<p>EUR 1.4bn loans -> 0.6% increase in GDP -> +12,000 new employees in the medium term -> 0.5% increase in budget revenues.</p> <p>Budget costs EUR 70mn (0.06% of GDP)</p>


D2 Implementing Better Governance

NO.	ACTION	DETAILS/ COMMENTS	ESTIMATED IMPACT
 1	Create an Economic Development Council (EDC) to help define the long term strategy of the Romanian economy	<p>The EDC objective would be to provide valuable guidance on economic policy and institutional reform matters. EDC would help designing sound economic policies based on expert knowledge, which could be subsequently subject to public debate. EDC should be composed of recognised experts (professors, researchers, etc.) with an acknowledged reputation in their field, representatives of private and public sectors and trade unions. Its envisaged role is to act as an interface between private sector and government institutions (including relevant ministries, the Presidency) in order to facilitate/enhance communication and knowledge transfer in a timely manner.</p> <p>Another solution is to create the EDC based solely on private sector membership ; the EDC would then act as a consultative body, mandated by the Presidency or the Government to provide ideas for economic growth.</p> <p>EDC's operational areas could target (not exclusively): the macro-economy, money and finance, public finance and social welfare, industry, trade, labor, law, economics and globalisation.</p> <p>The private sector could support financially the creation and the administration of the EDC.</p>	Enabling action for other measures

D3 Supporting SME Business Development


NO.	ACTION	DETAILS/ COMMENTS	ESTIMATED IMPACT
 1	<p>Create subsidized lending facilities for SMEs, through the joint contribution of banks and public sector.</p> <p>Also a development bank / fund could be set up to take this role (based on the model of KfW in Germany), to help leveraging EU funds.</p>	<p>The banks could allocate equity and expertise for the set-up of the development bank/ fund.</p> <p>The lending programs could also benefit from EU funding.</p>	<p>A fund of EUR 50mn -> loans EUR 250mn -> 0.5% increase in GDP -> +9,000 new employees in the medium term -> 0.4% increase in budget revenues</p> <p>Budget costs EUR 49mn (0.04% of GDP)</p>

D4 Supporting Further Investments



NO.	ACTION	DETAILS/ COMMENTS	ESTIMATED IMPACT
 1	Develop the capital markets through local and international listing of the Property Fund and by establishing an accelerated, clear and transparent schedule of the privatisation of the state companies- listings and strategic sales, including minority shares (e.g.: infrastructure, transportation, energy etc)	This will give the private sector the responsibility for investment and growth and the Government would obtain funds that can be then invested in infrastructure projects in order to benefit from a multiplying effect.	Funds raised from selling the majority and minority stake in state owned companies of EUR 2bn (invested in infrastructure)-> 2% increase in GDP -> 1.6% increase in budget revenues.




D5 Leveraging EU Funding

NO.	ACTION	DETAILS/ COMMENTS	ESTIMATED IMPACT
 1	EITHER Outsource (or centralize in one entity with concentrated expertise) the management of the acquisition process of EU Funds (i.e.: the outsourcing could start with the administration of calls for proposals launched within the operational programs or other financing schemes especially for SMEs, micros, other categories of enterprises- SOP IEC, ROP, NRDP, HG 1164, HG 1680 etc)	The proposal is based on the fact that the lack of experts at the level of the ministries in charge is delaying the implementation of the operational programs and is taking into consideration the experience of some commercial banks in managing financing schemes.	Structural funds of EUR 400mn/ year -> 3.6% increase in GDP -> +75,000 new employees in the medium term -> 2.9% increase in budget revenues Budget costs EUR 400mn in the medium term (0.3% of GDP). Agricultural funds worth EUR 144mn/year ->1.3% increase in GDP -> +26,000 new employees in the medium term -> 1% increase in budget revenues
2	OR Review the appropriateness of the bonus scheme for the state employees working with EU funds and link it to performance	The motivation scheme for the concerned employees could be improved so as to incentivize more rapid funds disbursement. E.g.: potential bonus split: <ul style="list-style-type: none">a. Project valuation (10%)b. Contracting (15%)c. Amounts disbursed (75%) The absorption rate of EU funds could grow by at least 30%.	Budget costs EUR 140mn in the medium term (0.12% of GDP). Bonuses for 8000 employees -> budget costs of EUR 2-3mn/month.

D6 Delivering the Infrastructure for a Modern Economy

NO.	ACTION	DETAILS/ COMMENTS	ESTIMATED IMPACT
 1	Submitting a joint bid (together with Bulgaria/ Hungary) for the organization of the 2020 European Championship of Football	<p>Romania can benefit from the previous experience from the organizers of the 2012 EC (Poland and Ukraine), which can be easily replicated. Costs are not large, will be shared between two countries and over a very large period of time.</p> <p>The resulting infrastructure (airports, highways, hotels, stadiums) will remain in the country and tourism will receive a boost. Based on first estimates: the number of tourists will increase by at least 1 million during the event and 0,5 million yearly thereafter. All this, at an estimated cost of approx. EUR 10 billion, to be spread over 9-10 years. An in depth feasibility assessment should be performed.</p>	<p>Public investment in infrastructure will support domestic demand to the extent that local resources will be involved (construction materials and metallurgy, quarrying).</p> <p>EUR 1bn infrastructure investments -> 1 % increase in GDP</p>
 2	Promoting co-financing models. The private sector to support initiating costs for one major project proposed by the Government.	<p>Infrastructure investments are beneficial in an economic down-turn scenario and the market would need a successful project to regain interest in the Romanian infrastructure, after the cancellation of the project for the A3 Comarnic - Brasov highway.</p> <p>The private sector could support from own funds the feasibility study, project management, training for public sector employees, etc.</p>	<p>EUR 1bn infrastructure investments -> 1 % increase in GDP</p>

D7 Realising the Potential in Agriculture


NO.	ACTION	DETAILS/ COMMENTS	ESTIMATED IMPACT
 1	Accelerate the investments in agriculture infrastructure, including through EU funds absorption	<p>In order to increase productivity in agriculture, irrigations and rural infrastructure need to be developed and the state and the banks should work together on defining the programs for swift absorption of EU funds in this respect.</p> <p>The absorption rate can be increased through the reallocation of EU funds to viable projects and through maintaining the predictability of EU funds eligibility criteria.</p>	<p>EU funds of EUR 150mn/year -> reduce the trade deficit -> reduce inflation</p> <p>Budget costs EUR 40mn (0.03% of GDP)</p>



D8 Targeting Tax Policies for Growth

NO.	ACTION	DETAILS/ COMMENTS	ESTIMATED IMPACT
1	Focus tax audits on taxpayers who present a high risk of fiscal evasion, rather than carrying out random audits. Concentrate on efficient measures to fight evasion, improve collection and anti-money laundering	<p>More focused tax audits would reduce the costs of tax administration and will raise budget revenue which can be then used for public investments.</p> <p>The private sector is willing to support financially (by hiring security companies at its own expense) the improvement of customs controls, in order to reduce fiscal evasion.</p> <p>More feedback should be provided by the state authorities with regards to the numerous reports that the banks and private companies produce (e.g.: anti-money laundering).</p>	Diminishing fiscal evasion will free up additional resources of EUR 460mn/ year for investments -> 2.2% increase in GDP -> +46,500 new employees in the medium term -> +1.8% increase in budget revenues

