

ROMANIA

The Department of State submitted this report to the Senate Committees on Foreign Relations and on Finance and to the House Committees on Foreign Affairs and on Ways and Means, on January 31, 1999.

Key Economic Indicators

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

	1996	1997	1998	1/
<i>Income, Production and Employment:</i>				
Nominal GDP (Billion Current Leu) 2/	109,515	249,750.2	297,321.9	
Real Leu GDP Growth (pct) 3/	3.9	-6.6	-5.0	
GDP by Sector (Million US\$):				
Agriculture	6,756.7	6,968.6	6,689.9	
Manufacturing	12,787	12,404.1	11,759	
Services	15,983.2	15,470.2	15,298.6	
Per Capita GDP (US\$)	1,565	1,541.7	1,486.7	
Labor Force (Millions)	10.9	10.8	10.1	
Unemployment Rate (pct)	6.3	8.8	9.0	
<i>Money and Prices (annual percentage growth):</i>				
Money Supply Growth (M2)	69.5	104.8	28.5	
Consumer Price Inflation	56.9	151.4	45.0	
Exchange Rate (Leu/US\$ annual average)				
Official	3,082.6	7,167.9	8,810.2	
Parallel	3,800	7,200	8,890	
<i>Balance of Payments and Trade:</i>				
Total Exports FOB 4/	8,084.5	8,429	8,252	
Exports to U.S. 4/	192.5	319.7	328.3	
Total Imports CIF 4/	11,435.3	11,275.4	10,900.3	
Imports from U.S. 4/	430.7	461	501	
Trade Balance FOB/CIF 4/	-3,350.8	-2,846.4	-2,648.3	
Balance with U.S.	-238.2	-141.3	-172.7	
External Public Debt	6,174.4	6,811.3	6,502.9	
Fiscal Deficit/GDP (pct)	3.9	3.6	5.4	
Current Account Deficit/GDP (pct)	7.3	7.1	7.4	
Debt Service Payments/GDP (pct)	3.4	5.3	6.1	

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Gold and Foreign Exchange Reserves	3,144.3	4,670.9	4,180
Aid from U.S.	26.1	25	38
Aid from All Other Sources	168.6	198.7	204

1/ 1998 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 1998, Romania continued to implement market based economic reforms and privatize state owned enterprises. Inflation has dropped and the exchange rate remains relatively stable. While political differences within the governing coalition have delayed the passage and implementation of some reform legislation, opinion polls demonstrate that there is a broad popular and political consensus in favor of economic reform.

The economy continued to contract, with GDP expected to fall five percent in 1998. The current account deficit widened and external public debt increased. Falling tax revenues caused the fiscal deficit to rise to 5.4 percent of GDP, well above the target set by the IMF. Public external debt service is projected to be \$2.2-2.8 billion in 1999, while gross external financing requirements will be \$4-5 billion (approaching 12 percent of GDP). There is growing concern that Romania will be unable to finance these debts, as signaled by recent downgrades by both Moody's and Standard and Poor's.

Romania is committed to becoming a member of the European Union (EU), which is by far its largest trading partner. Trade with the EU accounts for over 50 percent of Romania's merchandise imports and exports. While trade with the United States accounted for only 5 percent of Romania's exports and 4.5 percent of its imports, it has been increasing steadily for the past few years. In 1998, U.S. exports to Romania grew by 8.6 percent, and market share increased by 14 percent.

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. It is also widely considered to be overvalued. The government is committed to full convertibility in the capital account, but the necessary conditions for this are not yet in place.

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.

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. Over 80 percent of the agricultural sector has been privatized, and further privatization is on track.

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

- the continued pervasive state presence, as evidenced by remaining price controls, state management of a large proportion of arable land, state ownership of input supply, storage, marketing, and agro-processing enterprises;
- unfinished land reform that 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;
- and, resistance from the ruling coalition's agricultural lobby which has prevented the closure of many inefficient state farms.

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 and politically unpopular.

4. Debt Management Policies

At the end of June 1998, Romania's medium and long-term external debt amounted to \$8.3 billion. The National Bank's foreign exchange reserves amounted to \$2.04 billion and the commercial banks' reserves reached \$1.75 billion in October 1998. However, the National Bank's reserves are down by over 25 percent since June, as it has tried to slow the pace of depreciation. Romania has claims against foreign countries amounting to \$3 billion.

Debt service payments will prove a challenge for Romania during the first half of 1999, when at least \$2.2 billion in payments will come due. The government has been negotiating with the IMF for a standby loan to assist with these payments. Those negotiations, which stalled in 1998, are slated to resume in late January.

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, and computers. For example, the duty on tires is 30.5 percent from the US, and 18.4 percent from EU.

Bureaucratic red tape and uncertainties in the legal framework can make doing business in Romania difficult. There is little experience with Western methods of negotiating contracts and, once concluded, their enforcement is not uniform. In addition, delays in reconciling conflicting property claims, arising from confiscations during the Communist era, have resulted in a situation that 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.

The cost of doing business in Romania is high, particularly for office rentals, transportation and telecommunication services. Lack of an efficient, modern financial system further delays transactions in Romania. Capital requirements for foreign investors are not onerous, but local capital is very expensive. Also, taxes on both profits and operations are steep. Foreign companies may qualify for some tax exemptions, based on the size of their investment.

Investment barriers are few in Romania. The Foreign Investment Law allows for full foreign ownership of investment projects (including land.) There are no legal restrictions on the repatriation of profits and equity capital. Government approval of joint ventures requires extensive documentation. U.S. investment in Romania is increasing and totaled \$267.7 million by July 1998, ranking the U.S. fourth among foreign investors.

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

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.

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 often ineffective.

Pirated copies of audio and video cassettes, CDs, and software are readily available, although not openly displayed. In a few cases, pirated films are broadcast on local cable television channels. There are no known exports of pirated products from Romania.

Romania is a member of the Berne 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.

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 -- 1997**

(Millions of U.S. Dollars)

Category	Amount
Petroleum	-9
Total Manufacturing	22
Food & Kindred Products	(1)
Chemicals & Allied Products	(1)
Primary & Fabricated Metals	0
Industrial Machinery and Equipment	0
Electric & Electronic Equipment	0
Transportation Equipment	0
Other Manufacturing	0
Wholesale Trade	5
Banking	(1)
Finance/Insurance/Real Estate	(1)
Services	0
Other Industries	(1)
TOTAL ALL INDUSTRIES	78

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

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