2021

June 2021,
Bucharest, Romania

WHITE BOOK BUILDING A SUSTAINABLE GROWTH

Foreign Investors Council

CONTENTS

PREFACE

The last two years brought up an overhaul over what our society thought would function indefinitely: consumption-driven growth, an underfunded healthcare and education systems, a growing services sector and promises that progress is the only way forward.

However, the outbreak that brought everything at a standstill proved us wrong. States and companies alike had to adapt and switch their plans after securing a way of overcoming the first height of the crisis in the period March – April 2020.

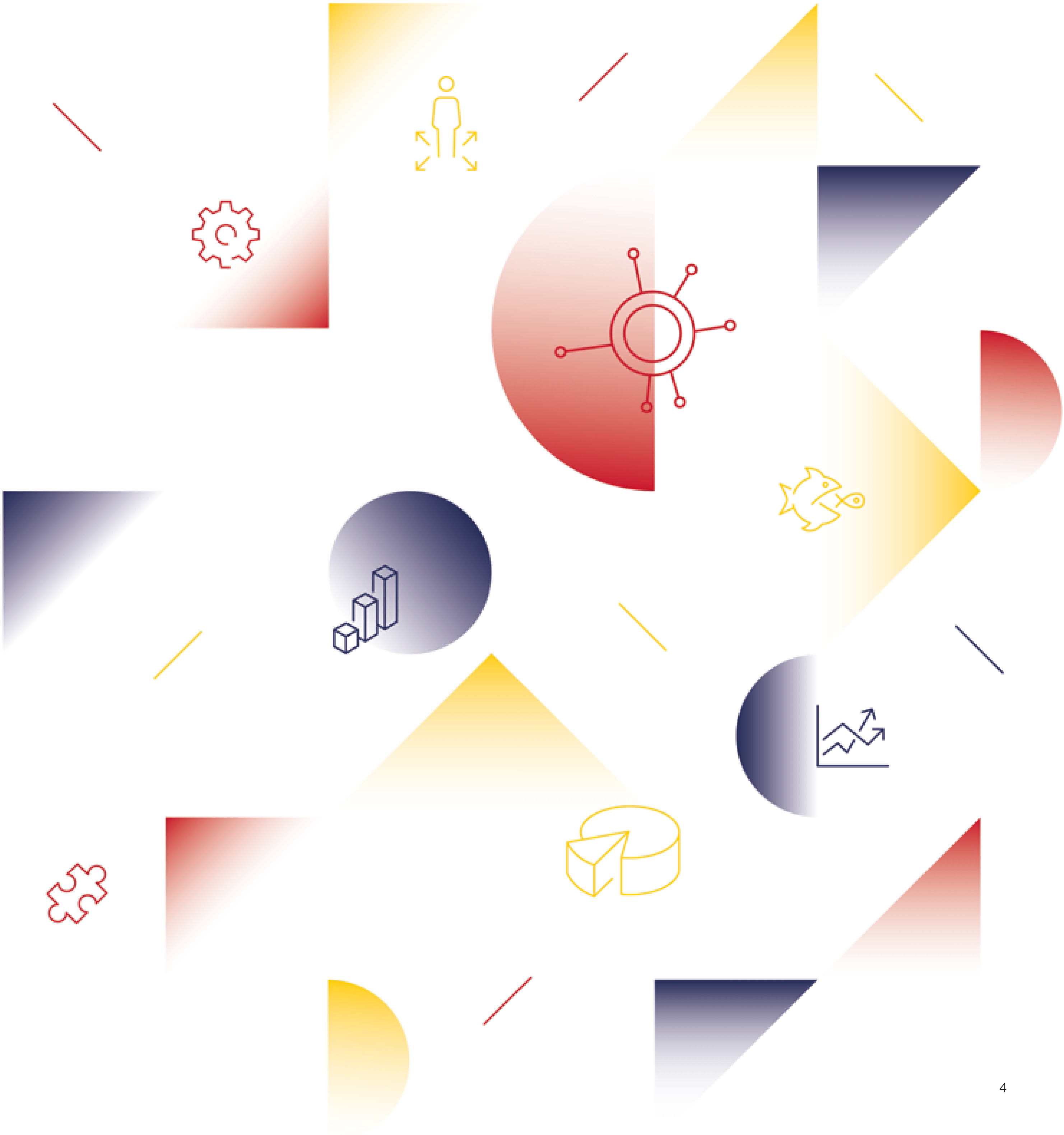
The second year of the coronavirus pandemic is being defined by a race between vaccination and the unpredictable variants of the virus, but the economic outlook seems to be improving due to the slow resuming of certain activities and the promise of the even broader immunization campaign. The beginning of 2021 brought hope for a positive economic momentum that will help citizens return to a more favorable situation and pandemic-stricken companies return to normal.

At the same time, the optimistic expectations for Romania's economic growth are also linked to an increased focus on investments and the availability of the EU funds from both the Multiannual Financial Framework and the Recovery and Resilience Mechanism. Another important factor is attracting foreign investments as a way of ensuring the economic comeback in a sustainable manner.

Foreign Investors Council (FIC) recommendations issued so far looked at several fundamental measures to facilitate foreign investment, such as adjusting the legislative framework by modernizing and improving it to reduce investment risks and ensure transparency and predictability as prerequisites for any investor decision. Equally important is the strengthening of administrative capacity through a body dedicated to promoting investments whose main objective is to encourage investment in Romania, by strengthening upstream links between transnational companies and local firms, encouraging companies to develop subsidiaries and bring more value-added segments in the production chain.

Notwithstanding the multiple challenges that Romania must go through to overcome/wither the negative effects of the pandemic and the structural reforms awaiting in the next period to be implemented, the members of the Foreign Investors Council noticed and welcomed a few positive steps made in the direction of consultation with the business environment and a growing focus on the importance of investments in Romania.

For both these aspects, our members are committed to be reliable partners of dialogue and contribute with recommendations on various sectors gathered in this White Book (healthcare, energy, taxation, financial services, environment, technology, labor) in order to reach the best solutions for the solid and sustainable rebound of the Romanian economy.



MACROECONOMIC OVERVIEW

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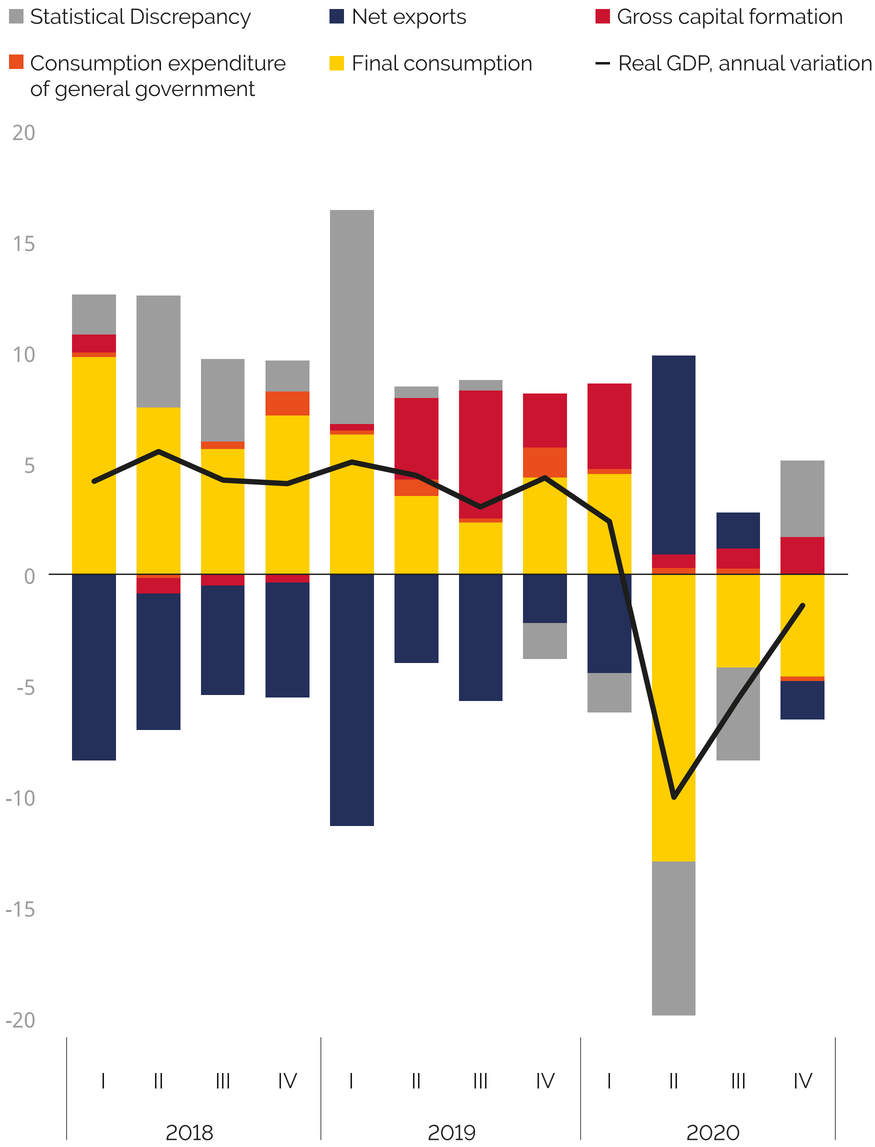
After growing by a robust 4.1% in 2019, the economy struggled with both the health and the economic effects of the profound and rare crisis triggered by the COVID-19 pandemic.

Preliminary data show that Romania's economy contracted by -3.9% in 2020. Nevertheless, this strong decline turned out to be less severe than the EU average. Overall, the economic impact was asymmetric across sectors. The closing down of businesses and limits on mobility had a disproportionate impact on the manufacturing sector, hotels and restaurants, entertainment, and retail.

Driven by increases in public wages and a tight labour market that led to a rise in disposable income, private consumption was a major contributor to growth in 2019. However, in 2020 the situation completely changed, with the imposition of lockdowns leading to a -3% fall in domestic consumption.

Figure 1:
COMPONENTS' CONTRIBUTION TO GDP GROWTH (%, YOY)

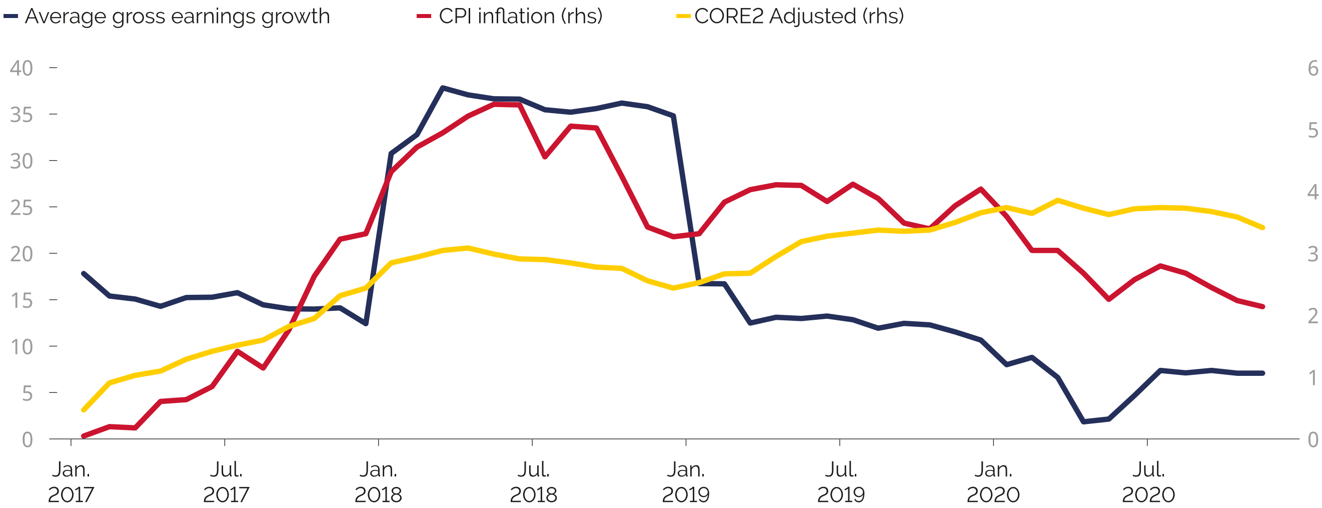


Source: National Accounts (INSSE)

The reduction in demand, falling energy prices and decelerating wage growth caused inflation to fall from a 5-year peak of 5.4% in 2018 to 2.1% at the end of 2020. Food prices increased the most at the beginning of the year, and were the main inflationary component, but later decreased in the autumn. Nevertheless, core inflation, which excludes the volatile components such as energy prices, remained quite high throughout 2020, reaching 3.5% at the end of the year.