D9 Reforming the Legal System

NO.	ACTION	DETAILS/ COMMENTS	ESTIMATED IMPACT
 1	Adjust the labor legislation in order to make it more flexible and adaptable to the changes in the economic environment (including, without limitation, the Labor Code, the Employers Association Law, The Collective Labor Conflicts Law and the Union Law)	<p>Make the match between the labor legislation and the market economy principles; enable employers to better manage their labor force, facilitate free movement and re-location of employees.</p> <p>Redefine employers' association legal status as to create the environment for a constructive and workable social dialogue.</p> <p>Change procedural details governed by the Labor Code and applicable to labor litigation such as the summoning provisions, enforcement of court rulings after the first tier judgment.</p>	1% decrease in the unemployment rate -> 84,000 new temporary/permanent jobs in the short run





D10 Transforming the Public Sector

NO.	ACTION	DETAILS/ COMMENTS	ESTIMATED IMPACT
1	Reform public administration using clearly defined efficiency indicators	<p>Review and remove non value adding administration structures and systems and assess the skills and quality of the staff, with a view to improve quality of service and efficiency. Positive social and financial impact due to the increased efficiency of the services provided and the streamlining of the structures.</p> <p>Implement a standard E-Government concept, to be used by all state institutions in the interactions with the public.</p>	Increased efficiency and quality of public service




E FIC PROPOSALS – EXTENDED DOCUMENT

E1 Stabilizing the Macroeconomic Environment (1/3)

NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
 1	Introduce a transparent Registry of Claims from the state budget at MoF with assigned maturity by claim	All valid and budgeted customers claims (VAT, project finance, state contractual payments) should be assigned payment dates in an open and transparent registry and therefore the banking system could discount such claims and restart flow of money in the economy. Many cases of bankruptcies could be thus avoided.	4/ 4 Short term EUR 500mn loans -> 0.9% increase in GDP -> +19,000 new employees in the medium term -> 0.7% increase in budget revenues
 2	Start Prima Casa 3 Program to re-launch real estate and constructions sectors	The state guarantee could cover only 50% of the loan amount, as the rest is collateralized, but the volume of the facility could be increased (i.e.: doubled). Loans of approx EUR 1.4 bil could be thus granted, through the extension of the applicants base. For this, the recapitalization of the SME Guarantee Fund may need to be taken into consideration.	4/ 4 Short term EUR 1.4bn loans -> 0.6% increase in GDP -> +12,000 new employees in the medium term -> 0.5% increase in budget revenues. Budget costs EUR 70mn (0.06% of GDP)
3	Reduce Foreign Currency minimum reserve requirements	The current level of 25% can be reduced, especially for International Financial Institutions loans, in order to increase liquidity in the market to either lend to the real economy or finance the budget deficit.	4/ 3 Short term 5pp cut in FX MRR -> private sector loans worth EUR 1.4bn -> 2.4% increase in GDP -> +53,000 new employees in the medium term-> 1.9% increase in budget revenues



E1 Stabilizing the Macroeconomic Environment (2/3)

NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
 4	Renegotiation of IMF agreement to allow a budget deficit for 2011 with a clear and sufficient allocation for infrastructure investments, as part of the overall deficit planning, having special release arrangements	A probably higher budget deficit than the current target for 2011 (but still on a falling trend versus 2010) could allow the Government to make increased infrastructure investments. The mechanism needs to be created so that the amounts can only be used for investments and not for revenue expenditure. In this respect, please see also action 3 in chapter E6.	4/ 4 Short term
5	Define and stimulate investments in key domains of the economy	Have clear plans and commitments which can re-launch the economy (infrastructure, agriculture, information technology, tourism, renewable energy, etc.) or which represent a competitive advantage for Romania (e.g.: bio agriculture and agro-tourism).	4/ 3.5 Long term
6	Further develop local currency capital market	Longer term RON issuance to build liquid yield curve; review primary dealer framework; simplify access of local companies to the domestic capital market and decrease the costs (improve the process of public offerings, decrease stock exchange related fees, which are much higher compared to other European countries, etc.); incentives for regular and longer term savings.	3.5/ 2.5 Short term In progress
7	Implement covered bond legislation in order to allow cheap longer term financing for reviving mortgage lending in Local Currency	Draft and approve primary and secondary legislation for a covered bond framework in line with international standards.	3/ 2.5 Short term

E1 Stabilizing the Macroeconomic Environment (3/3)

NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
 8	Reduce late payment penalties for debt towards the state to more sustainable levels	The current levels of penalties are a burden for the private sector, especially for the smaller businesses which struggle with liquidity problems, given the arrears problems in the economy, which is fuelled also by the state payment behavior.	3/ 2 Short term In progress
9	Re-launch under a new vision the ->Made in Romania-> certification and build on it	Increased consumption of locally produced goods will decrease dependency on imports and will contribute to developing local businesses (e.g.: agriculture and food industry, manufacturing products).	3.5/ 3 Long term
10	Promotion of Romanian exports	Devise enhanced export promotion policies and identify new markets for exports, besides the EU. Transform Eximbank into the Romanian bank for the development of exports. Follow success stories in other countries (e.g.: Turkey), set up support institutions to execute (export promotion centers) and enhance the system of bank warranties.	2.5/ 2.5 Long term

E2 Implementing Better Governance (1/3)

NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
 1	Create an Economic Development Council (EDC) to help define the long term strategy of the Romanian economy	<p>The EDC objective would be to provide valuable guidance on economic policy and institutional reform matters. EDC would help designing sound economic policies based on expert knowledge, which could be subsequently subject to public debate. EDC should be composed of recognised experts (professors, researchers, etc.) with an acknowledged reputation in their field, representatives of private and public sectors and trade unions. Its envisaged role is to act as an interface between private sector and government institutions (including relevant ministries, the Presidency) in order to facilitate/enhance communication and knowledge transfer in a timely manner.</p> <p>Another solution is to create the EDC based solely on private sector membership ; the EDC would then act as a consultative body, mandated by the Presidency or the Government to provide ideas for economic growth.</p> <p>EDC's operational areas could target (not exclusively): the macro-economy, money and finance, public finance and social welfare, industry, trade, labor, law, economics and globalisation.</p> <p>The private sector could support financially the creation and the administration of the EDC.</p>	4/ 4.5 Short term Enabling action for other measures
 2	Create the ->Romania 2015-> Group from the top 1000 young managers/ professionals in order to reshape Romania's future	<p>The group should act as a think tank, being consulted by the state and offering advice on improving the country's economical/ social/ political environment and working closely with the state on the implementation.</p> <p>The private sector could support financially the creation and the administration of the group.</p>	4/ 4.5 Short term

E2 Implementing Better Governance (2/3)




NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
3	Implement longer term strategies and plans in order to ensure increased predictability of the economic environment (the equivalent of a ->Marshall Plan-> for Romania)	Set priorities and plans in terms of strategic development (infrastructure, tourism, agriculture, health, education, etc.) in a multi-annual budgeting system. The Government needs to communicate continuously that it is determined to create consistency and stability and to prove it.	4/ 4.5 Long term
4	Ensure continuity and predictability of public governance	Develop a continuous Romanian civil and commercial service with fewer changes at Secretary of State level and below when Ministers change and fewer changes of CEOs in state owned companies. Eliminate politisation of state institutions and companies. Also, private sector secondments should be considered.	4/ 4 Long term
 5	Reform substantially the Court of Accounts or set up an independent audit body to audit government expenditure practice and accounts based on greater transparency and benchmarking	Increase transparency, reduce public sector costs by allowing a more open competition among government's suppliers of goods and services. Also, building up trust in government's institutions and thus improving tax compliance as the public has more knowledge of how public funds are spent.	4/ 4 Long term





