

Where to **invest** in Romania



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Introduction

Where to invest in Romania

Our third publication on the **Romanian business environment** presents this year the key sectors for investment, the level of attractiveness of the local business environment and the impact of AI.

Romania's economy is mainly centred on the services sector, which represents 56.2% of the GDP and employs nearly 48% of the nation's workforce. The technology sector has also seen immense growth in recent years, due to the emergence of a high-qualified workforce whose cost is lower than the European average.

The **industrial sector** contributes to 29% of the country's GDP and employs 30% of the active population. Thanks to cheap labour, its industry is diversified and competitive.

The last section of this publication focuses on incentives for investment and taxation system for business.

Historically, manufacturing companies and the industrial sector represent the backbone of Romania's economy. For this reason, foreign direct investors are involved in heavy industry (metallurgy, steel), the manufacturing of vehicle parts, building and construction, petroleum refining and textiles. According to figures by the World Bank, the manufacturing sector alone contributes 20% of GDP.

Main topics covered:

- Key sectors for investment
- Human Resources
- Outsourcing opportunities
- IT&C
- Artificial Intelligence
- Constructions
- Manufacturing market



Adeco Advisory Consultancy & Development Services

About Us

Adeco - Advisory Development & Consultancy Services is your Business Consultant in Romania.

How was **Adeco Advisory** born?

Adeco was founded on the ideas of professionals from various fields (corporate, legal, fiscal and financial) who sought to share their experience with the goal value for all foreign companies entering the Romanian market.

How does your service grow?

Our approach is to provide the customer with a "set of skills" combining technical aspects and a profound knowledge of the territory and its dynamics. After an initial interview with us, a real "work desk" is established with our professionals based on your needs. The result for the customer is a synthesis of all the domains: a single responsible interlocutor, a true added value for companies operating in a foreign territory.

Despite the difficulties of the international financial situation of recent years, Romania remains an **attractive opportunity** for both investment and business relocation for TAX, wages, industrial parks. Many investors come to this country, and we focus on companies aiming to generate value over the medium term. Adeco believes the way of speculation does not yield results, as it has been demonstrated in recent years.

Adeco Advisory is a complete partner for the growth of foreign companies in Romania. Adeco Advisory celebrates **eight years of service**.

Our Services

ADVISORY, DEVELOPMENT and CONSULTANCY

Our strategy is to create multidisciplinary teams that may manage and solve complex business issues as efficiently as possible. It is a concept of integrated advisory based on our main services:

- • Corporate
- • Legal
- • Finance
- • Tax, Accounting
- • Institutional relationship
- • Merger and acquisition (M&A)
- • Management and organization
- • Company Development on Romanian market





5 Reasons to invest in Romania

When considering Romania as a possible location for **developing their businesses**, foreign investors take a close look to the benefits provided by our country.

Here are the top **5 reasons** to invest your money in Romania:

Market & Location: one of the largest markets in Central and Eastern Europe (with over 19 million inhabitants); EU unique market gateway (access to approximately 500 million consumers);

Resources: highly skilled labor force at competitive prices (solid knowledge of foreign languages and technology, IT, engineering, etc);

International Relations: bilateral agreements between Romania and other countries on investments promotion and protection; Bilateral diplomatic relations with 184 UN member states; WTO member since January 1995.

State aid schemes: state aid schemes for encouraging investors to take upon Romania; Major interest of Foreign Investors – leader destination for FDI in the region;

Legislative context: similar legal provisions as in EU (Acquis Communautaire implementation); Fiscal policy regulated by the Fiscal Code.

Romania – country profile

Capital city: Bucharest

Resident Population: 19.4 mil

Real GDP growth: 3.5%

In the **highly dynamic and interconnected world of global business**, with paradigms of economic power being drawn and redrawn relentlessly, Romania has succeeded in maintaining its position as the leading foreign direct investment recipient in SEE, proving an unremitting desire to seek performance, improvements and productivity gains, doubled with sound economic policy and a safe environment is still the script for success and cost-effectiveness.



Romania has **a cost-effective business environment** enjoying the 4th lowest gas prices and the 6th lowest electricity prices in EU and one of the fastest speeds of internet in the world, enjoying great broadband infrastructure.

