1999 Country Reports on Economic Policy and Trade Practices
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ROMANIA

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999 1/
Income, Production and Employment:			
Nominal GDP (Billion Current Lei) 2/	250,480.2	338,670.0	487,370.0
Real Lei GDP Growth (pct) 3/	-6.6	-7.3	-4.5
GDP by Sector (Million US$):	34,944.7	38,157.4	29,900.0
Agriculture	6,324.9	6,067.0	5,900.0
Manufacturing	12,405.3	12,057.7	11,515.7
Services	16,214.5	20,032.7	12,484.3
Per Capita GDP (US$)	1,549.9	1,695.6	1,328.8
Labor Force (Millions)	9.0	8.9	8.7
Unemployment Rate (pct)	8.9	10.3	11.6
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	104.8	48.9	29.7
Consumer Price Inflation	151.4	40.6	47.0
Exchange Rate (Lei/US$ annual average)			
Official	7,167.9	8,872.6	16,300.0
Parallel	7,200	9,020	16,315
Balance of Payments and Trade:			
Total Exports FOB 4/	8,431	8,302	7,654
Exports to U.S. 4/	192.5	319.7	272.7
Total Imports CIF 4/	11,279.7	11,821.0	9.813.3
Imports from U.S. 4/	461.0	499.0	433.1
Trade Balance FOB/CIF 4/	-2,848.6	-3,519.0	-2,159.3
Balance with U.S.	-268.5	-179.3	-140.4
External Public Debt	6,853.7	6,954.7	5,833.8
Fiscal Deficit/GDP (pct)	3.6	3.1	3.7
Current Account Deficit/GDP (pct)	6.1	7.9	4.9
Debt Service Payments/GDP (pct)	5.3	5.9	7.4
Gold and Foreign Exchange Reserves	3,397.5	2,586.8	2,330.4
Aid from U.S.	25.0	38.0	56.0
Aid from All Other Sources	198.7	204.0	172.8

1/ 1999 figures are all estimates based on available monthly data in October.
2/ GDP at factor cost.

3/ Percentage changes calculated in local currency.
4/ Merchandise trade.

1. General Policy Framework

In 1999, Romania continued to implement market based economic reforms at a slow pace and to privatize state-owned enterprises. A lower current account deficit, moderately tight fiscal policy, modest progress in bank restructuring and privatization and, albeit with considerable difficulty, full servicing of the country's foreign debt represented the most significant macro-economic achievements in 1999.

The official economy continued to contract, however, with GDP expected to fall around five percent in 1999. At the same time, the informal economy represents about 40 to 50 percent of the formal economy. The current account deficit narrowed and external public debt decreased. Improved tax collection and tight public spending caused the consolidated budget deficit to drop to 4.2 percent of GDP, in line with the target set by the IMF. Public direct and guaranteed external debt service is projected to be $1.5 billion in 2000, down from $2.2 billion in 1999, while gross external financing requirements will be $1.9 billion. Despite higher foreign exchange reserves and new agreements in progress with the IMF and IBRD, there is still concern that Romania will be unable to finance these debts, as signaled by the continued low ratings by Moody's, Standard and Poor's and Fitch-IBCA.

Romania is committed to becoming a member of the European Union (EU), which is by far its largest trading partner and which invited Romania to open accession negotiations. Trade with the EU accounts for 64 percent of Romania's merchandise imports and exports. Trade with the United States accounts for only 3.8 percent of Romania's exports and 4.4 percent of its imports, a proportion which has been consistent for the past few years. In 1999, U.S. exports to Romania are projected to drop by 13.0 percent, yet market share may remain constant.

2. Exchange Rate Policy

The foreign exchange market was liberalized in February 1997. The leu is fully convertible for current account transactions and foreign investment. The leu depreciated substantially in the first quarter of 1999, but then stabilized in real terms for the remainder of the year. The central bank is committed to full convertibility in the capital account, but the necessary conditions for this are not yet in place and may take a few years.

3. Structural Policies

Economic reform has resulted in the passage of a wide variety of legislation affecting virtually every sector: commerce, privatization, intellectual property, banking, labor, foreign investment, environment, and taxation. While new legislation is necessary to create a basis for a market economy, rapid regulatory change has slowed the pace of trade and investment. Implementation has also been a problem.