E2 Implementing Better Governance (3/3)

NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
6	Enhance the consultation mechanism between public and private sector and civil society, to make it formal and systematic in order to come up with measures to foster economic growth	Appropriate measures taken by the government to stop recession and foster economic growth. Alignment between public/ private sector.	4/ 3.5 Long term
7	Boost work force competitiveness	Limit the use of unemployment financial assistance and link it with mandatory retraining, work for the state authorities or voluntary work with NGOs. Create incentives for trainings on technical skills and strengthen infrastructure for retraining using EU funds. Focus on the pool of talents and incentivize their development (see the successful precedent with IT professionals).	4/ 3 Long term
8	Develop a clear long term strategy for retaining and attracting skilled staff in Romania	There is an increasing trend of highly skilled staff (e.g.: doctors) leaving to more developed countries and Romania should develop and put in place a strategy for retaining Romanian expertise and for attracting good professionals from the Republic of Moldova, by offering them special work permits, for example.	3/ 3 Long term


E3 Supporting SME Business Development (1/4)

NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
 1	Create subsidized lending facilities for SMEs, through the joint contribution of banks and public sector. Also a development bank / fund could be set up to take this role (based on the model of KfW in Germany), to help leveraging EU funds.	The banks could allocate equity and expertise for the set-up of the development bank/ fund. The lending programs could also benefit from EU funding.	4/ 4 Short term A fund of EUR 50mn ->loans EUR 250mn -> 0.5% increase in GDP -> +9,000 new employees in the medium term -> 0.4% increase in budget revenues Budget costs EUR 49mn (0.04% of GDP)
 2	Re-launch the multiannual program for unemployment, administrated in the last seven years by the National Agency for Employment	The program, designated to grant loans with advantageous interest for the companies creating new jobs, would contribute to decreasing the unemployment.	4/ 4 Short term Loans of EUR 25mn / year -> +12,500 new jobs-> 0.04% increase in GDP
 3	Re-launch the national multiannual program for investments developed by SMEs (a special program with multiannual budget dedicated to SME- a combined scheme loan-grant-own contribution)	The previous implemented schemes were a big success (nine banks were involved).	4/ 4.5 Short term

E3 Supporting SME Business Development (2/4)

NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
 4	Contribute to the growth of new start-up businesses in strategic sectors, by fiscal incentives for the first 3-5 years	This will increase the number of new businesses and the state will benefit immediately from the decrease in unemployment.	4/ 4.5 Short term
5	Support the development of smaller businesses, by decreasing the minimum threshold for the state aid schemes from 10 mio EUR investment and at least 100 new employees to lower levels (e.g.: 10,000 EUR and 10 workplaces). Banks can be included / delegated the approval flow, in order to increase speed of granting.	The current levels are very high given the economic climate. This measure will lead to a higher employment rate and an increased tax income for the state budget.	3.5/ 4.5 Short term In progress
 6	Encourage the establishment of new start-up businesses by allocating more funds for the incentive program for establishing SME/ micro companies (Law 346/ 2004)	Allocating the equivalent budget for setting up 10,000 companies, instead of a few hundreds as now. Scheme: state contribution of 10,000 RON + private contribution of 30%. This will generate approx 25,000 workplaces, the state budget will benefit from additional taxes and contributions paid and from the savings in unemployment fund. Starting with 2011, this initiative could be supported from EU funds.	3.5/ 4.5 Short term

E3 Supporting SME Business Development (3/4)

NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
 7	Extension of ->Rabla-> program (car sale incentive) to use the vouchers for different types of assets	The vouchers could be also used for acquisition of agriculture equipment, thermo insulation materials, eco-energy solutions , etc.	3.5/ 3.5 Short term
8	Eliminate/ reduce the minimum corporate tax	The minimum tax has already produced its effects of eliminating inactive companies and is now only a burden to the barely surviving small businesses. During May 2009-May 2010, the state lost approx 1.2 bil RON in tax income from the closed down companies (estimated at 25% of total number closed companies in the period). By eliminating / reducing the tax, additional losses of up to 600 mil RON for the next 12 months can be avoided.	3.5/ 3.5 Short term In progress
9	Set up local/ regional advice centers for SMEs in order to drive local progress	The private sector (banks, large companies, consultancy firms) could assist authorities by offering free of charge training and support (e.g.: for business plans creation, project management , etc.).	3.5/ 3.5 Long term
10	Develop and institute a code of conduct for the large companies and the state with regards to payment times for the SMEs	Reasonable payment times should be set and agreed by the large companies in relation to their suppliers (e.g.: by extending to various sectors the provisions of law 321/2009 with regards to selling food products). Also, the same principle should be observed by the state in repaying its debt (VAT, bills of state enterprises) towards the private sector.	4/ 3 Long term

E3 Supporting SME Business Development (4/4)



NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
11	Increase transparency and access for the SMEs to public acquisitions processes	This can be done through developing free information and support services for the SMEs and by building a partnership with the most representative business confederations.	3/ 3 Long term
12	Stimulate through incentives the development and the financing of research projects	E.g.: lower tax rates for the income derived from research and development projects, but the incentives could be also non-fiscal.	3/ 3 Long term

E4 Supporting Further Investments (1/4)


NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
 1	Develop the capital markets through local and international listing of the Property Fund and by establishing an accelerated, clear and transparent schedule of the privatisation of the state companies-listings and strategic sales, including minority shares (e.g.: infrastructure, transportation, energy)	This will give the private sector the responsibility for investment and growth and the Government would obtain funds that can be then invested in infrastructure projects in order to benefit from a multiplying effect.	4/ 4.5 Long term Funds raised from selling the majority and minority stake in state owned companies of EUR 2bn (invested in infrastructure)-> 2% increase in GDP -> 1.6% increase in budget revenues.
 2	Establishing public-private joint ventures with foreign partners, giving them the controlling stake (including existent state companies) for a predetermined number of years (e.g.: for 30 years) and with the right to dispose of the profit, on the condition that the said investors will develop all the production chain, from R&D until the marketing of the products.	<p>The first industrialization of Romania, carried out between 1965 -1977 was a failure because foreign investors were not given the controlling stake, nor asked the conditionality of developing the next generation of products. Therefore, when the already obsolete industrial products went out of use, there was nothing to replace them and agricultural exports had to be used in order to pay for the failed industrialization.</p> <p>A new attempt to re-industrialize Romania, largely with foreign investments, but also with repatriated profit, will bring advantages in the medium and long term: complete chain of production (including R&D), development of local skills, development of an export -oriented industrial sector, increased competitiveness.</p>	4/ 4.5 Long term EUR 1bn FDIs -> 1.6% increase in GDP -> 30,000 new employees in the medium term-> 1.3% increase in budget revenues



E4 Supporting Further Investments (2/4)

NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
 3	Incentivize the development of areas where Romania could have a competitive advantage in order to improve the country brand	<p>Identify the areas of competitiveness (e.g.: tourism, sports, film industry, IT, etc.).</p> <p>For example, the growth of the film industry could be supported through a ->Filmed in Romania-> program. Romanian film industry has gained momentum over the last few years and has proved it can deliver worldwide praised productions. That is why it is one of the domains where Romania could have a competitive advantage, based on its location, talented and skilled staff, diverse scenery, etc. and international/ local producers should be incentivized to carry out their projects here.</p> <p>In the IT sector Romania could incentivise the setting up of call centers and shared services entities, based on the skills of the local force.</p>	4.5/ 4 Long term Narrow the trade deficit on the tourism and travel segment -> stable RON and new jobs
 4	Delivering on the promises originally made to the foreign investors, in order to maintain a positive investment climate and to ensure export growth	E.g.: for automotive industry, the transportation infrastructure still needs to be further improved and for energy and gas sector the regulatory framework must be implemented.	4/ 4 Long term 1% increase in GDP -> 0.8% increase in budget revenues in the medium term
5	Provide incentives for long-term, large scale investments aimed at building up country's capital (i.e.: in the energy, infrastructure and agriculture sectors), under EU approved state aid schemes	<p>This creates the potential for enhanced future growth.</p> <p>The state will benefit from taxes on salaries and the increased economic activity.</p>	4/ 4.5 Long term

E4 Supporting Further Investments (3/4)


NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
 6	Set targets and define an action plan in order to get Romania into the Top 20 most competitive economies in Europe within the next 10 years	Global Competitiveness Index (GCI) 2009-2010 ranks Romania 30th in Europe and 64th in the world, with a score of 4.11. Getting into the Top 20 would require achieving a score of 4.40, the equivalent assigned in 2010 to the Portuguese economy. The Economic Development Council should be involved together with the state in identifying the targets based on benchmark comparison and in defining and implementing the action plan. The focus should then be on marketing the goal to the investors and on rapid delivery of the actions.	4/ 4 Long term
7	Clarify and promote the strategy for liberalizing energy and gas market	Full liberalization of market, combined with social protection for vulnerable customers will attract investments in gas and electricity combined with higher income for the state. Also, the status of the two state energy companies needs to be clarified.	4/ 3.5 Long term
8	Offer to the banks the comfort that the investment done by the beneficiaries of the state aid schemes are 100% eligible for payment from Ministry of Finance, before the loan disbursement.	Also, the state aid payment should be done in the beneficiary's account opened at the financing bank and not in the Treasury account.	4/ 3 Short term

E4 Supporting Further Investments (4/4)


NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
9	State aid schemes - clear and transparent process for awarding state aid	Applicants should be treated equally and communicated up front the information required.	3/ 3.5 Long term
10	Create a real estate fund through the in kind contribution of developers and / or banks benefiting of a special law for fast foreclosure and property management.	<p>Set up an open ended real estate fund to which any developer or bank could contribute assets or loans against a unitary valuation provided by the fund's selected valuator. Thus, most of the stalled projects could continue with positive impact on valuations, demand, construction sector.</p> <p>The private sector could support financially the creation and the administration of the fund.</p>	2.5/ 2.5 Long term
11	Encourage by subsidies the replacement of old, inefficient electric appliances with energy efficient ones, as part of the Green Investment Scheme (the CO2 emission reduction program financed through the sale of the excess of emission rights).	<p>The source of financing will be a fraction of the revenues obtained from the sale of the excess of AAU (Kyoto Protocol emission rights), making the project part of the GIS (Green Investment Scheme) which has to be put in place.</p> <p>The First National Action Plan for Energy Efficiency sent to the EU Commission foresees the implementation of a measure to grant a 50 Euro subsidy for the replacement of the old appliances with new ones A class or better.</p> <p>A similar project is already implemented in Hungary.</p>	2.5/ 1.5 Long term



E5 Leveraging EU Funding (1/2)




NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
 1	EITHER Outsource (or centralize in one entity with concentrated expertise) the management of the acquisition process of EU Funds (i.e.: the outsourcing could start with the administration of calls for proposals launched within the operational programs or other financing schemes especially for SMEs, micros, other categories of enterprises- SOP IEC, ROP, NRDP, HG 1164, HG 1680 etc)	The proposal is based on the fact that the lack of experts at the level of the ministries in charge is delaying the implementation of the operational programs and is taking into consideration the experience of some commercial banks in managing financing schemes.	4/ 4.5 Short term Structural funds of EUR 400mn/ year -> 3.6% increase in GDP -> +75,000 new employees in the medium term -> 2.9% increase in budget revenues Budget costs EUR 400mn in the medium term (0.3% of GDP).
2	OR Review the appropriateness of the bonus scheme for the state employees working with EU funds and link it to performance	The motivation scheme for the concerned employees could be improved so as to incentivize more rapid funds disbursement. E.g.: potential bonus split: <ul style="list-style-type: none"> a. Project valuation (10%) b. Contracting (15%) c. Amounts disbursed (75%) The absorption rate of EU funds could grow by at least 30%.	Agricultural funds worth EUR 144mn/year ->1.3% increase in GDP -> +26,000 new employees in the medium term -> 1% increase in budget revenues Budget costs EUR 140mn in the medium term (0.12% of GDP). Bonuses for 8000 employees -> budget costs of EUR 2-3mn/month.

E5 Leveraging EU Funding (2/2)

NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
 3	Allocation of certain amounts from the structural funds for a revolving scheme (combined bank loans with non-reimbursable and /or reimbursable component) to be implemented by commercial banks. The reimbursable component will be managed by the bank for financing other projects in the same structure.	This kind of scheme can provide a multiplication effect, enabling the access to funding to a greater number of companies, taking into consideration that the number and value of the projects presented under the operational programs within the private sector was always by far greater than the allocated budget.	3.5/ 4 Short term
4	Perform a mid-period review of the absorption for the 2007-2013 EU funds	Reallocations need to be made from the sectors with lower absorption rates to the ones with insufficient funds allocated (e.g.: SMEs, energy, investments for large companies).	3/ 3 Long term



E6 Delivering the Infrastructure for a Modern Economy (1/3)

NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
 1	Submitting a joint bid (together with Hungary/ Bulgaria) for the organization of the 2020 European Championship of Football	<p>Romania can benefit from the previous experience from the organizers of the 2012 EC (Poland and Ukraine), which can be easily replicated. Costs are not large, will be shared between two countries and over a very large period of time.</p> <p>The resulting infrastructure (airports, highways, hotels, stadiums) will remain in the country and tourism will receive a boost. Based on first estimates: the number of tourists will increase by at least 1 million during the event and 0,5 million yearly thereafter. All this, at an estimated cost of approx. EUR 10 billion, to be spread over 9-10 years. An in depth feasibility assessment should be performed.</p>	<p>4.5/ 4.5 Long term</p> <p>Public investment in infrastructure will support domestic demand to the extent that local resources will be involved (construction materials and metallurgy, quarrying).</p> <p>EUR 1bn infrastructure investments -> 1 % increase in GDP</p>
 2	Promoting co-financing models. The private sector to support initiating costs for one major project proposed by the Government	<p>Infrastructure investments are beneficial in an economic down-turn scenario and the market would need a successful project to regain interest in the Romanian infrastructure, after the cancellation of the project for the A3 Comarnic- Brasov highway.</p> <p>The private sector could support from own funds the feasibility study, project management, training for public sector employees, etc.</p>	<p>4.5/ 4.5 Long term</p> <p>EUR 1bn infrastructure investments -> 1 % increase in GDP</p>
 3	Set up a separate authority to handle infrastructure projects prioritisation, project management and financing	<p>The Authority (with both public and private management) should focus on delivering some of the major existing projects in road and energy (with realistic and measurable objectives) and should report to the Economic Development Council.</p> <p>These projects are crucial as they will serve as a vehicle for funds injection (EU funds included) in the economy, creation of employment, opportunity for concession/ PPP projects development, will create confidence and will demonstrate the ability of the country to deliver.</p>	<p>4.5/4.5 Long term</p>