GDP growth has been strong in 2019, sustained by robust consumption and buoyant investment in the construction sector. Increases in both public sector and minimum wages have supported household purchasing power. Unemployment has reached a record low level and labour shortages have intensified. Rising labour costs have undermined the price competitiveness of domestic producers, contributing to the widening of the current account deficit.

Romania - Main advantages

There are **many advantages** that show us why Romania is a country worth investing in:

- tax & regime applicable for SMEs
- wages
- salary threshold
- increasing GDP
- market advantages and advantages emerging from the geographical position of the country
- advantages emerging from the international relations context
- economic advantages - reinvested earnings are not taxable
- legislative advantages
- advantages emerging from resources
- social context advantages
- extensive maritime and river navigation facilities
- mobile networks based on broad GSM systems
- access to the European single Market

Romania is one of the **largest markets** in Central and Eastern Europe (7th place, with over 19 million inhabitants), strategically located at the intersection of the European Union, the Balkans and the Commonwealth of Independent States (CIS). Romania is at the intersection of three important pan-European corridors: corridor no. 4, linking Western Europe, corridor no. 9 linking the North and South of the Continent and Corridor no.7, which **facilitates navigation** within Europe.

Key sectors for investment

Human Resources

Outsourcing opportunities

IT&C

Artificial Intelligence

Constructions

Industrial market



Human Resources

According to the Labour Ledger, the **active civilian population** amounted to 8 717 900 persons, representing 44.7% of the resident population. Out of the total active population, 54.7% were men and 45.3% were women.

The **employed civilian population** amounted to 8 366 800 people, of whom 5 362 300 were salaried employees. Most of the employees were working in the services sector (3 333 500 people), while 1 900 200 persons were employed in the industrial and construction sectors. The number of employees in agriculture, forestry and fisheries was 128 600.

Romania is divided into **eight administrative regions**: North-West, Centre, North-East, South-East, South-Muntenia, Bucharest-Ilfov, South-West Oltenia and West.

Each region has certain **specific features** with regard to its economic structure, which is why certain **sectors** play a predominant role in the development of each region. In the North-East and South-West regions, a large share of the population is engaged in agricultural activities. The civilian population is employed mainly in industry and the construction sector in the West and Centre regions, and in the services sector in the Centre, West and Bucharest-Ilfov regions.

The **main types of businesses** on the labour market: companies (limited liability companies (SRL), joint-stock companies (SA), partnerships (SNC), simple partnerships (SCS), joint-stock partnerships (SCA), sole traders (PFA) and family associations).

Main types of **employment contracts**: employment contracts may be fixed-term or permanent, with full-time or part-time working hours. Certain jobs require specific qualifications and/or experience.

Outsourcing opportunities

If you are thinking to **relocate your business**, you should definitely consider Romania.

Romania has one of the largest pool of human capital in Southeastern Europe. The human resources, culture, education system, and commitment to quality make outsourcing in Romania an attractive option.

Key figures

- Talent pool: more than **64.000 university graduates**
- Competitive **quality/cost ratio** for companies
- Strong **foreign language competences**: English, the most encountered language used in delivering services, followed by French, German, Italian, Spanish etc.
- #9th **globally** amongst the most attractive destinations for outsourcing of business services sector
- The top **serviced sectors**: Banking, Insurance, Financial Services (BIFS), Business and Professional Services, Technology & Telecom and Industrial & Consumer Goods
- Popular **nearshoring location** due to: great IT, finance and accounting skills, languages over 33 languages spoken

Romania makes the best destination for **ITO** and **BPO**.

IT&C

Technology is considered a primary growth driver for Romania. The IT&C services sector is forecasted to reach EUR 6.3bn. by 2020.

Romania boasts the **first place in Europe** and the sixth in the world for number of certified IT specialists.

The **educational system** in Romania encompasses several technical universities that produce about 8500 IT graduates a year. On top of the actual graduates there are also a couple of other things to consider. Most IT companies have yearly internships that usually end with several hires.