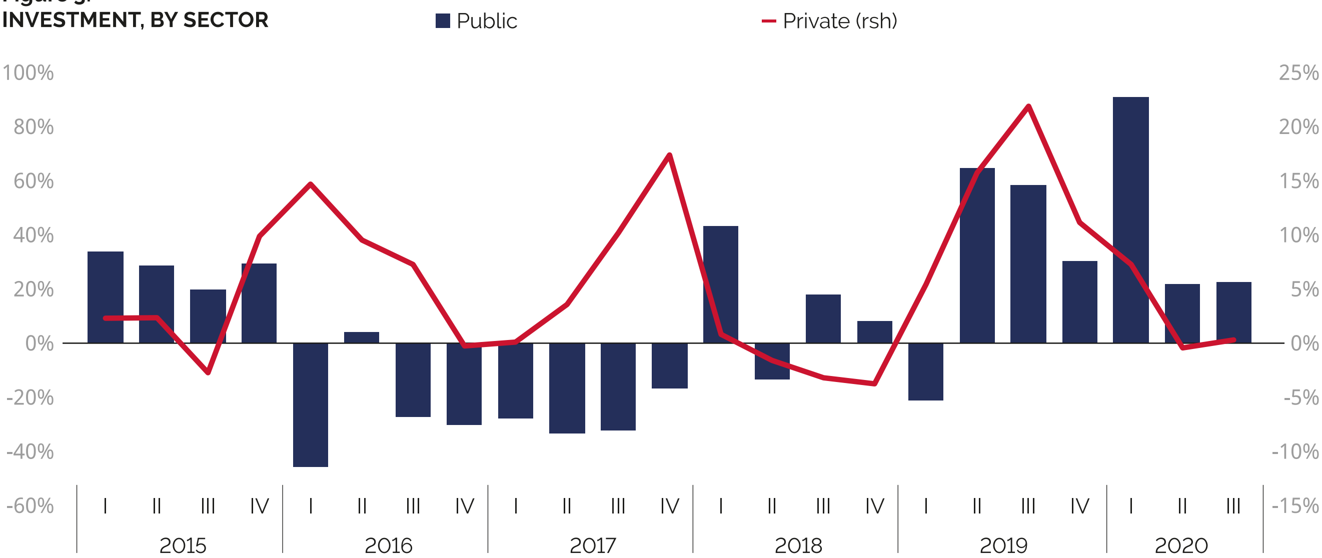
Investment grew significantly in 2019 and made the highest contribution to growth in the last decade, on the back of increased public spending on infrastructure and a booming private construction sector. Throughout the first two quarters of 2020, public investment continued its upward trend, but the Covid-19 crisis forced the authorities to refocus resources on safeguarding jobs and preserving the liquidity of business for the rest of 2020, while the private sector stalled capital spending due to increased uncertainty. Nevertheless, investment still contributed positively to growth in 2020, as construction held up relatively well throughout the year.

Figure 2:
INFLATION AND WAGE GROWTH (%)



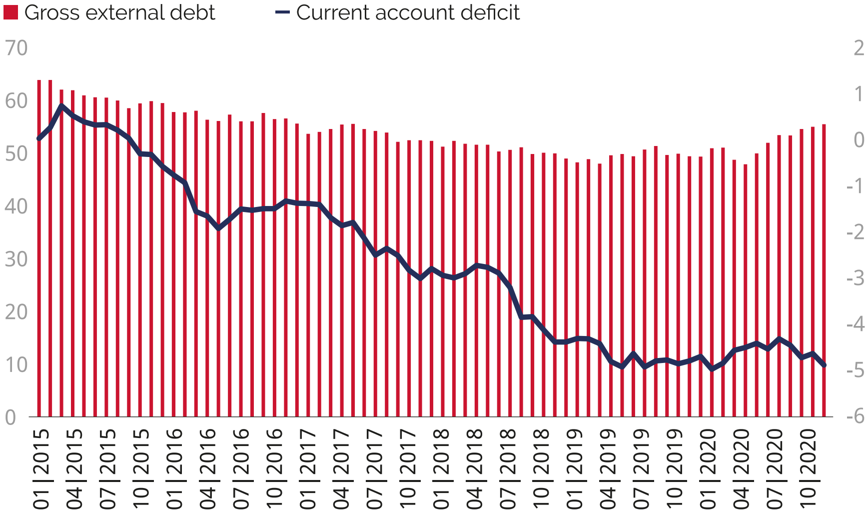
Source: National Bank of Romania, Eurostat

Figure 3:
INVESTMENT, BY SECTOR



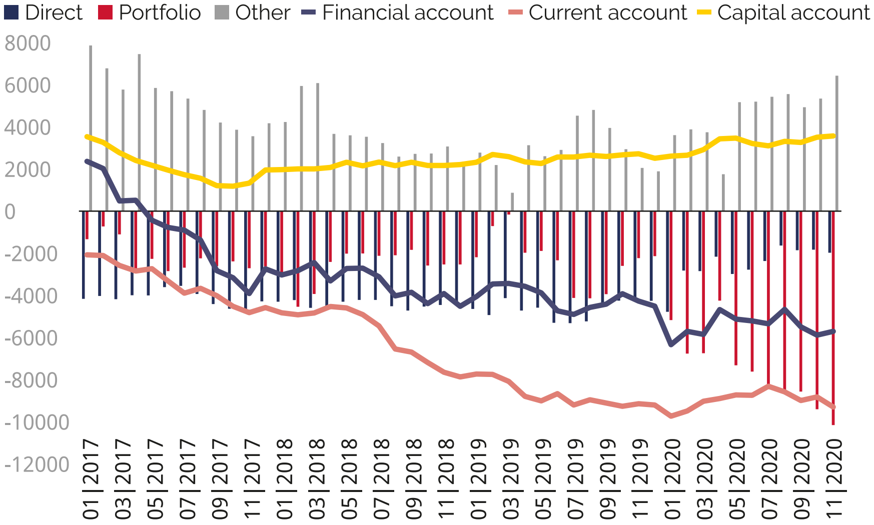
Source: National Accounts (INSSE), Eurostat

Figure 4:
CURRENT ACCOUNT BALANCE AND EXTERNAL DEBT, % OF GDP



Source: National Bank of Romania

Figure 5:
BOP NET INFLOWS, EUR MIL



Source: National Bank of Romania

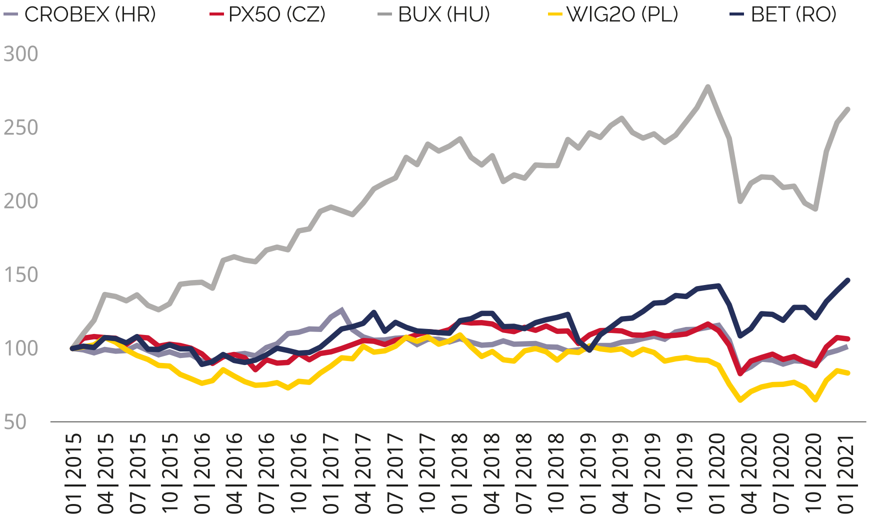
External imbalances rose in 2019 and the Covid-19 crisis had little impact on correcting them. The current account deficit has remained above 4% of GDP since the end of 2018, as imports have grown faster than exports. Exports of goods fell by 9.9% in 2020 while imports dropped by 6.6% compared to 2019. A steep fall in foreign direct investment (FDI) inflows at the beginning of 2020 slightly decreased the financial account deficit, but portfolio inflows, as the government borrowed from foreign markets, significantly increased during 2020. Total external debt stabilised at around 50% of GDP before the Covid-19 crisis hit and edged up to around 55% of GDP towards the end of 2020.

The Bucharest equity market has performed well since 2015, outperforming all Romania's regional peers except Hungary. In 2019, the domestic capital market recovered from the shock of Emergency Ordinance No. 114/2018, which targeted banking, energy and telecommunications. The Bucharest

Stock Exchange fell by around 16% in March 2020, amid the financial shock in world markets caused by the Covid-19 pandemic. Nevertheless, following the upgrade to emerging market status in September 2020 and extra liquidity in the financial sector, the market index is expected to recover to above the level recorded before the Covid-19 crisis.

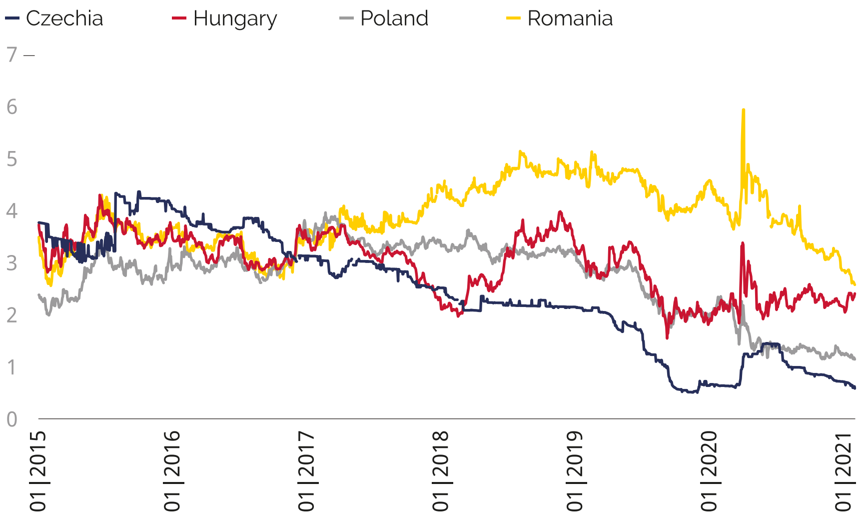
Romania's country risk, reflected partly by government bond yields, has been higher than its regional peers since 2017 mainly because of the weaker underlying fiscal position. Following the March 2020 shock, which increased government bond yields, the global monetary expansion led to a significant decline in yields for the rest of 2020, edging closer to the interest paid by the Polish and Hungarian governments.