E6 Delivering the Infrastructure for a Modern Economy (2/3)

NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
4	Enhance interconnection with other countries for gas and electricity	More competitive environment with alternative sources will be available.	4/ 3.5 Long term
5	Scaling-up energy efficiency and renewable energy financing programs (including industrial, suppliers, residential, building and municipalities sectors), in order to realise the energy efficiency potential	<p>Countries in the region (Bulgaria, Ukraine, Hungary, Turkey) were/ are very active in this respect, benefiting of large programs with the involvement of EU donors.</p> <p>Romania could aim to be benchmark in the region by 2020 with regards to energy efficiency achievements.</p> <p>The supporting legislation for law 220/2008 needs to be put in place, in order to clarify the rules of integrating new renewable projects in the existing network.</p>	3.5/ 4 Long term
6	Ensure clear and non-conflicting legislative framework (e.g.: concession law and draft new PPP law)	The laws could be reviewed with the assistance of one reputable law company with international experience in this matter.	4/ 3 Long term In progress
7	Re-launch the privatization in the energetic sector	Privatization, including of the three electricity distribution and supply companies, will bring investments and efficiency increase to the sector.	3/ 4 Long term

E6 Delivering the Infrastructure for a Modern Economy (3/3)

NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
8	Promoting cogeneration projects with private partners for local heating	<p>The legal framework for promoting high efficiency energy cogeneration should be finalized.</p> <p>Through private investments in cogeneration assets the obsolete power generation assets shall be replaced by new and efficient ones to relieve the burden on the local authorities' budget for subsidizing public heating.</p>	3.5/ 3.5 Long term
9	Ensure a transparent tender process as part of concession/ PPP laws	Ibis require a tender in order to be involved in the process if they are financing the projects.	3/ 3 Long term In progress
10	Increasing borrowing limits of municipalities	This will enhance investments and decrease unemployment and needs to be supported by increased control and better local expertise. Private sector could provide expertise and funding for local/ regional development.	2/ 3 Short term



E7 Realising the Potential in Agriculture (1/2)

NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
 1	Accelerate the investments in agriculture infrastructure, including through EU funds absorption	<p>In order to increase productivity in agriculture, irrigations and rural infrastructure need to be developed and the state and the banks should work together on defining the programs for swift absorption of EU funds in this respect.</p> <p>The absorption rate can be increased through the reallocation of EU funds to viable projects and through maintaining the predictability of EU funds eligibility criteria.</p>	<p>4/ 4.5 Long term</p> <p>EU funds of EUR 150mn/year -> reduce the trade deficit -> reduce inflation</p> <p>Budget costs EUR 40mn (0.03% of GDP)</p>
 2	Increasing efficiency in agriculture through grouping of the land plots and releasing for productive use the huge resources locked in subsistence agriculture	<p>This can be done either by adopting incentives aiming at re-grouping plots of lands , such as life annuities, bonuses for young people, facilitated access to irrigation infrastructure, or by introducing higher taxes for the land and real estate not used productively, in order to encourage the selling of assets and search of work by low qualified people.</p> <p>A significant part of the 2 million subsistence farmers should turn to the service sector and to the industry (generally, in low-skilled jobs), as a result of increased land taxation and around 4 million hectares of land could get consolidated, making it possible to exploit large scale farming.</p> <p>A vast amount is available from the European Commission for Rural Development (more than EUR 4 billion.) The Government would need to co finance by another EUR 1 billion, but this could be collected as a result of higher taxes on land.</p>	<p>3/ 3.5 Long term</p> <p>A good agricultural year increases GDP by around EUR 2bn (+1.5 % of GDP)-> 28,000 new temporary/ permanent jobs in the short run-> 1.2% increase in budget revenues</p>





E7 Realising the Potential in Agriculture (2/2)


NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
3	Develop a National Plan for Agriculture and define clear sector/ product strategies	Establishing a national action plan and strategies by sector (or by big category of products, such as cereals, wine, fruits & vegetables, biomass, etc) will lead to higher predictability and increasing investments.	4/ 4 Long term
4	Exploit the potential of bio agriculture and agro-tourism	This could represent an important advantage for Romania in the competition with other European countries. It can be done based on EU funds which are readily available and also through a private equity fund. Banks and consultancy companies could work together with the authorities in order to set up the financing schemes.	3.5/ 3.5 Long term
5	Maintain low VAT rates for basic food products	In the majority of the developed EU countries, the VAT is lower for the basic food products. Maintaining the level of V.A.T. for the basic food products at the same level with the luxury products, is encouraging the fiscal evasion with respect to raw agricultural materials. In this sense, a reasonable V.A.T. level for basic agriculture products will increase investment in agriculture.	3/ 3.5 Long term
6	More active government involvement in the process of re-shaping the Common Agriculture Policy	Romania has specific interest in the agricultural sector and the current process of re-shaping the Common Agriculture Policy allows Romanian authorities to have an important say in defining future policies.	3.5/ 3.5 Long term



E8 Targeting Tax Policies for Growth (1/3)

NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
 1	Focus tax audits on taxpayers who present a high risk of fiscal evasion, rather than carrying out random audits. Concentrate on efficient measures to fight evasion, improve collection and anti-money laundering	<p>More focused tax audits would reduce the costs of tax administration and will raise budget revenue which can be then used for public investments.</p> <p>The private sector is willing to support financially (by hiring security companies at its own expense) the improvement of customs controls, in order to reduce fiscal evasion.</p> <p>More feedback should be provided by the state authorities with regards to the numerous reports that the banks and private companies produce (e.g.: anti-money laundering).</p>	4.5/ 4 Short term Diminishing fiscal evasion will free up additional resources of EUR 460mn/ year for investments -> 2.2% increase in GDP -> +46,500 new employees in the medium term -> +1.8% increase in budget revenues
 2	Ensure consistency and predictability of the tax system	<p>Consistency and medium term predictability of the tax system are key to attracting foreign investments in Romania.</p> <p>Also, promoting a low-tax regime corroborated with broadening the tax base may be beneficial for enhancing the growth potential and increasing budgetary revenues:</p> <ul style="list-style-type: none">■ The flat tax (on income and profits) should be maintained or reduced from its current level of 16%. Since its introduction in 2005, it proved to be beneficial for the economy■ The VAT increase should be reversed to 19% in order to maintain export competitiveness within the EU■ Perceived disincentives to employment such as the social security contributions (SSC) could be changed to encourage employment	4.5/ 4.5 Long term