A second thing to consider is that the IT sector is a **very attractive industry in Romania**. Due to higher than average salaries, there are a lot of people that convert professionally to the IT

sector. This typically happens through internships, courses, informal schools or by self-teaching, in programming, testing, business analysis or other areas. IT companies respond to the ever-**growing** needs for skilled workers by supporting these endeavors and offering various learning opportunities.

Bucharest is the largest IT hub and also the city with the most universities and graduates in field. The cities of Cluj-Napoca, Timisoara and Iasi also offer great technology infrastructures.

There are other smaller outsourcing hubs dealing with IT or BPO in cities like Sibiu, Targu Mures, Brasov or Constanta. Overall there are more than 20,000 tech companies in the country, making Outsourcing in Romania an attractive option.



Artificial Intelligence

Romanian AI community

Artificial Intelligence (AI) deals broadly with designing intelligent computer systems, i.e. systems able to perform complex tasks that normally require human intelligence. The rapid development of the field in the last decade and its impact indicate its **strong potential** to generate a technological revolution in the near future, with implications in every sector of activity: healthcare, education, mobility, public administration, social services, workplace organisation, business administration, social interactions, entertainment and more.

Romania has a **huge potential in the AI area**, fueled by a significative number of talents in the fields of robotics, technology and IT.

Romania, similar to other Eastern European countries, has a large IT and customer services sector, oriented mostly to the outsourcing market, rather than productization. **AI technology** can improve the efficiency and quality of these services. These could include:

- NLP tools to improve quality and efficiency of communication in written form (e.g. access to information, smart autocomplete, or automated information retrieval, automated categorization, etc.);
- Speech recognition and speech-to-text to transcribe audio to text, categorize or prioritize;
- Automation of tasks using smart chatbots.

Artificial Intelligence

Agriculture & Environment

Agriculture is one of Romania's main sectors of activity, with an agricultural capacity of 14.7 million hectares, and contributing about 6% of GDP. Approximately 3 million people (almost 30% of Romania's workforce) are employed in agriculture.

However, the **agricultural capacity** is heavily underexploited (about 6.8 million hectares are not used), due to obsolete technology, fragmentation and erosion of soil, desertification, and difficulty in accessing funds.

Using **AI-based systems** within a properly regulated framework has a significant potential for agriculture, to counteract the aforementioned issues. Examples of promising projects:

- Weather **forecasts**
- **Autonomous** machines (tractors, agribots, drones)
- Enhanced **analytics** on collected data (soil sensors, connected livestock)
- Precision agriculture
- Wildlife and forest **monitoring** (including illegal activities)
- Prediction and/or **rapid response** in case of events of environmental impact
- **Waste management** monitoring
- Smart automatic **control** of irrigation systems

Artificial Intelligence

Manufacturing

AI has the potential to increase automation and improve productivity in manufacturing by exploring the following directions:

- Improve digitization of manufacturing (e.g. image processing for transitioning old model formats to new digital support).
- Defect & fault detection via image processing.
- Production demand forecasting for reduced production waste.
- Improved product development using data science for obtaining insights from usage data.



Constructions

Over the past few years, the **Romanian construction market** had registered important growths both in residential and commercial developments, new projects being started or delivered for all sectors and new opportunities rising in Bucharest as well as in major regional cities.

The **volume of construction** works increased overall, as adjusted series according to the number of working days and to seasonality, by 20.9%, an increase reflected in capital repair works (+34.6%), in maintenance and current repair works (+25.2%) and in new construction works (+24.7%) according to the database published by the National Institute of Statistics.

2020 total real estate investment volumes in Romania is expected to surpass 2019's 0.7 billion euro.

By construction objects, the volume of **construction works** rose for engineering works (+39.7%) and for residential buildings (+38.9%). Non-residential buildings were down 4.4%.



Manufacturing market

Romania is **the fifth most attractive manufacturing market** in Europe and was ranked 12th globally.

Major industries in Romania are precision machinery, motor vehicles, chemicals, pharmaceuticals, electric goods (especially home appliances), food, fashion, clothing, petroleum, steel, motor vehicles, aerospace, chemicals, electronics, food processing, consumer goods, lumber, mining and defense, (transistors, aircraft, motor vehicle parts, computers, telecommunications equipment).