Figure 6:
STOCK EXCHANGE INDEX, 2015 = 100



Source: CEIC

Figure 7:
10Y GOVERNMENT BOND YIELDS, %

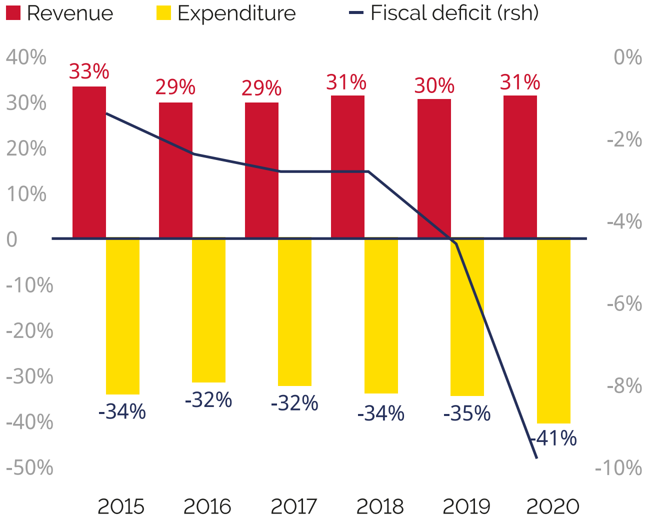


Source: CEIC

Macroeconomic policies

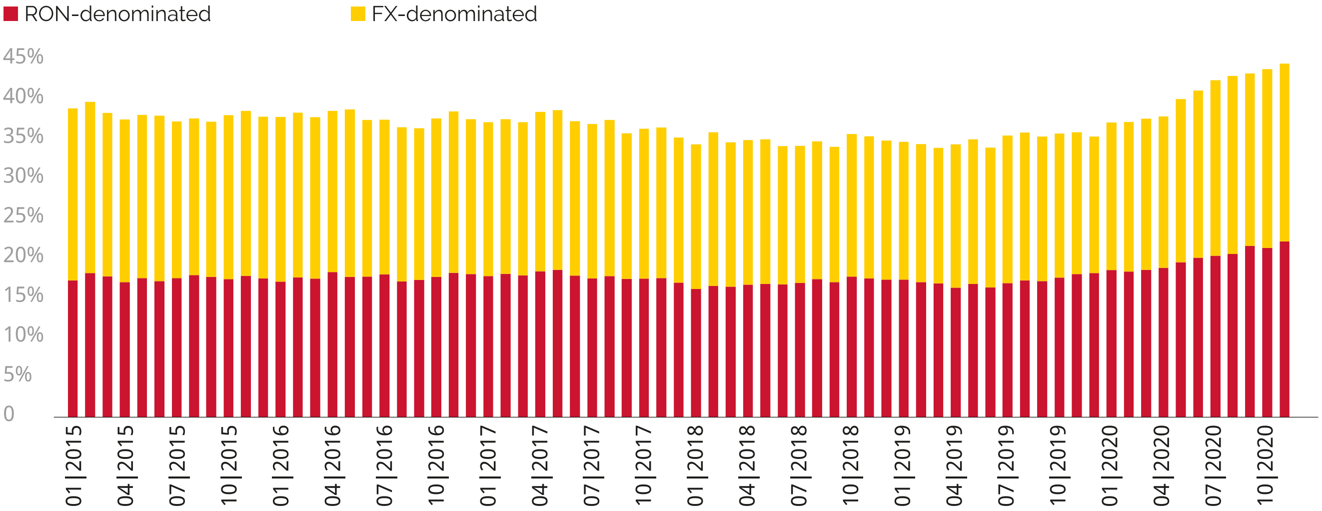
After considerable fiscal expansion, which began in earnest in 2016, when the government adopted a series of tax cuts, social contribution reductions, public sector wage increases, and pension increases, the fiscal deficit reached 4.6% of GDP in 2019. In 2020, on the back of unprecedented fiscal support to firms and employment and declining economic activity, the fiscal deficit rose to 9.8% of GDP. Worryingly, the structural deficit remains high. That explains why Romania was the only EU country under the Excessive Deficit Procedure in 2020.

Figure 8:
BUDGET DEFICIT, % OF GDP



Source: Ministry of Finance

Figure 9:
PUBLIC DEBT, % OF GDP



Source: Ministry of Finance

Romania's Covid-19 policy response

The government has introduced a support package similar to those in other peer countries, focused on safeguarding business liquidity and employment, although somewhat smaller as a share of GDP (approx. 4.5%). Key measures directly affecting the state budget have included: (1) Relief and deferral of fiscal obligations; (2) Faster VAT reimbursement; (3) Employment support schemes, including a short-time work (Kurzarbeit) scheme, which will continue to be operational in 2021 as well (representing 0.75% of GDP). Other measures include state credit guarantees to SMEs and large firms of around 1.2% of GDP, grant schemes to SMEs financed by EU funds and a loan payment moratorium for both firms and citizens of up to nine months (operational until mid-2021).

Outlook and key priorities

The FIC expects GDP growth to resume in 2021 after the significant contraction in 2020. In our latest forecast, we estimate GDP to rebound by 5.1% in 2021[1]. The recovery is contingent on a gradual normalisation of economic activity and the public health situation in both Romania and its main economic partners, and, in the medium term, a resumption of structural reforms amid the absorption of EU recovery funds. The National Recovery and Resilience Plan will be a key instrument in guiding structural reforms and investment in the medium term to make Romania a greener, more competitive and more inclusive society. Another key instrument is the European Green Deal, a new growth strategy which aims to transform the EU into a fairer and more prosperous society, with a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from resource use. Medium term fiscal consolidation should also be a key priority for governments amid the EU's Excessive Deficit Procedure.

According to the European Commission's Cooperation and Verification Mechanism (CVM) report published in October 2019, the reforms needed to reverse the backtracking of previous years had yet to be adopted, but the commitment of the new government to implementing the CVM report's recommendations is a positive first sign. Key priorities remain ensuring judicial independence, correcting the criminal codes, and tackling corruption. Moreover, the effectiveness of policymaking and predictability of the legislative progress should be improved, alongside the digitalisation of public services and institutions, which will help tackle the informal economy and improve the business climate.

1. Forecast issued by the European Bank for Reconstruction and Development in the latest Regional Economic Prospects, September 2020. The growth estimate was also made using E.C. data.

ENERGY

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In the past few years, the Romanian energy sector has been marked by several developments that have had a significant impact on the sector and its future development.

Following the approval of the ambitious EU energy package in 2018-2019, Romania submitted its first National Energy and Climate Plan (NECP) to the European Commission (EC). In the assessment document of Romania's NECP, the EC evaluated the targets assumed by Romania as "unambitious" in relation to the renewable energy (RES) target of 30.7% and as "low" and "very low" in relation to the energy efficiency targets.

The Romanian government also approved legislation that attempts to set the framework for investments for the titleholders of petroleum agreements in offshore fields. The offshore law, enacted in 2018, set quite detrimental conditions for prospective investments in offshore gas fields: a windfall tax on gas produced from offshore fields, the lack of a stable legal framework and the requirement for offshore producers to conclude contracts for at least 50% of delivered gas to be distributed to the centralized markets in Romania.

After re-regulating wholesale (in the case of the gas sector) and retail prices (the gas and electricity sectors) in 2019, the government approved new changes to the Energy Law in 2020, which led to progress in the deregulation of energy markets. In the gas sector, natural gas prices for households and heat producers were deregulated as from 1 July 2020, simultaneously with the removal of the cap price for domestic gas traded on the wholesale market. To stimulate the development of the wholesale gas market, a gas release programme was adopted, starting from 1 July 2020, and operating until the end of 2022, to replace the former gas market trading obligation, a change which was welcomed by companies, though some adjustments are still needed.

The new legislation also increased the special taxation applied to the gas sector by the introduction of a new windfall profit tax, this time for gas suppliers, alongside the older windfall profit tax for gas producers. It also set plans to liberalise the gas storage market by phasing out the requirement for gas suppliers to store gas as reserves for peak consumption periods. Additionally, it also increases the obligations of gas and electricity distribution companies in relation to the connection of final consumers and it increases drastically the penalties for misconduct by energy companies, even for minor misdemeanors. The FIC calls for a re-assessment of the significantly increased penalties as the level and nature of the penalties are disproportionate and create severe legal compliance issues as well as unnecessary regulatory risks for market participants.

In the electricity sector, regulated retail prices were removed in January 2021. Besides the removal of regulated end-user prices, the ban on directly negotiated electricity contracts between producers and suppliers remained in place, except for contracts signed by small electricity generation companies from renewable energy sources and new renewable energy production units to be installed after 2020.

Because of the unfavorable legislation, new investments (mostly upstream gas and electricity production) have been scarce and many have been postponed. There is clearly a deadlock in terms of major investments in the newly discovered offshore gas fields in the Black Sea, with major investors announcing a postponement of investment decisions until the specific legislation is clarified. In the electricity generation sector, the lack of investments, both in conventional and renewable energy sources, makes the Romanian power sector non-competitive at a regional level, and the country was a net importer of electricity in 2019 and 2020. Bilaterally negotiated contracts (including long-term contracts) are pivotal to underpin significant investments in domestic energy resource development and related transmission infrastructure and to enable market participants to manage/hedge portfolio risks and hence contribute to the development of a competitive Romanian energy market.

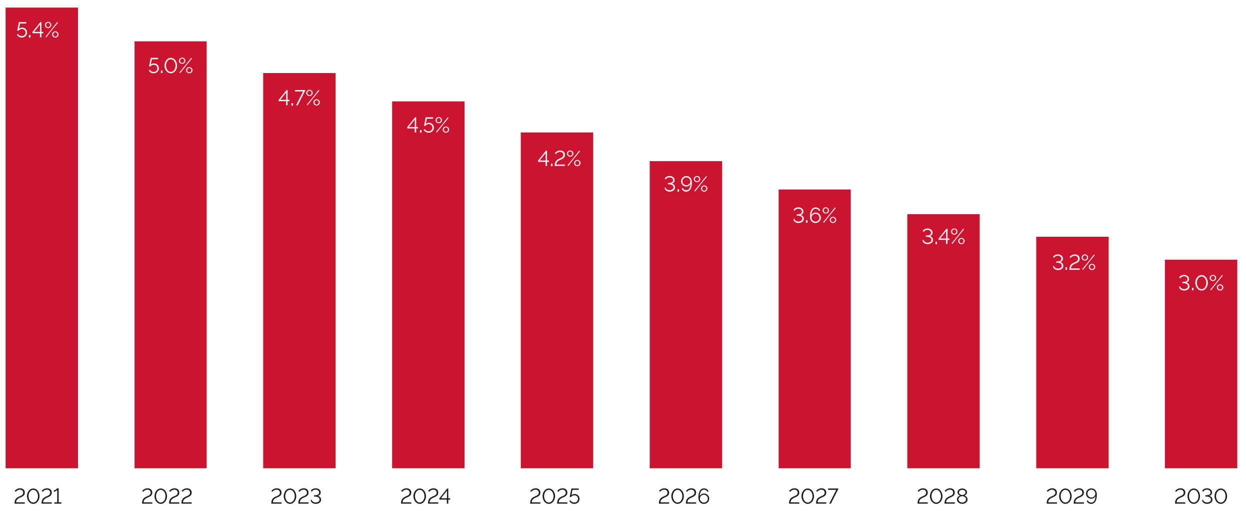
The attractiveness of investments in regulated businesses (transport and distribution of gas and electricity) has also decreased as a result of the lower regulated return (6.39% for all regulated network activities) approved by the energy regulator in 2020. Investment programs in the maintenance and safe operation of networks are jeopardized by the increased capex obligation to meet the legal requirements to connect final customers, regardless of the economics of such investments, as well as low long-term remuneration for allocated capex.

In terms of upstream, Romania must take advantage of the clean energy resources it owns. The legislation that has delayed investments in offshore gas must be urgently fixed, to make these resources available by the middle of this decade. The longer this is postponed, the less attractive these investments will become, bearing in mind the EU objective of carbon neutrality in the long run. Romania's significant onshore gas reserves are decreasing and therefore it is crucial to complement such reserves with offshore reserves from the Black Sea. These resources must be used because they represent a significant asset for Romania and, for the moment, natural gas is a paramount energy source to ensure energy transition.

In the renewable energy sector, after four years of substantial oversupply of the market with green certificates, the law has been changed to better address this issue. Moreover, for the first time, the regulatory framework for small prosumers has been adopted to increase the attractiveness of small, decentralized electricity production.

The Romanian energy sector is developing, albeit not

ESTIMATED NEED FOR ENERGY INVESTMENTS IN ROMANIA (%GDP)



Source: Calculations based on AMECO, NECP, the Fiscal Council and FIC estimations on GDP

quickly enough. The Romanian authorities must ensure a stable legislative framework which provides certainty for investors. Changes to the framework must be made only following comprehensive consultation of all stakeholders involved, with due consideration of comments made and with impact studies on the proposed changes. Only by ensuring stable legislation can the Romanian authorities attract the necessary long-term investment to tackle the remaining structural problems in the sector, such as the rapidly ageing infrastructure.