E8 Targeting Tax Policies for Growth (2/3)


NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
3	Allow full tax exemption for reinvested profits	The current law does not really fully encourage investments, as it only delays payment of the tax for reinvested profit, rather than eliminating it (currently, the depreciation of the assets bought from reinvested profits is not considered tax deductible).	5/ 3.5 Short term
4	Adoption of Holding Company Law in order to allow set up of appropriate corporate structures (matching especially multi-business companies), to eliminate taxation in cascade of dividends and allow profit/loss compensations within a Group	This will avoid migration to tax havens and will stimulate setting up of holding companies in Romania. Countries such as Czech Republic, Poland and Bulgaria have already adopted such regulations.	3.5/ 3.5 Short term In progress
 5	Improve collection by increasing penalties for fiscal evasion and by simplifying compliance and tax payment procedures	A quarter or more of the declared taxes are not being collected according to the ANAF statistics, which is a very high percentage compared to other EU countries. Also, in an attempt to decrease levels of tax evasion, the list of bad tax payers should be made public.	3/ 3.5 Short term



E8 Targeting Tax Policies for Growth (3/3)

NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
6	Simplify the tax system to stimulate foreign investments	Simplify the tax system by reducing the number of taxes and eliminating the exceptions applicable only for some tax payers. If the tax system is simple, unitary and uniformly applied, all the tax payers will be rather interested in complying than to risk large fines for tax evasion.	3/ 3 Long term

E9 Reforming the Legal System (1/4)

NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
 1	Adjust the labor legislation in order to make it more flexible and adaptable to the changes in the economic environment (including, without limitation, the Labor Code, the Employers Association Law, The Collective Labor Conflicts Law and the Union Law)	<p>Make the match between the labor legislation and the market economy principles; enable employers to better manage their labor force, facilitate free movement and re-location of employees.</p> <p>Redefine employers' association legal status as to create the environment for a constructive and workable social dialogue.</p> <p>Change procedural details governed by the Labor Code and applicable to labor litigation such as the summoning provisions, enforcement of court rulings after the first tier judgment.</p>	<p>4/ 4 Short term</p> <p>1% decrease in the unemployment rate -> 84,000 new temporary /permanent jobs in the short run</p>
2	Sound incentives for encouraging absorption of unemployed people in the private sector	For example, employer contribution and social contributions could be eliminated/ decreased for 12 months for the respective employees who return to work.	<p>4/ 4 Short term</p>

E9 Reforming the Legal System (2/4)

NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
 3	Review of the judiciary system in order to increase the quality of the legal decision processes	<ul style="list-style-type: none"> a) Unification of the legal practice of the Romanian courts as a prerequisite condition for a sound legal system b) Raising professional standards for judges through additional training aimed at improving their understanding of market mechanisms c) Clearly defining the independence role of the judges. Applying the rule of law vs. substitution of other institutional functions d) Increasing the responsibility of the judges by putting in place an appraisal system with appropriate benchmarks (e.g.: percentage of the decisions that are overruled by the superior court) e) Take urgently the corrective actions recommended by the European Commission in the Report on Justice (with regards to public acquisitions, National Integrity Agency, etc.) 	4/ 4 Long term
4	Ensure stability of the legislative framework (including taxation) and increase consultation with the business community on new laws to be passed	<p>A clear and predictable legislation will help foreign investors regain their trust in doing business in Romania.</p> <p>Consultation on any material law to be taken with minimum 6 months prior the date of entering into force.</p>	3.5/ 4 Long term



E9 Reforming the Legal System (3/4)


NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
5	Review of owners' compensation system in line with European Court of Human Rights findings	Amendments should aim to offer a workable and effective compensation mechanism by amending Law 247/2005 (recently amended).	3.5/ 4 Long term
6	Unifying and straightening out the provisions included in the special legislation (e.g. Petroleum Law, Gas Law, Energy Law) on the right to use the necessary real estate	Such provisions are aimed to grant to operators the right of use of real estate, right which is instrumental for the set up of investments in plants and infrastructure.	3.5/ 4 Long term
7	Change the current insolvency law to ensure equitable approach between creditors and debtors. Provide adequate commercial training to the syndic judges.	Very easy for the debtor to enter insolvency procedures (5 days) against a much lengthier process for creditors to ask insolvency (3-6 months).	3/ 3 Short term
8	Ensure a fast track approach to foreclosures so that the creditors turn collateral into liquidity fast	The foreclosure time has lengthened from 9 months in 2007 to an estimated 2 – 3 years now. This results in a financial loss and less funds available to the healthy part of the economy, hindering the recovery of the credit growth.	3/ 2.5 Short term



E9 Reforming the Legal System (4/4)


NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
9	Pass legislation that will incentivize use of electronic transactions (e.g.: using POSs or internet transactions against the usage of cash)	Other countries have imposed different VAT treatments for cash purchases against purchases on cards and therefore they have increased the level of corporate taxable income.	2/ 3 Long term

E10 Transforming the Public Sector (1/2)

NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
 1	Reform public administration using clearly defined efficiency indicators	<p>Review and remove non value adding administration structures and systems and assess the skills and quality of the staff, with a view to improve quality of service and efficiency. Positive social and financial impact due to the increased efficiency of the services provided and the streamlining of the structures.</p> <p>Implement a standard E-Government concept, to be used by all state institutions in the interactions with the public.</p>	4/ 4.5 Long term
2	Ensure sustained improvement in public finances	Broaden tax base, improve tax collection by increasing transparency and depoliticizing the process, increase efficiency of public spending in line with EU benchmarks and deliver planned lay-off in the public sector by year end.	4/ 4 Long term
3	Restructuring of state controlled companies	Continue restructuring process, streamline operations, spin off non-core activities, implement IFRS, prepare companies for privatization (partial listings on Stock Exchange and strategic sales), close down or sell loss making companies or operations, introduce outside Board Members.	3/ 3 Long term
4	Strengthen the relationship with established and reputed Non-Governmental Organisations	Cooperation in the areas of outsourcing part of the social services or introducing best practices in this field, in order to improve efficiency of the financial resources in social services.	3/ 2.5 Long term