Romania's main industries are clothing and shoe manufacturing, metal, extracting and processing of primary goods (timber, marble, rock), food processing, oil refining and chemical derivatives,

and to a lesser extent pharmaceutical, heavy machinery, household electronics, etc. In recent years vehicle manufacturing has become an important industry. The information-technology-related industry is also growing.

With a level of headline rents for **industrial and logistic spaces** between €3.6 and €4.1 / sqm / month, Romania is one of the most competitive markets at the European level, while the salary level, calculated by Eurostat at €6.9 / hour is 75 percent below the EU average (€27.4 / hour).

Currently, the most important changes in **the local industrial market** are related to the availability of labour force and the tendency to automatize existing or underdevelopment deposits.



**Fiscal Incentives
Available Funds
Taxation**

Fiscal incentives

General: 0% profit tax for the reinvested profit in new technological equipment used for business purposes

IT&C: 0 % income tax for employees hired as software developers

R&D

- 0% **income** tax for employees hired in Research & Development companies
- 0% income tax for R&D companies for the first 10 years
- Specific **deduction** in case of R&D eligible expenses:
- **Accelerated** depreciation of R&D equipment
- Additional **deduction** in value of 50% of R&D expenses can be deducted from the taxable income. If a **loss** is made this can be carried forward

Industrial parks

- Investors that set up manufacturing locations or offices in an industrial, scientific or technological park **benefit** from:
- **Exemption** on land, building and urban planning tax
- Exemption for **taxes** charged for changing land destination

Available funds

European Funds situation - 1st of June 2020

- ⇒ **12.92 billion euro** - European money entered in Romania through Cohesion Policy and Agricultural Policy. To these amounts are added another 7.92 billion euros direct payments to farmers;
- ⇒ **26.43 billion euro** - the total value of the open financing lines, representing 96.5% of the total allocation of Romania;
- ⇒ **46.75 billion euro** the value of the projects submitted for these financing lines;
- ⇒ **31.4 billion euro** the total value of the financing contracts signed, and the contracting rate reached 106% of the allocation.



Romania's **absorption rate** is 41% compared to the EU average, which is 46%.

Tax Liabilities

Tax policy focuses on ensuring a stimulating role of taxes, **designed to help economic growth** and development, fiscal consolidation as well as the development and strengthening of the middle class.

The standard **corporate income tax rate** is 16%.

Taxpayers that are carrying on activities such as gambling and nightclubs are either subject to 5% rate of the revenue obtained from such activities or to 16% of the taxable profit, depending on which is higher.

Resident companies are taxed on their worldwide income, while non-resident companies are taxed on all income derived from Romanian taxpayers, regardless of whether the services are rendered in Romania or abroad.

Foreign businesses that have a permanent establishment are subject to the same income taxes as a Romanian company. An entity is

deemed to be tax resident in Romania if it was set-up under Romanian law or has its place of effective management in the country.

Capital gains derived by resident and non-resident entities from the sale of shares and real property are included in overall profits and taxed at the ordinary corporate tax rate of 16%. However, certain capital gains may be exempt.

Capital gains from **the sale/transfer of shares**, as well as income arising from the evaluation or revaluation of shares held in a Romanian or foreign legal entity located in a country that has concluded a tax treaty with Romania, are exempt from tax if the recipient holds at least 10% of the share capital of the entity whose shares are sold/transferred or evaluated/revaluated for an uninterrupted period of at least one year.

Main Allowable Deductions and Tax Credits

As a **general rule**, expenses are deductible only if incurred for business purposes. Some of the deductible expenses specifically mentioned by the Romanian Fiscal Code include:

- **expenses** incurred for environmental protection and resource conservation
- **R&D expenses** that are not recognised as intangible assets for accounting purposes
- expenses related to **benefits granted to employees** as equity instruments settled with cash (if the benefits are subject to personal income tax)
- **losses incurred** when writing off client receivables (under certain conditions)
- **travel and accommodation expenses** related to business; including transportation of personnel to and from the workplace
- expenses incurred from **professional training** and development of employees
- **marketing and advertising expenses**
- fines, interest, penalties, and other **increased payments** due under commercial contracts.
-

Start-up expenses may be capitalised and depreciated over a maximum period of five years but cannot be depreciated for tax purposes.

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