

ROMANIA

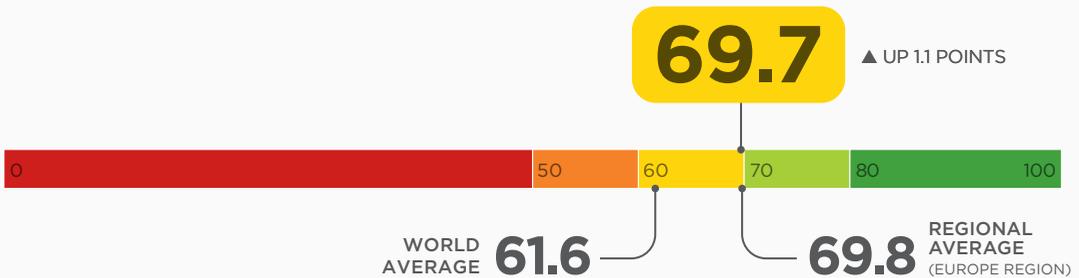
Romania's economic freedom score is 69.7, making its economy the 38th freest in the 2020 *Index*. Its overall score has increased by 1.1 points due to a higher **government integrity** score. Romania is ranked 21st among 45 countries in the Europe region, and its overall score almost matches the regional average and is well above the world average.

The Romanian economy has been rising through the ranks of the moderately free for more than a decade. GDP has been expanding at a healthy pace as well.

For Romania to make the leap into the mostly free economic freedom category, the government will have to repair the weakest link in the country's economic freedom chain: the low integrity of the government and its ineffective fight against corruption.

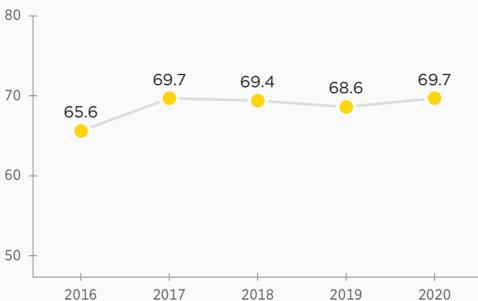


ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1995): +26.8

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
19.5 million

GDP (PPP):
\$516.3 billion
4.1% growth in 2018
5-year compound annual growth 4.6%
\$26,447 per capita

UNEMPLOYMENT:
4.3%

INFLATION (CPI):
4.6%

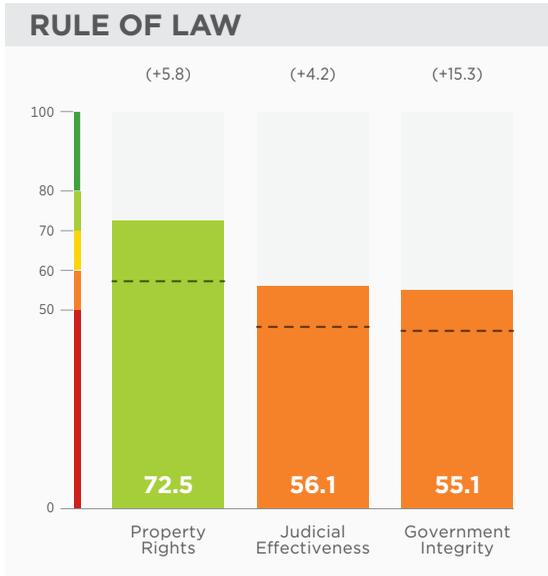
FDI INFLOW:
\$5.9 billion

PUBLIC DEBT:
36.6% of GDP

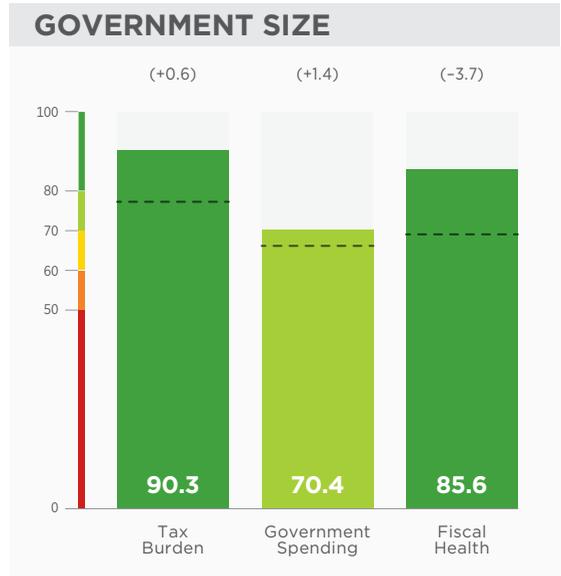
2018 data unless otherwise noted. Data compiled as of September 2019