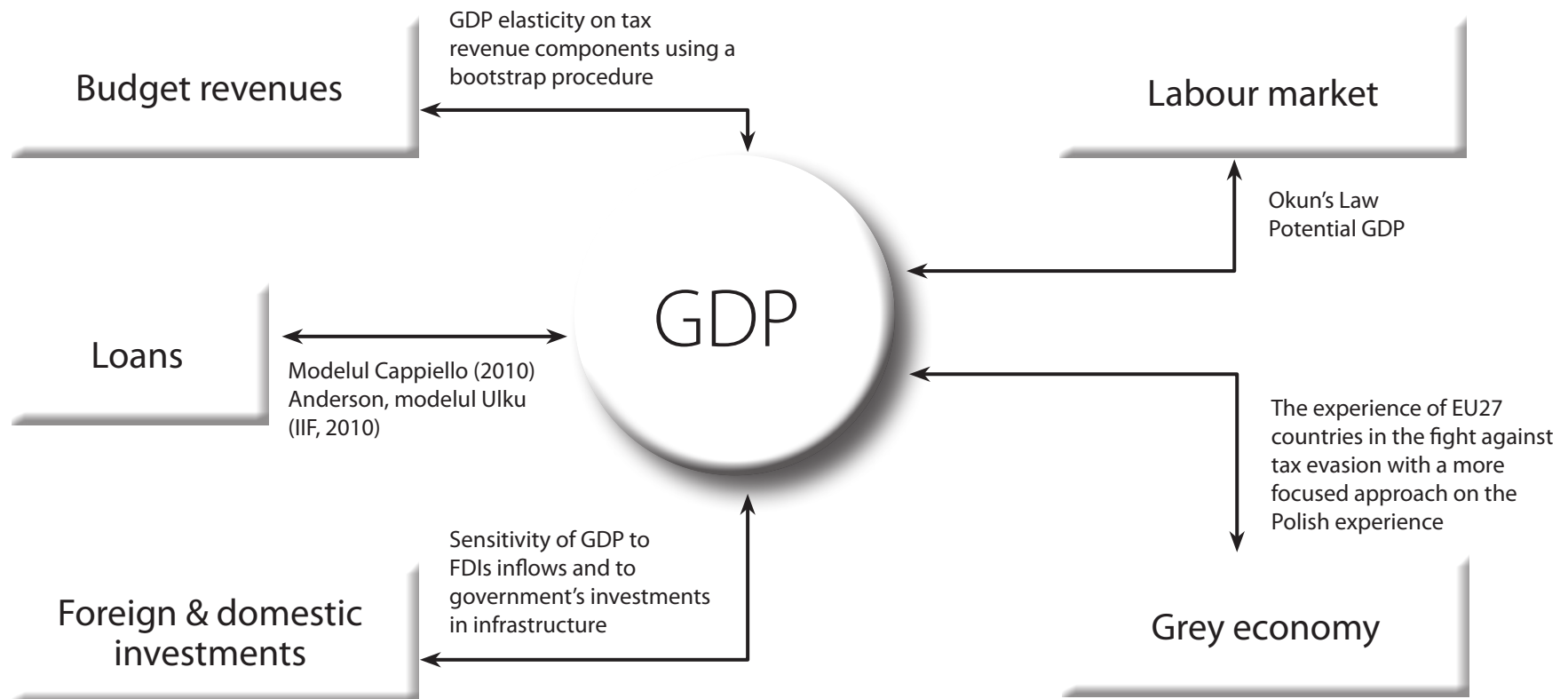
E10 Transforming the Public Sector (2/2)

NO.	ACTION	DETAILS/ COMMENTS	PRACTICABILITY/ IMPACT/TERM 1-lowest, 5- highest
 5	Implementing a new IT system for health-care sector	<p>E-card for patients; e-prescriptions. These measures could help increase the control of prescriptions, generate savings to the system and increase transparency in spending.</p> <p>According to first estimates, savings between 15-20% of the National Health Insurance House drug budget can be made (RON 2.5 bn; drug consumption in 2009 was of RON 4.8bn).</p>	1/ 3 Long term



DETAILS ON THE MACRO-ECONOMIC IMPACT ASSESSMENT

F Brief summary of the connections between the macroeconomic variables/models





F Details on the macro-economic impact assessment for the 12 key actions (1/3)

NO.	ACTION	MACROECONOMIC IMPACT
E.1.1	Introduce a transparent Registry of Claims from the state budget at MoF with assigned maturity by claim	A EUR 500mn increase in new corporate loans in the next quarter would result into an increase of 0.5% in GDP in the short term and 0.9% in the medium term. Around 8,000 new jobs will be created on short term and 19,000 new jobs on the medium term. Budget revenues will increase by 0.4% on short term and 0.7% on medium term.
E.1.2	Start Prima Casa 3 Program to re-launch real estate and construction sectors	Banks will extend new mortgage loans worth EUR 1.4bn over four quarters. This will increase GDP by 0.3% on short term (+4,600 new jobs) and 0.6% on medium term (+12,000 new jobs). Budget revenues will raise by 0.2% on short term and 0.5% on medium term. Budget costs will be EUR 70mn (0.06% of GDP). The program coverage should be extended.
E. 3.1	Create subsidized lending facilities for SMEs, through the joint contribution of banks and public sector. Also a development bank / fund could be set up to take this role (based on the model of KfW in Germany), to help leveraging EU funds.	Creating a fund of EUR 50mn could result in loans worth EUR 250mn. This will lead to an increase of 0.3% in GDP on the short term (+4,000 new jobs) and 0.5% in the medium term (+9,000 new jobs). At the same time, this will generate a 0.2% increase in budget revenues on the short term and 0.4% on the medium term. Budget costs will be 0.04% of GDP.
E.4.1	Develop the capital markets through local and international listing of the Property Fund and by establishing an accelerated, clear and transparent schedule of the privatisation of the state companies- listings and strategic sales, including minority shares (e.g.: infrastructure, transportation, energy).	Romanian government could raise up to EUR 2bn between 2011-2015 by selling its majority and minority stakes in state owned companies. The funds should be invested in infrastructure projects and this will generate a 2% raise in GDP. In turn, this increase in GDP could create additional new jobs on medium term. Budget revenues will increase by 1.6% on the medium term. Note: All funds raised from the privatization processes will be invested in infrastructure (EUR 2bn in the next five years). Despite the creation of new jobs, the net effect on employment could be negative due to restructuring and streamlining processes. It should be mentioned that the reduction of dividends was not taken into account (government's revenues from dividends could decrease by some EUR 200mn each year).

F Details on the macro-economic impact assessment for the 12 key actions (2/3)

NO.	ACTION	MACROECONOMIC IMPACT
E.5.1	<p>EITHER</p> <p>Outsource (or centralize in one entity with concentrated expertise) the management of the acquisition process of EU Funds (i.e.: the outsourcing could start with the administration of calls for proposals launched within the operational programs or other financing schemes especially for SMEs, micros, other categories of enterprises- SOP IEC, ROP, NRDP, HG 1164, HG 1680 etc)</p>	<p>The additional absorption of structural funds worth EUR 2bn in the next 5 years (an average of EUR 400mn/year) will lead to a 3.6% increase in GDP in the medium term. This raise in GDP will create 75,000 new jobs and will increase the budget revenues in the medium term by 2.9%. Budget costs will be 0.3% of GDP (around EUR 400mn) in the medium term.</p>
E.5.2	<p>OR</p> <p>Review the appropriateness of the bonus scheme for the state employees working with EU funds and link it to performance</p> <p>E.g.: potential bonus split:</p> <ul style="list-style-type: none"> a. Project valuation (10%) b. Contracting (15%) c. Amounts disbursed (75%) <p>The absorption rate of EU funds could grow by at least 30%.</p>	<p>The absorption of agricultural funds worth EUR 720mn in the next five years (an average of EUR 144mn/year) will generate a 1.3% increase in GDP in the medium term. Around +26,000 new jobs in the medium term and a 1% raise in budget revenues. Budget costs will be 0.12% of GDP (around EUR 140mn) in the medium term.</p> <p>The existing 8,000 employees working in EU funds absorption could get salary increases of up to 75% of their gross wages. This will generate additional budget costs of EUR 2-3mn/ month.</p> <p>It is estimated that Romania will absorb 30% more EU funds after implementing this measure.</p>
E. 6.1	<p>Submitting a joint bid (together with Bulgaria/ Hungary) for the organization of the 2020 European Championship of Football</p>	<p>A project worth EUR 5bn over the next 5 years will produce a 4.9% increase in GDP in the medium term. Around 100,000 new jobs and a 3.9% raise in budget revenues in the medium term.</p> <p>Note: The impact of this measure is included at E.4.1</p>



F Details on the macro-economic impact assessment for the 12 key actions (3/3)

NO.	ACTION	MACROECONOMIC IMPACT
E.6.2	Promoting co-financing models. The private sector to support initiating costs for one major project proposed by the Government.	<p>The infrastructure investments worth EUR 1bn will generate a 1% increase in GDP on medium and long term. Around 20,000 new jobs and 0.8% higher budget revenues in the medium term.</p> <p>The budget costs will be lower if EU funds are absorbed and the project turns out to be profitable.</p> <p>Note: The impact of this measure is included at E.4.1</p>
E.7.1	Accelerate the investments in agriculture infrastructure, including through EU funds absorption	<p>The absorption of European Funds worth EUR 150mn / year for agriculture could reduce the trade deficit on food segment (EUR 1.5bn in 2009). The inflation will be anchored at low levels given the significant share of the food products in the consumer basket used for the calculation of the inflation rate (37%).</p> <p>Budget costs will be EUR 40mn on short term (0.03% of GDP).</p>
E. 8.1	Focus tax audits on taxpayers who present a high risk of fiscal evasion, rather than carrying out random audits. Concentrate on efficient measures to fight evasion, improve collection and anti-money laundering.	<p>Diminishing fiscal evasion will free up additional resources for investment projects (EUR 2.3bn of investments in the next 5 years) which will produce a 2.2% increase in GDP which will create 46,500 new jobs and a 1.8% raise in budget revenues in the medium term.</p> <p>In our model we focused on the Polish standards regarding the share of the public revenues and expenditures in GDP and the fight against tax evasion.</p>
E.9.1	Adjust the labor legislation in order to make it more flexible and adaptable to the changes in the economic environment (including, without limitation, the Labor Code, the Employers Association Law, The Collective Labor Conflicts Law and the Union Law).	<p>1% decrease in the unemployment rate will create 84,000 temporary/ permanent new jobs in the short run. These new positions will be filled mostly by people working in the informal economy. An increase in the flexibility of the labour market will allow easier entries not only exits of the employees.</p>

F Details on the macro-economic impact assessment - other than the 12 key actions (1/2)

NO.	ACTION	MACROECONOMIC IMPACT
E.1.3	Reduce Foreign Currency minimum reserve requirements by 5pp to 20%	A 5pp cut in FX MRR will increase the liquidity. Banks will extend new loans to the private sector worth EUR 1.4bn which could be used to fund a big infrastructure project. GDP will increase by 1% on the short term and by 2.4% on medium term. 15,500 new jobs will be created on short term and 53,000 on medium term. It was assumed that all the additional liquidity created will go to the private segment of the economy (infrastructure projects). Budget revenues will increase by 0.8% on short term and 1.9% on medium term.
E. 3.2	Re-launch the multiannual program for unemployment, administrated in the last seven years by the National Agency for Employment, designated to grant loans with advantageous interest for the companies creating new jobs	An increase in the volume of new corporate loans of EUR 25mn / year will generate around 12,500 new jobs. More than 50% of these new jobs will be filled by former unemployed people. This will generate a 0.04% increase in GDP on the medium term.
E. 4.2	Establishing public-private joint ventures with foreign partners, giving them the controlling stake (including existent state companies) for a predetermined number of years (e.g., for 30 years) and with the right to dispose of the profit, on the condition that the said investors will develop all the production chain, from R&D until the marketing of the products.	A EUR 1bn increase in the foreign direct investments in the next year would result into an increase of 1.6% in GDP in the medium term. 30,000 new jobs will be created in the medium run. Budget revenues will raise by 1.3% on medium term. The reduction in the dividends flow was not considered, but there are pretty high chances for investments in these companies to grow once the investment decision will be made by a private management.



F Details on the macro-economic impact assessment - other than the 12 key actions (2/2)

NO.	ACTION	MACROECONOMIC IMPACT
E. 4.3	Incentivize the development of areas where Romania could have a competitive advantage in order to improve the country brand.	Narrowing the trade deficit on the tourism and travel segment (EUR 170mn in 2009) will have positive effects in terms of creating new jobs. More revenues to the state budget, an increase in investments in the private area and an improvement in the country brand could attract additional FDIs.
E.7.2	Increasing efficiency in agriculture through grouping of the land plots and releasing for productive use the huge resources locked in subsistence agriculture	<p>A good agricultural year increases GDP by around EUR 2bn (+1.5% of GDP).</p> <p>28,000 temporary / permanent jobs will be created in the short run. The increase in GDP will generate a 1.2% raise in budget revenues on the short term.</p> <p>New FDIs in agriculture will lead to higher production, will increase the EU funds absorption and will develop the rural area on medium term.</p>



G Contributors

- This document is the result of the collective and voluntary contribution of the Foreign Investors Council members, across various industries. Currently the Council has over 100 members, with combined investments in Romania of more than Euro 30 billion and a 30% contribution to the GDP.
- FIC has conducted during the month of June 2010 an extensive research across its members in order to identify which are the problems that the companies in Romania currently face and **which are the measures that public authorities and private sector could jointly take in order to improve the business climate, to increase investment and to decrease unemployment.**
- Over 100 proposals were collected and prioritised and the most important are presented in this document.
- The initiative was coordinated by Mrs. Mariana Gheorghie- CEO of Petrom, Mrs. Claudia Pendred- EBRD Director for Romania and Mr. Dominic Bruynseels- CEO of BCR.
- All actions proposed by the FIC members have been analyzed jointly by economists Lucian Anghel- BCR chief economist and Laurian Lungu- Managing Partner of Macroanalitica, in order to estimate their potential impact on the economic recovery and their practicability.
- The views presented here are those articulated and supported by approx. 30 top executives in energy, finance, telecom, FMCG, construction, consultancy, food and chemical industries, etc.
- Besides the input of FIC members, the paper also benefits from the valuable contributions of Mr. Valentin Lazea- NBR chief economist and Prof. Ovidiu Nicolescu- President of the National Council of SMEs in Romania.



H Disclaimer and references

- In this paper we have used a series of econometric models to assess the impact of some proposed measures on the Romanian economy.
- Among the models, we estimated a GDP growth function with first-order autoregressive errors and four explanatory variables (GDP growth in Eurozone, non-government loans, consolidated budget deficit less interest payments and real exchange rate) over the sample period 1Q 2000 – 1Q2010. We employed the Cappello model (2010) to assess the relation between credit growth and GDP. We extended our approach and we have used several VAR models to distinguish the response of the macroeconomic variables to a shock. We also used several models to estimate the relation between GDP growth and the unemployment rate according to Okun's Law. This is an important correlation because the way in which unemployment reacts to changes in output has implications for labor market and monetary policy.
- Being aware of the effects of the economic recession on real GDP, we used more models to estimate potential GDP before and after the onset of the global financial crisis.

- The results are considered to be fairly accurate. Nevertheless, they depend on a series of factors like the specific timing of the implementation of each particular measure within the boom-bust economic cycle, the future stability of the political environment, changes in the legislation, external shocks etc.

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