ROMANIA

Romania’s economic freedom score is 69.4, making its economy the 37th freest in the 2018 Index. Its overall score has decreased by 0.3 point, with lower scores for government integrity and property rights outweighing improvements in the indicators for labor freedom and government spending. Romania is ranked 19th among 44 countries in the Europe region, and its overall score is above the regional and world averages.

By 2015, after macroeconomic stability had been restored in Romania, the government yielded to political pressure to relax fiscal policy, raise the minimum wage, and delay additional structural reforms. Efforts to privatize state-owned enterprises have stalled, and progress on improving the business environment has been uneven. Significant tax evasion further jeopardizes the fiscal deficit and public debt burden. Foreign investors find the unpredictable regulatory system discouraging. Corruption is endemic at all levels of government and undermines the rule of law.

BACKGROUND: Romania’s transition to a free-market economy began with its new constitution in 1991, followed by membership in NATO in 2004 and the European Union in 2007. Prime Minister Sorin Grindeanu was ousted in a June 2017 vote of no confidence by members of his center-left Social Democrat Party and their coalition partners, the Alliance of Liberals and Democrats, and was succeeded by former Social Democrat Economy Minister Mihai Tudose. In addition to its strategic position on the Black Sea, Romania has extensive natural resources and a productive agriculture sector. Leading economic sectors include manufacturing, auto assembly, textiles and footwear, petroleum refining, mining, and timber. Labor shortages and political instability pose the greatest risk to one of Europe’s fastest-growing economies.
Secured interests in private property are recognized, and the country has streamlined procedures for contract enforcement. Romania’s poorly resourced courts suffer from chronic corruption and political influence. In early 2017, after the largest street protests since the Communist era, the government was forced to repeal an emergency decree that would have sabotaged anticorruption efforts.

Both the personal income and corporate tax rates are a flat 16 percent. Other taxes include value-added and environmental taxes. The overall tax burden equals 27.5 percent of total domestic income. Over the past three years, government spending has amounted to 33.2 percent of total output (GDP), and budget deficits have averaged 1.9 percent of GDP. Public debt is equivalent to 39.2 percent of GDP.

Business freedom in Romania lags significantly behind that of other countries in the region. Labor regulations remain rigid. In January 2017, the government removed the cap on social welfare contributions, levying those taxes on the entire gross salary without any ceiling. Subsidies rose by more than 34 percent in the first half of 2017, largely reflecting the payment of agricultural subsidies financed by the EU.

Trade is significant for Romania’s economy; the combined value of exports and imports equals 84 percent of GDP. The average applied tariff rate is 1.6 percent. Nontariff barriers impede some trade. In general, government policies do not significantly impede foreign investment. The evolving financial sector is open to competition, and foreign-owned banks dominate the banking sector. The number of nonperforming loans is down considerably from their peak in 2013.