Romania continues to make significant progress in its agricultural reform program. (Note: Agriculture accounts for about one-fifth of GDP, and about 35 percent of formal and informal employment is dependent on it.) Prices are determined by market forces, and there are no export quotas. Over the past two years tariffs have been reduced by 66 percent. Modest progress has been made in the agricultural sector privatization, and further privatization is on track within ASAL program agreed with the World Bank.

However, deep-seated problems remain in the agricultural sector. Among them:

-- the continued pervasive state presence, including price controls, state management of a large proportion of arable land, state ownership of input supply, storage, marketing, and agro-processing enterprises;

-- incomplete land reform which has left many fragmented holdings, for which property rights are still not well-defined;

-- under-developed rural cooperatives and financial services, few private input suppliers, and no extension services;

-- agricultural coupons for Diesel oil that arrive too late to be helpful for agricultural production and also jeopardize annual budget discipline.

The pace of reform in heavy industry has been very slow. The state has retained ownership of 67 percent of the industrial sector. While the government remains committed to privatizing or liquidating most of these firms, implementation has proved difficult. Meanwhile, industrial subsidies are still largely concentrated in loss—making industries such as mining, instead of in potential growth sectors, such as food processing.

4. Debt Management Policies

At the end of July 1999, Romania's medium and long-term external debt dropped to $7.8 billion, from $9.1 billion at the end of 1998. The National Bank's foreign exchange reserves amounted to $1.47 billion, in addition to $989.8 million in gold, and the commercial banks' reserves reached $2.0 billion in July 1999. However, the National Bank's reserves are down 10 percent since end-1998, due to the high foreign debt servicing required in 1999: one third of Romania's total public external debt, which was $3.06 billion. Romania has claims against foreign countries amounting to $3 billion.

Debt service payments were a major challenge for Romania during the first half of 1999. However, the GOR succeeded in avoiding default, and increased foreign exchange reserves beginning in July, though reserve levels remained below end-1998 levels, while cutting the current account deficit by more than 50 percent. After long negotiations and months of delay, the government concluded with the IMF a new standby loan, the first tranche ($73 million) of which was released in August. However, at year's end the Romanian government had not yet satisfied the IMF condition in the FY 2000 budget to allow a second tranche to be released.

The World Bank concluded at the same time a $300 million PSAL agreement with Romania. The government received half of the loan in August, and the World Bank is considering releasing the second tranche as soon as the IMF board takes a decision. Under the PSAL agreement with the World Bank, the GOR has pledged to reform the banking sector, close loss-making firms and improve the business environment. The IMF has sent a technical team in early December 1999 to review progress in implementing the two accords and tie them up with the appropriate budget policies needed for the fiscal year 2000, an election year when foreign debt servicing (including private sector) will amount to $2.4 billion.

5. Significant Barriers to U.S. Exports

Traditionally defined trade and investment barriers are not a significant problem in Romania, as there are no laws which directly prejudice foreign trade or business operations. Tariff preferences resulting from Romania's Association Agreement with the EU have disadvantaged US exports in several sectors, including agriculture, telephonic equipment, computers, and beverages. For example, the duty on tires is 30.5 percent from the US, and 18.4 percent from the EU and falling.

Bureaucratic red tape and uncertainties in the legal framework make doing business in Romania difficult. There is little experience with Western methods of negotiating contracts and, once concluded, enforcement is not uniform. In addition, delays in reconciling conflicting property claims, arising from seizures during the World War II and Communist eras, have resulted in a situation in which purchasers are potentially subject to legal challenge by former owners and title insurance is not available. The absence of clear legal recourse to recover claims against debtors is a further complication for foreign investors. Romania's customs regime imposes minimum reference prices, which is inconsistent with its WTO obligations. This has hindered U.S. poultry exports to Romania.

The cost of doing business in Romania is high, particularly for office rentals, transportation and telecommunication services. Lack of an efficient, modern payment system further delays transactions in Romania. Capital requirements for foreign investors are not onerous, but local capital remains very expensive. Also, taxes on both profits and operations are steep. Investors complain of inconsistency in Romania's policy on tax incentives for foreign companies. Previously foreign companies qualified for some tax exemptions, based on the size of their investment. Given significant fiscal constraints and under IMF pressure, the GOR rescinded this in 1999, except for the case of the French car maker, Renault, which purchased the national Romanian car manufacturing company, Dacia Pitesti.