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. The former center-left Social Democratic Party (PSD) government was ousted in October 2019 in a no-confidence vote triggered by attempts to weaken anticorruption laws and judicial independence. Prime Minister Ludovic Orban's conservative National Liberal Party formed a minority government. Independent President Klaus Iohannis also rode his opposition to PSD reforms to a landslide reelection victory in November. With a strategic position on the Black Sea, Romania has extensive natural resources, a productive agriculture sector, and one of Europe's most rapidly growing economies. Leading economic sectors include manufacturing, auto assembly, textiles and footwear, petroleum refining, mining, and timber.

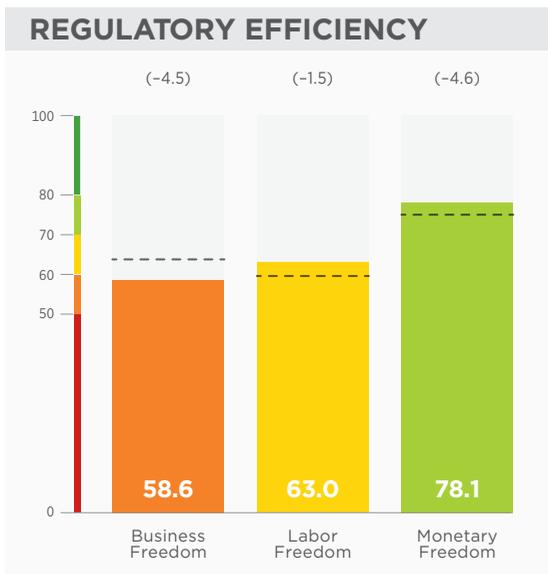
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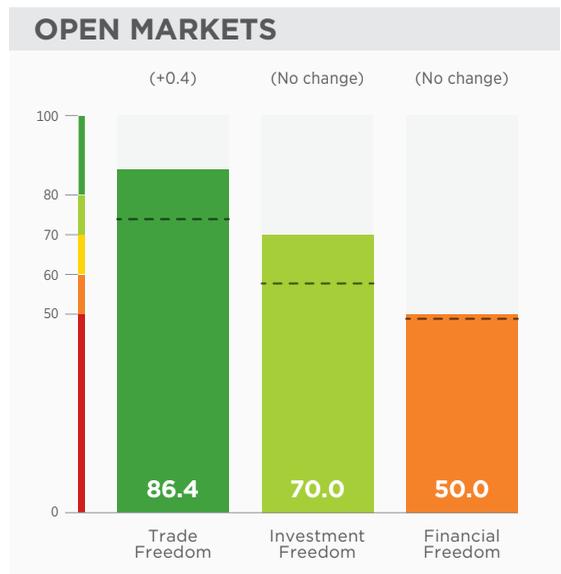
Although the right to ownership of private property is guaranteed by law, the property registry is inadequate and an impediment to investment. Inconsistency and a lack of predictability in the jurisprudence of the courts and the interpretation of the laws remain major concerns. High levels of corruption, bribery, and abuse of power remain problems.



The personal income tax rate has been cut to a flat 10 percent, and the corporate tax rate is a flat 16 percent. Other taxes include value-added and environmental taxes. The overall tax burden equals 24.7 percent of total domestic income. Government spending has amounted to 31.4 percent of the country's output (GDP) over the past three years, and budget deficits have averaged 2.7 percent of GDP. Public debt is equivalent to 36.6 percent of GDP.



Legislative instability, unpredictable decision-making, and the low quality of institutions create an uphill battle for business owners. Labor force participation is among the lowest in the European Union, and the labor market is heavily regulated. The transfer of payroll taxes from employers to employees in 2018 increased administrative costs. The government opposes the EU's move to reduce farm subsidies and continues to subsidize the energy sector.



The total value of exports and imports of goods and services equals 86.5 percent of GDP. The average trade-weighted applied tariff rate (common among EU members) is 1.8 percent, with 637 EU-mandated nontariff measures reportedly in force. Romania has an additional 20 country-specific nontariff barriers. Despite some progress, foreign investment is undercut by regulatory inefficiency. The level of financial intermediation remains one of the lowest in the region.