ENVIRONMENT

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The business sector continues to be faced with lack of predictability concerning the legal and institutional framework on environmental issues, despite continued efforts to engage with public officials on environmental legislation and institutional topics. This has been felt most strongly in the waste management sector, where the disproportionate regulation and enforcement of the waste management rules mainly targeted the private companies.

Despite calls by the business sector and other relevant actors for reform of the entire waste management system, the authorities continue to take only limited and delayed actions to solve the critical, systemic problems of the waste packaging management system. In this context, the problems arising from the lack of effective separate collection of municipal waste by public authorities continue to disproportionally affect the business sector, as it makes meeting waste collection, recycling and overall recovery targets almost impossible. This is coupled with problem that the burden for most costs remains with producers/ importers as part of the extended producer's responsibility.

The FIC is concerned about the lack of impact assessments, which are so urgently needed to enable new legislation to be enacted and implemented, and about the authorities' lack of swift reaction to regulatory needs. Furthermore, commercial entities are also exposed to difficulties in implementing the permitting framework due to the lack of correlation of the environmental permitting procedures with the existing substantive legislation, as well as the different interpretations of the same regulatory requirements given by environmental protection agencies, reservoir administrations and environmental control authorities.

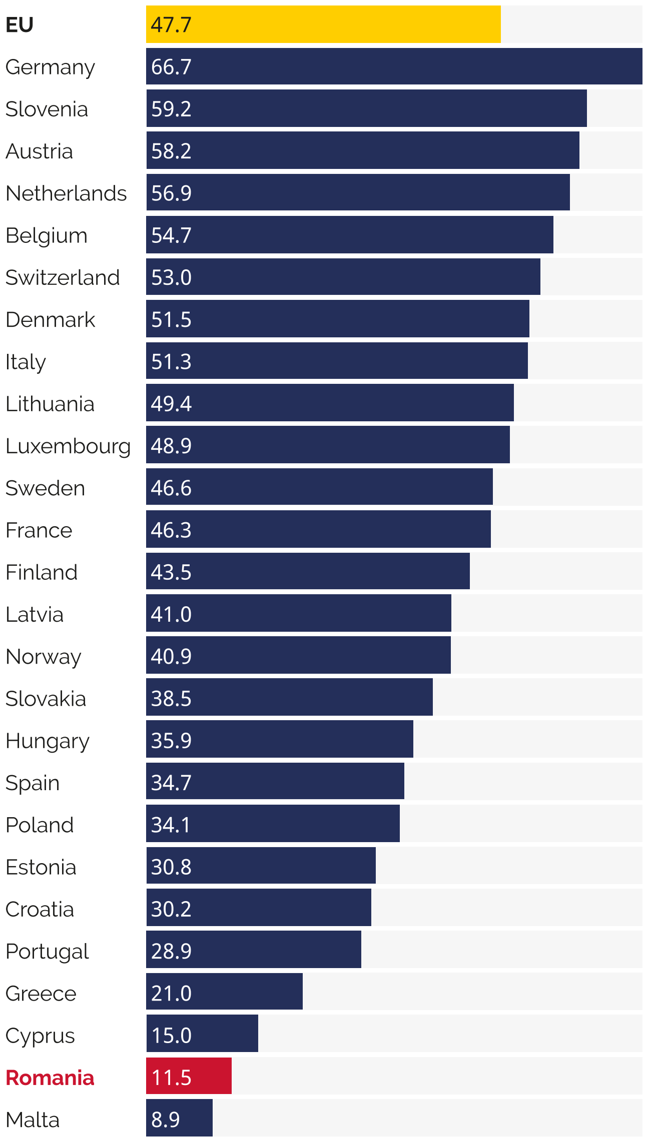
Legislative predictability should be ensured and a uniform and consistent legislative framework should be created, based on EU principles and effective consultation with industry representatives should take place in sufficient time prior to the adoption of new environmental regulations or the amending of existing ones. Draft legislation should be based on prior impact assessment studies clearly explaining the need for the proposed changes and documenting why the mechanisms/ rules which are planned to be introduced are the most suitable and fair means to attain the desired results.

Apart from developments of various regulations, delegated acts and guidelines for implementation of the so called EU Emissions Trading System (ETS) post 2020 Directive (Directive (EU) 2018/410), some of which are still being drafted, a central element of the policy framework for future years is the "Green Deal" which aims to boost the efficient use of resources by moving to a clean, circular economy, restore biodiversity and cut pollution. The Climate Law as part of the Green Deal was proposed in March 2020 to ensure a climate neutral European Union by 2050. Given the targets set at the level of the EU, active participation by the Romanian authorities in discussions held at European level is of utmost importance and it is equally important for the business sector to be properly consulted and its input taken into consideration in the positions taken by the Romanian authorities in public consultations at EU level. Particular focus should be given to pending discussions on post-2020 EU-ETS implementation, especially to regulations related to the Green Deal, Climate Law, ETS revision, the Carbon Border Adjustment Mechanism, state aid and financing to support achievement of the Green Deal aims with a fair international level playing field.

In December 2015, the European Commission issued the Circular Economy Package, which includes proposals for amending Directives on waste; packaging waste; waste landfill, etc. Most of these proposals were adopted in May 2018 and set more stringent targets than the previous ones. Full transposition of the Circular Economy Package is still pending.

In May 2019, the European Commission adopted the Single Use Plastic Directive banning ten single-use plastic items and imposing a new obligation for producers with regard to higher collection targets,

RECYCLING RATE OF MUNICIPAL WASTE (%) 2019



Source: Eurostat

recycled content of PET packaging and closures of beverage containers. A proper mechanism should be designed for the Romanian Government to collect and pay the plastic levy to the European Union. If the levy is to be passed on to industry, this should be done in a way which does not generate an excessive administrative burden.

Romania has one of the lowest rates for recycling and landfill diversion. In 2016, Romania's recycling rate (including composting) reported to Eurostat was 13 %, while its landfilling rate was 69 %, one of the highest in Europe. Based on an analysis of existing and firmly planned policies in the area of waste management, Romania is considered at risk of missing the 2020 target of 50 % preparation for re-use/recycling of municipal waste.

According to the modification made to the Packaging and Packaging Waste Directive in 2018, from 2021 the measurement point for recycling will be considered the entry of the waste into the recycling installation. This makes it difficult to believe that the targets established by the new provisions which entered into force in Romania (60% for recycling and 65% for recovery) can be met in the next few years, under present conditions, because it is still difficult to recover packaging waste from households. The new EU legislative package provides more ambitious overall recycling targets for packaging: 65% by 2025 and 70% by 2030 and higher materials-specific targets, such as 90% collection by 2030 for PET.

In order to meet the EU targets is necessary to achieve a balance between local authorities' and industries' responsibilities, as well as transparency and clarity with respect to obligations vested with operators which carry out similar activities. The local authorities should also be made accountable for the selective collection of post consumption waste (e.g., packages, electric and electronic equipment waste), as this legal obligation should lie primarily with them.

Romania has registered poor results in terms of Waste from Electrical and Electronic Equipment (WEEE) collection, given the existence of a wide network of informal collection. This system was developed due to the lack of a municipal WEEE collection service and the inefficiency of local waste management.

Sustainability involves economic development which respects long term environmental and social well-being and Corporate Social Responsibility (CSR) involves companies, as well as the authorities, developing sustainably and supporting the wider community. However, currently, only a relatively small number of companies publish non-financial reports/statements. Consequently, improvements are needed to the legislation such as introducing more significant penalties for not publishing a report/statement, complemented by penalties for non-compliance with the legislation. Moreover, a public institution should be set up to monitor and enforce compliance.

The lack of non-financial information in the public sphere to demonstrate the level of performance of companies could lead to the loss of development opportunities. Transparency should be promoted in relation to the application of social, ethical and environmental standards by the business community, as well as public institutions.

TECHNOLOGY & INNOVATION

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Covid-19 has made clearer than ever before the importance of technology to our day-to-day lives. Whether it is families and friends supporting each other through lockdown, businesses serving their customers in new ways, or public services adapting to changing circumstances, technology has been pivotal. One strategic direction for that would enable Romania to recover and grow in a sustainable way is to implement digitalisation on a large scale.

The penetration of broadband services continues to be a key challenge in Romania, despite the progress registered in the last few years. Although Romania ranks among the first countries in Europe for ultrafast broadband penetration (at least 100Mbps), national coverage with Next Generation Acces Network (NGA) technologies remains significantly lower than in other EU member states and is still very much limited to urban areas. Only 53.4% of rural households had access to NGA networks in June 2019, which is significantly below the target of 100% coverage with 30 Mbps by 2020, set through the National Plan for the Development of the Next Generation Network (NGN) Infrastructure. Penetration of fixed internet broadband covered only 22.5% of the population in June 2019, much lower than the EU average.

Taking into account the objectives undertaken through the EU Digital Agenda updated recently by the European Commission, broadband penetration and coverage should be treated as a key priority within government strategies. The development of fixed broadband networks, as well as of 5G networks should be supported by the Romanian authorities. The FIC believes that access of users to high quality broadband services can be ensured via correct regulation of the wholesale markets corresponding to the retail broadband market.

The next 10 years will represent a historic opportunity for Romania to significantly accelerate its economic and social development by maximizing the value added by strategic EU funds obtained as a result of extensive negotiations in Brussels. Digital transition will rely heavily on private investment, especially in relation to digital networks, and linking this with reforms supported by recovery funds will be essential.

The IT&C sector in Romania represent approximately 7%

of GDP, with a growth rate consistently surpassing other more traditional sectors. IT&C also has a strong indirect impact on other sectors, by bringing more efficiency, productivity and transparency.

The telecom sector is the enabler which creates the prerequisites for accelerated development of the IT&C sector in the future. Romania has the highest Internet speed in Europe and a buoyant IT&C sector. This is reflected in the country's Digital Economy and Society Index (DESI) Connectivity score of 56.2, which is higher that EU average of 50.1. (Romania also ranks 11th among Member States).

As more and more of our day-to-day activities go electronic and digital, very large volumes of data about us become available. This phenomenon is being compounded by both technological and behavioural factors (e.g.: increased use of online services such as e-commerce, e-government, social media, etc). Faced with the rapid development of digital uses and growing threats (viruses, spam, etc.), simple tools need to be put in place to help users to cope with, manage and control their personal data and how it is used.

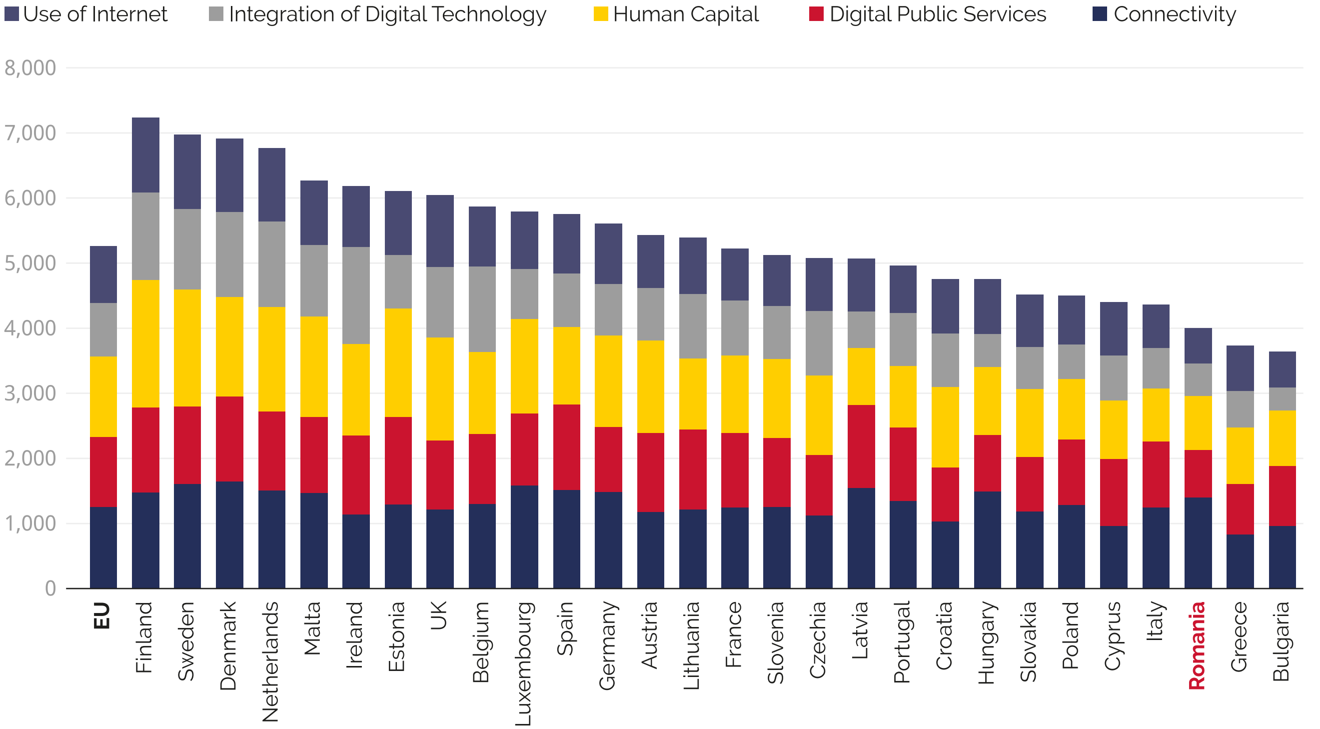
The Electronic Identification and Trust Services Regulation (eIDAS Regulation 910/2014/EC) seeks to enhance trust in electronic transactions by providing a common foundation for secure electronic interaction between citizens, businesses and public authorities, thereby increasing the effectiveness of public and private online services, electronic business and electronic commerce in the EU. In order to build trust in electronic transactions, which is key to economic and social development, relevant national lawmakers in the Government and Parliament, need to speed the consultation and approval process for the draft legislation on electronic signatures, for the benefit of consumers, businesses and public authorities.

The benefits and convenience offered by digital services (the digital economy) also need to be facilitated through the adoption by the authorities of an approach which is open to innovation. Innovation may involve new authentification and identification technologies and procedures which use responsible security methods and trustworthy systems.

While still lagging behind, Romania has proved to be competitive and has great potential in terms of the development of e-commerce at national and regional level. This has seen double digit growth in the last few years, and is expected to grow by at least 30% in 2020, to a turnover of 5.5 billion euros, according to E-commerce Europe. This growth is possible because the market is still underdeveloped. The authorities should take steps towards the swift passing of a business and customer oriented national policy framework on promoting e-commerce and supporting the sector to achieve economic growth and development in the European digital single market.

The implementation of the e-IDs law would allow citizens to benefit from a large range of private electronic services, including banking, insurance, telecom services etc. e-IDs would also "open the door" to Romanian citizens to authenticate themselves in other EU Member States, if they are notified to the European Commission and accepted by them, as the Romanian national electronic identification scheme. Mutually recognised electronic identification means would facilitate cross-border provision of numerous services and enable

THE DIGITAL ECONOMY AND SOCIETY INDEX (DESI) - 2020



Source: European Commission

businesses to operate on a cross-border basis without facing many obstacles they currently encounter in interactions with public authorities. After the issuing of the implementation norms, the Government should observe its initial commitment to support the issuing of e-signature certificates alongside the new eIDs.

Developing of smart cities and the digitalisation of business will support the green transition. Smart cities improve the efficiency of energy-intensive services such as public transport, public road networks and street lighting. Some other benefits of smart cities are smart grids, as well as greater mobility, better protection of the environment and greater safety. With connected mobility infrastructure, smart cities can manage traffic flows and public transport services to reduce congestion and support the mobility of citizens.

FINANCIAL SERVICES

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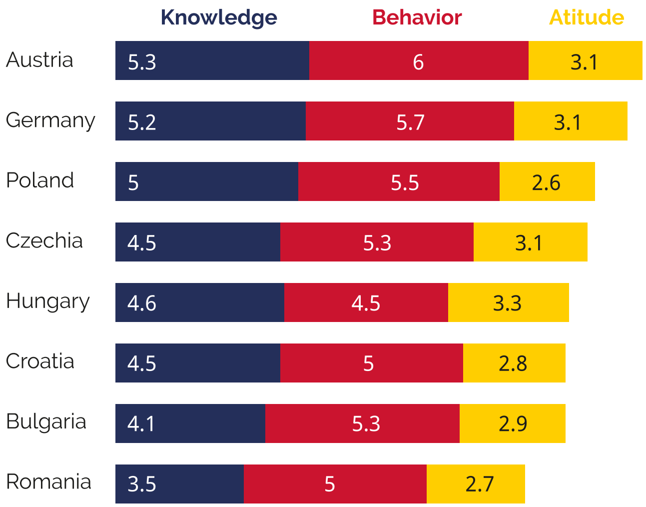
Over the past few years, from a regulatory perspective, Romania has managed to align its national legislative framework to European standards in several areas relating to financial services, thus avoiding infringement procedures. The EU Directives that have been transposed into Romanian legislation include: The Directive governing shareholders' rights at companies listed on regulated markets ("SRD II"), the Payment Services Directive (PSD II), the Insurance Distribution Directive (IDD), as well as the Directive on anti-money laundering measures and on combatting the financing of terrorism (AML).

The banking sector in Romania has continued to consolidate through mergers and acquisitions and is one of the busiest markets in the Central and Eastern Europe (CEE) region in this respect. The outbreak of the COVID-19 crisis found the sector in good shape and ready to respond to the new challenges. The sector's resilience in the crisis was based on several factors; the low rate of non-performing loans (approx., 4% in April 2020, but expected to grow after the moratorium period), as well as its strong position in terms of capital adequacy and liquidity.

FINANCIAL LITERACY



Source: OECD

In autumn 2020, after three years of monitoring, the Romanian capital market achieved a long-awaited sign of recognition and was promoted to the status of secondary emerging market by FTSE Russell. This represents an important step in terms of access to significantly higher investment flows and capital for Romania, but at the same time requires a commitment from the authorities to ensuring legislative predictability and improved liquidity.

The evolution of private pension funds has been positive over the last few years, notwithstanding a short period at the beginning of the pandemic when turmoil in the capital markets also affected the performance of these funds. The FIC believes that maintaining a strong and legally predictable private pension system (especially the 2nd Pillar) is critical to improving the levels of investment in and liquidity of capital markets, which are essential for consolidating the newly acquired status of the Bucharest Stock Exchange as an Emerging Market.

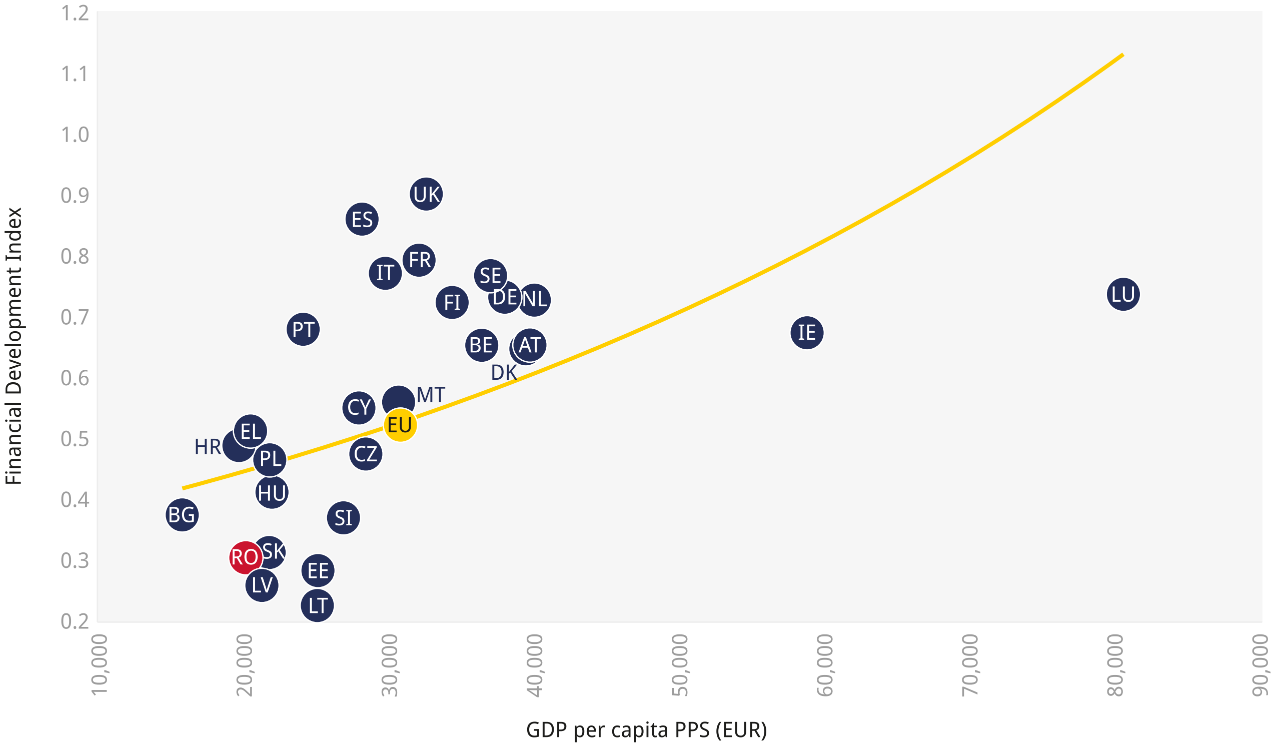
During the last few years, certain steps have been taken to develop and enhance financial education for individuals and a National Strategy for Financial Education has also been announced. Even taking into consideration these steps towards the improvement of the financial literacy level and the private sector's sustained efforts (especially the financial services sector) to develop financial education programs, Romania still has one of the lowest levels of knowledge in this regard and major measures should be adopted to tackle the problem, including by focusing on implementing financial education programs in schools. The financial education rate in 2020 was 21% in Romania, compared to an average of 52% in the European Union and 65% in the Nordic countries. Moreover, Romania's results are also worse than those of its neighbours. Financial literacy programs should be accelerated and scaled up to reach the entire population and ensure they have a basic level of financial literacy.

The financial services sector is undergoing important transformational changes in the context of the European Green Deal and the EU's green finance taxonomy rules. Therefore, it is important to develop innovative responsible financing and sustainable investment solutions that follow the ESG criteria (meaning particular attention on behalf of investors to environmental, social and governance issues when making an investment). Credit institutions will have a positive impact on the development of the economy and society, aligning financing activities as quickly as possible with the objectives defined by the Paris Agreement and following the broader trend of actively supporting and encouraging sustainable investments. Both Government and Parliament, in their capacity as initiators of legislation for the transposition of European law, should make it a priority to involve professional associations and other interested and relevant entities in working groups, with the aim of identifying the best implementation options.

Before any new legislation is considered, a comprehensive impact study/analysis should be carried out, to make sure negative, artificial market-distorting consequences are averted. Populist legislative proposals that entrench over-regulation in favor of consumers remain of particular concern, and public consultation has been inadequate in recent years. Lastly, the government should reduce the number of emergency ordinances. Instead, the executive and legislature should work together on bills under regular legislative procedures. Even though this might increase the length of the legislative process, it would improve its quality and predictability.

The underlying problems that have hindered the growth of financial intermediation for some time have persisted in the last two years. We note several issues in this respect: volatility of the legal framework, populistic legal initiatives with a negative impact on banking, the lack of predictability and dialogue with decision makers, as well as the precarious economic situation of certain categories of debtors. There is a proven strong connection between financial intermediation and economic growth. Long term economic growth for Romania should be based on investment and hence there should be a growth in financial intermediation. Development should also focus on financial inclusion and financial literacy, encompassed within a long term coherent strategy.

GDP PER CAPITA PPS AND FINANCIAL DEVELOPMENT INDEX (2018)



Source: Calculations based on IMF and Eurostat data

We think now more than ever that having a strong local capital market is vital for Romanian savers, investors and companies. For the Romanian economy to develop on a strong footing in European Union, the capital market needs to be actively developed and strengthened, for the benefit of local companies, savers and the overall economy.

The program for state owned companies to be listed on the BVB should be continued, by both accelerating the listing of new companies on the capital market, as well as by encouraging secondary public offerings (SPOs) for already listed companies. Corporate governance in state owned companies should be improved as it is a prerequisite for sound preparation of a company for an initial public offering (IPO) and this will continue to be enhanced after the company becomes listed.

HEALTHCARE

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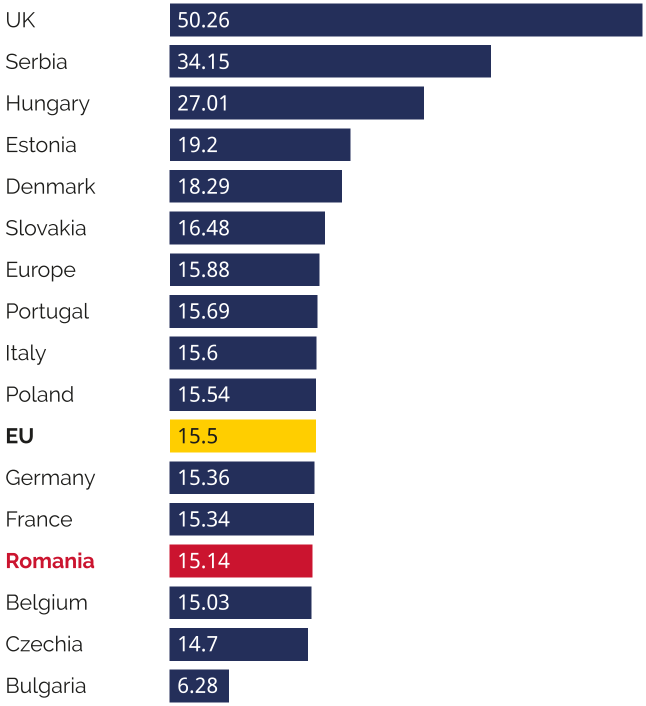
VACCINE DOSES ADMINISTERED PER 100 PEOPLE (MARCH 2021)



Source: Our world in data – coronavirus vaccinations

The COVID-19 pandemic has served as a magnifying glass on existing structural challenges of the Romanian health system – the low level of financing, considerable shortage of health workers, including of family physicians, and outdated hospital infrastructure. In response to the COVID-19 pandemic, the Romanian Government has purchased critical medical products and covered COVID-19 related medical costs. Additionally, access procedures have been adapted to the new context including the possibility of family physicians prescribing therapies and use of technology for medical prescriptions or consultations. Nevertheless, several categories of patients faced challenges accessing therapies, and this should be a priority for the Romanian authorities.

Through cross-sector collaboration (public & private entities included), Romania can rethink and transform its health policies to increase patients' access to healthcare. Important structural changes are needed, including an increase in financing and investments in the healthcare system, development of preventive, screening and early diagnosis programs, employment of more health workers, enhancement of technology as well as improvement of the infrastructure, coverage and accessibility of health services to existing patients and citizens, in general.

Investment in healthcare is an investment in the human capital of the country, for the current generation but also for forthcoming ones. Romania has a unique opportunity to build a new healthcare strategy, maximize the uptake of EU funds, rebuild its economy and boost competitiveness. The main pillars in the Government's healthcare program focus on: strengthening the role of prevention - vaccination programs included - rethinking the claw-back tax, expanding patients' access to new therapies and increasing the number of healthcare professionals.

There should be a gradual and sustained increase in the percentage of GDP allocated to healthcare, in order to close the gap between Romania and other EU countries in terms of healthcare financing, especially since Romania had up to 2019 one of the fastest growing economies in the EU. Healthcare contributions should be collected more efficiently, and the contribution base should be widened by eliminating exemptions. New alternative funding solutions for healthcare should be identified, with a focus on private contributions, EU funds in the next programming period as well as public private partnerships.

The claw-back tax introduced as a temporary measure in 2009 is still difficult to bear by the medicine manufacturers. The FIC considers that the reimbursed medicines budget should be readjusted to cover the real needs of the Romanian healthcare system. In the short term, the claw-back tax should be revised to make it more predictable and funds raised from the claw-back tax should be used exclusively for the reimbursed medicines budget and multi-annual budgeting should be introduced to increase predictability.

According to the European Federation of Pharmaceutical Industries and Associations (EFPIA) Waiting to Access Innovative Therapies (W.A.I.T.) indicator study, only 21% of recently approved medicines are available to patients in Romania and the main healthcare indicators continue to be much lower in Romania than in other European countries. Access for Romanian patients to innovative treatments should be a national priority and the national health authority's budget for medicines should be correlated with GDP growth and updated yearly.

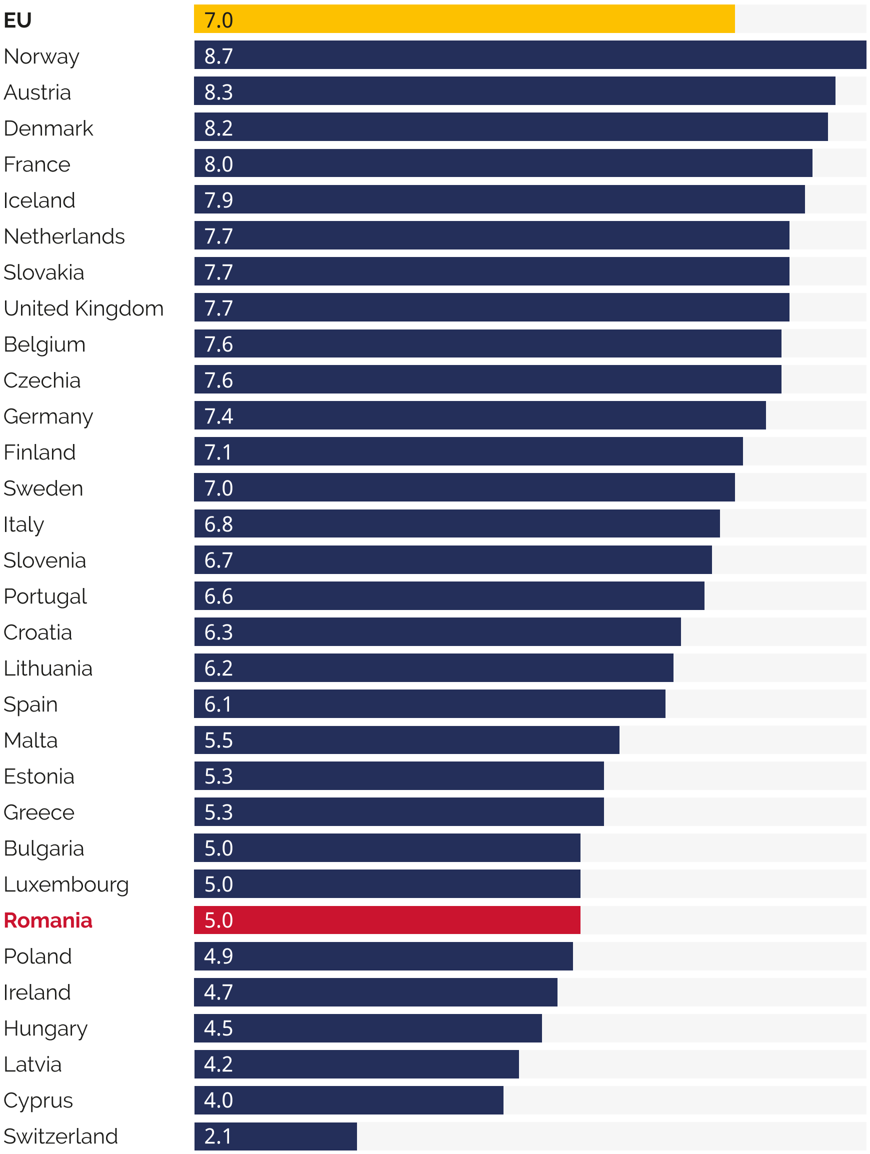
There should be better predictability of the funds allocated for the implementation of cost-volume contracts at regional level. Guidelines on the procurement and financing of medicines included in cost-volume contracts should be issued by the National Health Insurance Authority and the National Authority for Public Acquisitions. Legislation on home delivery of medicines should be introduced as a solution to increase patient access and facilitate treatments in a faster and more efficient way.

In 2020, during the COVID-19 pandemic, various measures were taken which aimed to ensure safe access to medical services for doctors and patients, by limiting travel and interaction with others. The COVID-19 situation accelerated the digitalization of Romania's healthcare system, helping patients and doctors to minimize physical contact. The FIC recommends that the healthcare authorities should adopt a Healthcare Digital Strategy, following models from other European countries and also more steps should be taken in the immediate future in implementing telemedicine in the national health system.

Romania faces a major crisis caused by a lack of healthcare professionals: in 2017 there were an average of 2.9 healthcare professionals per 1,000 inhabitants, compared to the EU average of 3.70. and an average of 6.7 medical assistants per inhabitants, compared to the EU average of 8.5. Having in mind all of these and wanting to contribute to the reform of the Romanian healthcare system, FIC continued the projects dedicated to doctors, started in 2013 in partnership with the Ministry of Health when it initiated a series of projects dedicated to medical staff in order to draw attention to the exodus of doctors, courses dedicated to students and residents in the medical field, and in 2019 and 2021 organizing courses for hospital managers through the project “Leaders for Excellence in Healthcare”.

Public health in Romania could significantly benefit from a shift of the healthcare system towards prevention and health promotion, while developing the capacity of the Romanian healthcare system to decrease the burden of disease through prevention and early detection. Vaccination is one of the most effective public health tools. It has made a major contribution to the control of infectious diseases. Preventing disease in children, adults, and seniors reduces its transmission, improves quality of life, reduces absenteeism, and contributes to economic growth.

GENERAL GOVERNMENT EXPENDITURE ON HEALTHCARE (% FROM GDP) - 2019



Source: European Commission

INFRASTRUCTURE

Find out more at
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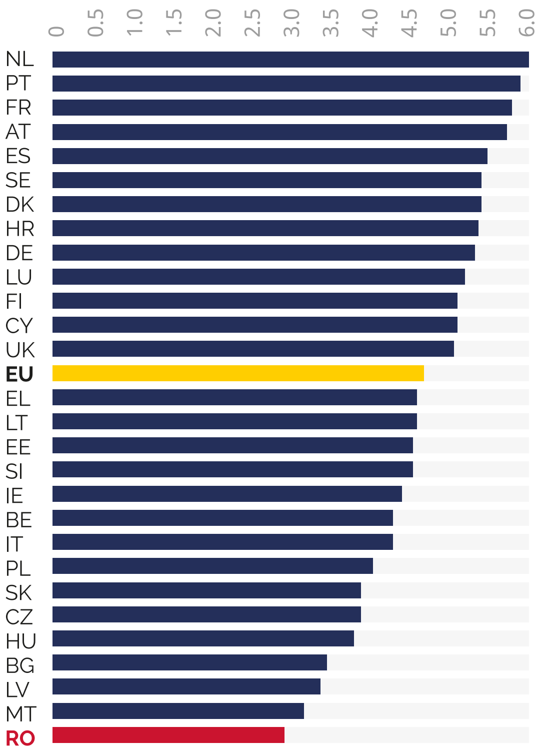
QUALITY OF ROADS



Source: World Economic Forum Global Competitiveness Report

Large infrastructure projects are the backbone of a country's development. Due to their complexity and the need for long-term commitment, they require stability and continuity to be developed and finalised. Consequently, political changes and decisions have a long-lasting impact on their direction, evolution or prioritisation.

In the past few years, Romania has witnessed multiple political changes which have been reflected in the changes to the country's infrastructure priorities. Different visions have been tested, but none have managed to remain a constant, able to ensure Romania's development in terms of road, rail, maritime, aviation, energy or telecom infrastructure.

The FIC as a representative of the business environment has set out to support the efforts of the authorities by drafting a list of infrastructure projects that are of utmost importance and would bring value for the economy. The FIC has also started consultations with other business organisations on this subject, aiming to reach a broad and pertinent perspective on the different types of infrastructure that Romania should focus on over the next few years. The final document represents an analysis of the status quo on which Romania should build and it is the result of discussions between several organisations, taking into consideration the needs of the Romanian economy, as well as strategic documents such as the Master General Transport Plan and the Large Infrastructure Operational Program. The list of priority projects was endorsed by 19 organizations and published on the www.fic.ro website in April 2020.

In order for the Master Plan to be an effective roadmap for infrastructure development, several measures should be considered in terms of operational roll out:

The time period covered by the Master plan is quite long. There should be a prioritisation of the most important projects over shorter periods (e.g. 5 years). The funding mechanism is not yet clear. Given the shortage of financial resources in the national budget, one of the main criteria for prioritisation should be the source of funding (as use of EU funds and private funds should constitute a strong alternative to state budget financing). Although not covered by the master plan, regional infrastructure development should also be made a priority. Not only state or EU funded projects should be considered, but also other projects which are economically viable.

Based on regional, national and European needs and objectives, clear infrastructure policy objectives need to be agreed at country level, for each type of infrastructure (transport, water, waste, energy, telecommunications etc.). These should be the starting point for the prioritisation and coordination of large infrastructure projects over the short, medium and long term, coupled with identifying and securing the best funding sources/ funding mix for each project (EU funds, private/ commercial funds, public funds).

In spite of significant investments made over the past few years from public funds, EU grants and other sources of financing, Romania still needs to implement major investments in order to comply with EU standards and regulations, and ultimately improve the regional/ municipal infrastructure. As EU grants are clearly not enough to cover all needs, more innovative solutions may be needed to provide the necessary financing, as well as to increase the efficiency of municipal services. Consequently, private sector participation could be a solution – starting with the outsourcing of some activities within municipal services, and then, at a later stage, the introduction of private co-financing or private management.

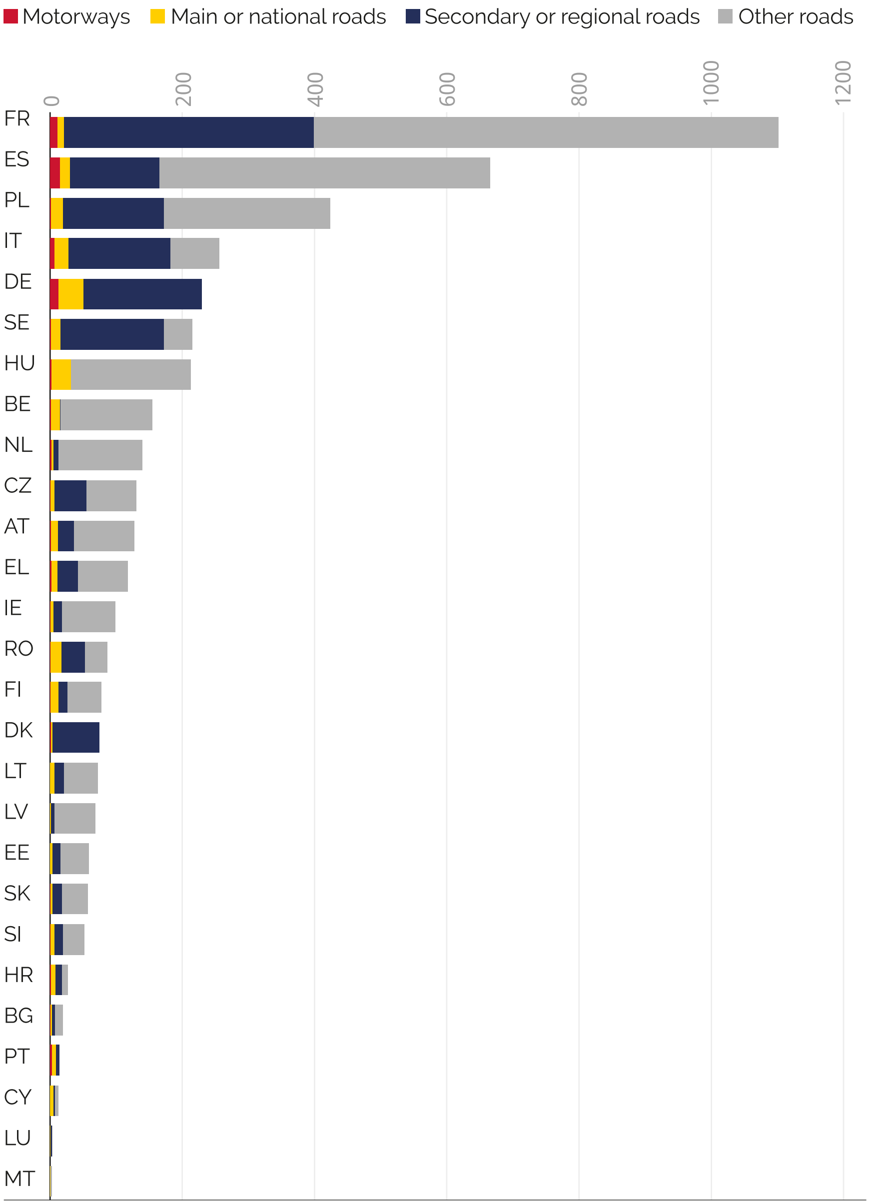
In the past few years, the main progress in the absorption of EU funds has been the level of amounts approved for payment to Romania by the European Commission. Progress in absorption of the funds allocated for 2014-2020 was slightly below the European average in June 2020. Romania had an absorption rate of 41% versus the European average of 46%. Although in recent months the absorption rate has risen from 41% in June to 46% in October 2020, it remains one of the lowest in the EU. Considering its high investment needs, Romania should mobilise its project management capabilities for its absorption rate to be higher. Urgent measures must be taken by all relevant parties to ensure full compliance with the key requirements of the EU regulations and completion of the designation process as soon as possible. The FIC also considers that the focus should be on value for money spending, i.e. on projects with impact, not just on absorbing EU funds.

Most infrastructure projects are by their nature very complex. Moreover, large infrastructure projects often require tailor-made, innovative solutions, which can be provided by highly experienced and knowledgeable experts. Considering the need, the existing resources at the government's disposal at times may not be sufficient to carry out multiple projects simultaneously. FIC members would strongly welcome greater involvement in infrastructure projects by the private sector, because many elements of them can be outsourced. The private sector has considerable expertise which the government can use to facilitate the development of more infrastructure projects at a faster rate.

Public Private Partnerships (PPPs) have been discussed and evaluated for some years as an alternative financing mechanism for Romania's infrastructure needs. We consider that a Guide could bring useful clarifications to the PPP law. However, attention should be paid to ensuring a logical framework of PPPs, public finance legislation and public procurement legislation.

We recommend that the government should ensure that the population and public institutions have access to a high-speed internet connection and high-bandwidth data services, such as advanced e-health and real-time education, irrespective of the area in which they are located. The development of broadband internet services is of great importance for the economic development of Romania and of key importance for the development of a knowledge-based society.

LENGTH OF ROAD NETWORK



Source: European Commission – Mobility and transport

LABOUR

Find out more at
www.wb2021.fic.ro

With technological advancement changing working conditions and labour relations, there is a fundamental need for all actors on the labour market to find better suited alternatives and upgrade current practices. Early 2020 found Romania's labour market benefiting from the strong economic growth of the past years but facing labour shortages.

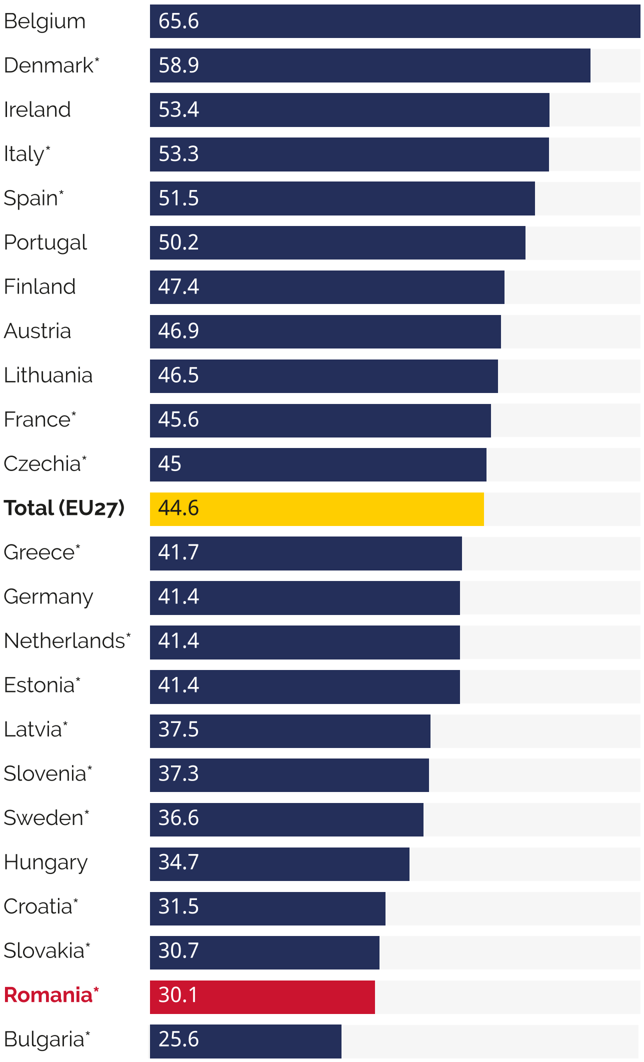
According to the National Institute of Statistics, the COVID19 pandemic affected the labour market by moderately decreasing the employed population and the employment rate and increasing the number of unemployed and the unemployment rate. Available jobs also declined during the pandemic and, despite efforts by employers to protect their employees, there were redundancies in several sectors. However, signals from the market became more positive within the last couple of months of 2020, the total number of jobs posted in Q3 of 2020 was similar to 2019's figure, at approximately 80,000.

Still, the effects of COVID-19 on the labour market in Romania over the medium to long term are difficult to predict, as the factors which generated labour shortages and a mismatch between supply and demand for labour in the past continue to influence the dynamics of the labour market. Thus, the negative demographics and external migration, the low level of the participation rate, the high inactivity rate, the quantitative and qualitative discrepancies between the supply of the education system and the real needs of the labour market, and the fact that access to the labour market remains limited for certain groups are still relevant today. In the absence of radical, immediate measures, there are clear signs that the skills shortage will continue to negatively impact Romania in the coming years.

2020 has also been the year that accelerated the transformation of the workplace to an extent never anticipated. With large numbers of employees moving to remote working due to COVID-19, ways of working have changed and this is a trend that is expected to continue post pandemic.

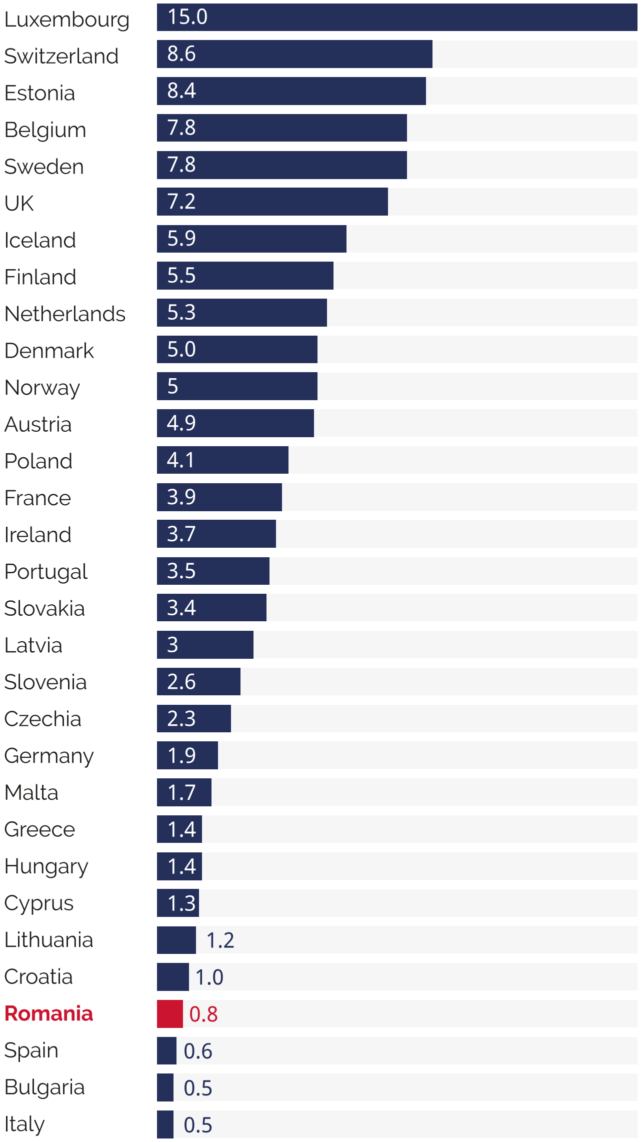
Digitalising labour relations to a higher extent is of great importance to reducing bureaucracy and ineffectiveness in the long run. A national legal framework in line with the eIDAS Regulation should be put in place as soon as possible, while the use of digital channels of communication between companies and public

EMPLOYEES WORKING EXCLUSIVELY FROM HOME DURING PANDEMIC (2020, %)



Source: Eurofound, countries excluded due to insufficient data: Cyprus, Luxembourg, Malta, Poland. Low reliability (*): Bulgaria, Croatia, Czechia, Denmark, Estonia, France, Greece, Italy, Latvia, Netherlands, Romania, Slovakia, Slovenia, Spain and Sweden.

EMPLOYED PERSONS WORKING FROM HOME AS A PERCENTAGE OF THE TOTAL EMPLOYMENT (2019)



Source: Eurostat

authorities on labour related matters should also be increased.

Positive measures were taken by the Government in 2020, in the midst of the health crisis, in terms of flexibility of work, such as unilateral telework decisions or Kurzarbeit (short time work). However, flexibility will continue to be a topic of discussion in the future and important measures in relation to, for example, allowing multiple employers for one contract, more flexibility in setting days off or allowing more leeway in organizing the working hours within the work week would represent important steps forward.

Social dialogue continued to be at the centre of discussions in Parliament and there is still significant scope for improving consultation and real dialogue between the state authorities, employers and trade unions. The FIC recommends and supports the clarification of the social dialogue situation in Romania and this should be done on three main axes: (1) Reinforcing institutional social dialogue. (2) Redesigning the sectoral landscape by defining the economic sectors much more accurately than today, would allow social partners to be closer, to find more common interests and to be better represented. (3) Changing the legislation on social dialogue in support of the above-mentioned objectives and with the aim of increasing the attractiveness of social dialogue for the social partners, rather than giving the power to one party or another.

While increases in the minimum wage are a good indicator of improving employment conditions, rises at a higher rate than the growth in labour productivity and lack of serious impact analysis of such increases could have a negative impact on the viability of certain business sectors/industries, and lead to concern regarding the lack of predictability. There is a strong need for the resumption of dialogue between the Government, trade unions and employers on this issue, to put in place a transparent and measurable system to establish the minimum wage based on market and economic research and alignment with EU systems and practices. The FIC believes that it is essential for the framework of the minimum wage increase to be predictable, so that it is easier for businesses to plan ahead.

Romania's economic growth could be considerably affected by the deficit of skills in the current labour market as well as by skills mismatches, which have persisted over the course of recent years. Considering the rapid pace of change driven by technological development, Romania needs a solid strategy for developing the right skills and training systems to be able to keep pace with the rapid changes in technology. The pandemic highlighted the urgency of the reforms needed to achieve massive upskilling and retraining in the area of digital skills.

In the long term, the sustainability of the public pensions system is precarious and demographic forecasts are adverse: Romania is set on the path of a rapidly ageing and shrinking population, and, based on current trends, will become one of Europe's "oldest" nations in the next few decades, according to research by both the EU and the UN. The public pension system on its own is not enough to secure adequate, sustainable pensions for future generations of Romanians. Therefore, the continued development of the private pension system launched in 2007-2008 is essential to improve the general capacity of the pension system to meet the expectations of the active population.

TAXATION

Find out more at
www.wb2021.fic.ro

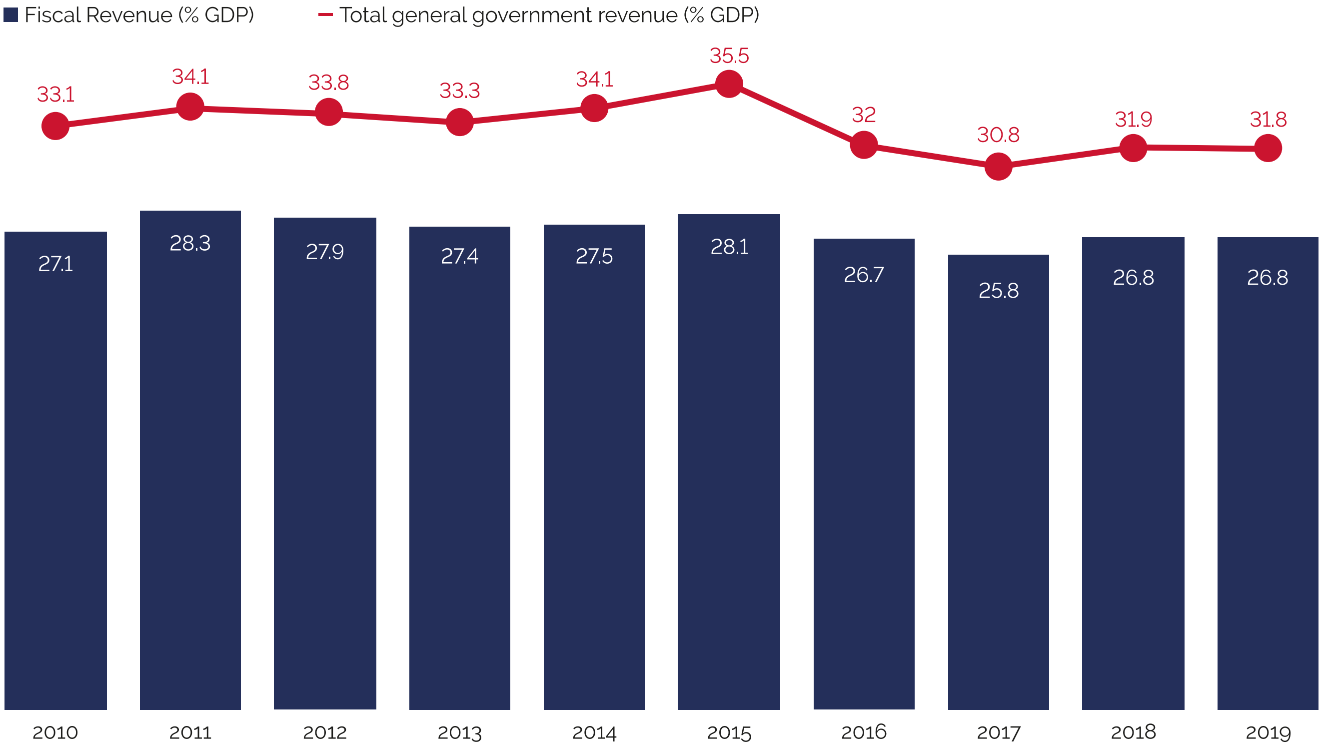
Several positive changes were made to Romania's fiscal legislation in 2020 in the context of the pandemic and also through the amendments to the Fiscal Codes adopted by the Parliament in December 2020 that included several important measures welcomed by the business environment.

Consultation between the state authorities and the business community is essential to review both draft legislation and the implementation of existing legislation. This enhances the quality of legislation and supports its uniform application. There is still a continuing problem of legislation being passed quickly, often at very short notice, and with little time for the business community to provide effective input. Although the Ministry of Finance (MF) has several structures designed to enable consultation with private stakeholders on different areas of interest in relation to public policies, in practice there is hardly any real process of consultation with the business environment on these issues. Furthermore, tax inspectors' interpretations of legislation change frequently and new interpretations are also applied to the past. This means that, in practice, the rules can change unpredictably and dramatically.

In practice there are still cases, although fewer than in the past, when conflicts of interpretation on fiscal topics generated by legislative inaccuracies led to the unnecessary instigation of criminal proceedings. In most situations, the instigation of criminal proceedings is a disproportionate measure in relation to the amounts involved. The criminal law blocks the settlement of fiscal issues, and the time taken to settle criminal cases is excessively long. The experience of Romanian courts with these issues is limited, and this leads to a lack of predictability in the application of criminal law and in settlement decisions. All this, combined with the precautionary measures (seizures and garnishments) inevitably generates major economic losses for taxpayers that can even lead to insolvency, cessation of business and bankruptcy.

The FIC considers that improving transparency should represent a top priority for the authorities, as this will lead to an increase in predictability of the Romanian tax environment and is also very likely to enhance trust among current and future investors. A non-transparent legislative process seriously compromises the potential for economic development, mainly because it acts as a

FISCAL REVENUES



Source: Eurostat

deterrent to the attraction of foreign direct investment. A consistent and coherent interpretation of legal provisions, aimed inter-alia at eliminating situations where different views have been expressed, concerning sometimes controversial retroactive application of certain legal provisions, would greatly contribute to improving transparency.

The FIC recommends the setting up of a (paid access) database tool (with full respect for the confidentiality principle), bringing together all binding and non-binding tax rulings issued/to be issued by the MF, in its capacity as legislative issuing authority, in connection with the interpretation of each article of the Fiscal Code, the Fiscal Procedural Code, the Accounting Law and any related secondary legislation, in order to normalise and create a unitary approach to the interpretation of the relevant legal provisions by both tax inspectors and taxpayers throughout Romania.

The FIC proposes that even if a reduction in the existing timeframes is not possible, at least measures should be taken to ensure that anticipated individual tax solution (SFIAs)/ price agreement (APAs) and non-binding letters are issued within these legally and clearly stipulated time limits and are not delayed. In addition, provided that the consultation process with the MF before the issuance of an SFIA is upheld, integration of tax ruling practice within the MF could be a solution to streamline the consultation process.

The FIC also recommends the implementation of a "silent acceptance" mechanism based on which these documents (i.e. APAs and AFIAs) are accepted ex officio if the legally stipulated deadlines are not respected by the tax authorities and no communication is sent to the taxpayer.

Practice has shown that tax inspection reports and assessment decisions issued upon the closure of tax audits are frequently cancelled later in courts, following appeals filed by taxpayers. In these situations, ANAF has had to assume a series of costs, not only in the form of compensatory damages paid to taxpayers, but also in terms of time and resources allocated to litigation which they lose. The FIC recommends the creation, in partnership with the Ministry of Justice, of a database of existing national jurisprudence on tax issues, allowing traceability of legal actions from one court to another.

Tax evasion creates unfair competition, putting those who comply with the law at a disadvantage. The FIC welcomes and supports the Ministry of Finance's and ANAF's ongoing work to tackle tax evasion and tax fraud, smuggling and counterfeiting. However, tax audits are not always focused in the right way to enhance revenue collection for the state budget. Tax evasion and smuggling, affecting both direct and indirect taxes, continues to be a problem.

FIC recommends some measures in this regard: penalties for tax evasion should be increased and a list of taxpayers with arrears should be made public, revision of the definition of smuggling, based on quantity criteria, cooperation between manufacturers and law enforcement agencies should be enhanced. Reform of ANAF should continue, to eliminate the practical deficiencies in fiscal administration, as well as to create an integrated public IT system connecting different authorities (such as fiscal, health, local administration, courts, and the land registry).

R&D activities represent a key element in any economy, and the benefits derived from these activities are endless. Thus, R&D should be encouraged by the Government, through the provision of incentives for companies that carry out this type of activity. A viable system to stimulate R&D activities is essential to attract the activities that bring significant economic benefits to Romania. The FIC welcomes these incentives for R&D activities, however, even though they have been available for several years, many companies are reluctant to apply for them, principally because the legislation is not clear and so taxpayers have no certainty that they are compliant with the conditions. Thus, clarification of the legislation is needed, to provide a framework for the application of the incentives.

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ROCKWOOL	soufflet malt Romania	UniCredit Leasing	
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BUILDING A SUSTAINABLE
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