There are few formal barriers to investment in Romania. The Foreign Investment Law allows for full foreign ownership of investment projects (including land, for as long as the investment is in place.) There are no legal restrictions on the repatriation of profits and equity capital. The continually changing legal regime for investment and privatization, however, forms a significant barrier to investment. Government approval of joint ventures requires extensive documentation. U.S. investment in Romania totaled $314.1 million by July 1999, putting the U.S. in fourth place among foreign investors.

Romania is a member of the World Trade Organization, but not a signatory to the agreement on government procurement.

6. Export Subsidies Policies

The Romanian Government does not provide export subsidies but does attempt to make exporting attractive to Romanian companies. For example, the government provides refunds of import duties for goods that are then processed for export. The Romanian Export-Import Bank engages in trade promotion activities on behalf of Romanian exporters, and has lately become more of an analysis bank.

There are no general licensing requirements for exports from Romania, but the government does prohibit or control the export of certain strategic goods and technologies. There are also export controls on imported or domestically produced goods of proliferation concern.

7. Protection of U.S. Intellectual Property Rights

Romania has enacted significant legislation in intellectual property protection. Patent, copyright and trademark laws are in place. In the past year, Romania has adopted pipeline protection for pharmaceuticals. Enforcement is limited and ineffective.

Pirated copies of audio and video cassettes, CDs, and software are readily available. In a few cases, pirated films were broadcast on local cable television channels. There are no known exports of pirated products from Romania.

Romania is a member of the Bern Convention, the World Intellectual Property Organization, the Paris Intellectual Property Convention, the Patents Cooperation Treaty, the Madrid Convention, and the Hague Convention on Industrial Design, Drawings and Models. As a country in transition, Romania will implement the WTO agreement on intellectual property on January 1, 2000. Industrial property law amendments needed for full compliance with TRIPS have already been drafted, but not enacted, yet. The TRIPS-consistent Copyright and Neighboring Rights Law is very inefficiently implemented, mainly due to the lack of coordination among the government enforcement agencies, police, prosecutors and judges, as well as due to each of these organizations' lack of focus. The Business Software Association estimates that currently, pirated products account for about 80 percent of the Romanian market, down from 95 percent prior to the law's coming into force. In order to help solve this problem, the government drafted a bill regulating the customs right to check on imports from the intellectual property point of view, a draft that is still in the Parliament for action.

8. Worker Rights

a. The Right of Association: All workers (except public employees) have the right to associate freely and to form and join labor unions without prior authorization. Labor unions are free from government or political party control but may engage in political activity. Labor unions may join federations and affiliate with international bodies, and representatives of foreign and international organizations may freely visit and advise Romanian trade unions.

b. The Right to Organize and Bargain Collectively: Workers have the right to bargain collectively. Basic wage scales for employees of state-owned enterprises are established through collective bargaining with the state. There are no legal limitations on the right to strike, except in sectors the government considers critical to the public interest (e.g. defense, health care, transportation).

c. Prohibition of Forced or Compulsory Labor: The Constitution prohibits forced or compulsory labor. The Ministry of Labor and Social Protection effectively enforces this prohibition.

d. Minimum Age for Employment of Children: The minimum age for employment is 16. Children over 14 may work with the consent of their parents, but only "according to their physical development, aptitude, and knowledge." Working children under 16 have the right to continue their education, and employers are required to assist in this regard.

e. Acceptable Conditions of Work: Minimum wage rates are generally observed and enforced. The Labor Code provides for a standard work week of 40 hours with overtime for work in excess of 40 hours, and paid vacation of 18 to 24 days annually. Employers are required to pay additional benefits and allowances to workers engaged in dangerous occupations. The Ministry of Labor and Social Protection has established safety standards for most industries, but enforcement is inadequate and employers generally ignore the Ministry's recommendations. Labor organizations continue to press for healthier, safer working conditions. On average, women experience a higher rate of unemployment than men and earn lower wages despite educational equality.

f. Rights in Sectors with U.S. Investment: Conditions do not appear to differ in goods producing sectors in which U.S. capital is invested.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis -- 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		-12
Total Manufacturing		43
Food & Kindred Products	(1)	
Chemicals & Allied Products	14	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	1	
Electric & Electronic Equipment	0	
Transportation Equipment	1	
Other Manufacturing	(1)	
Wholesale Trade		11
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		128

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis