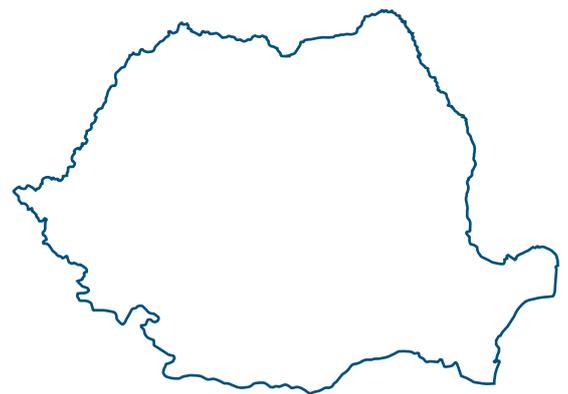


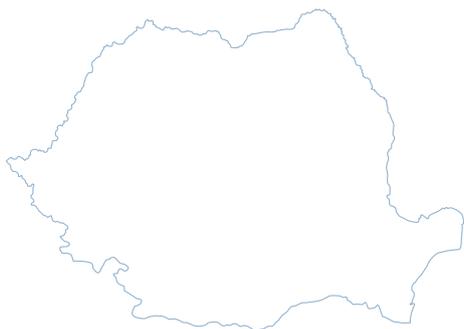


Country outlook ***Romania***





Romania



Form of Government: Semi-presidential republic

Capital: Bucharest

Official language: Romanian

Population: 19 million inhabitants (2018)

Currency: Leu (RON)

Exchange rate: 1 EUR = 4.73 RON (28/06/2019)
1 USD = 4.15 RON (28/06/2019)

GDP: \$239 billion (0.3% of world GDP)

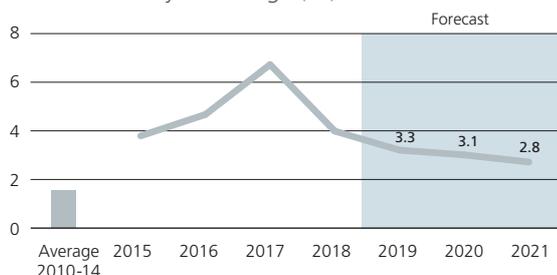
GDP per capita: \$12,285 (\$26,446 purchasing power parity)

Ease of doing business: 52rd in the world out of 190 according to the World Bank (Doing Business)

Religion: Romanian orthodox: 89%

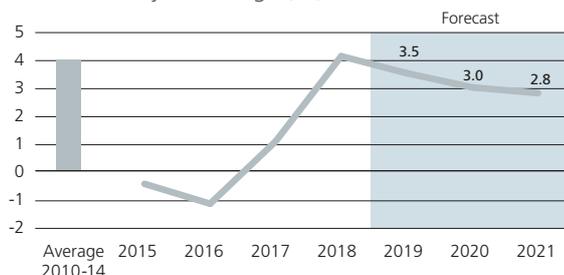
Economic forecast

GDP. Year-on-year change (%)



- The slowdown in growth that we started to observe in 2018 will continue in the coming years. However, the growth in activity will remain above the average in recent years, mainly due to strong private consumption, which will benefit from rapid wage growth and fiscal stimulus measures.

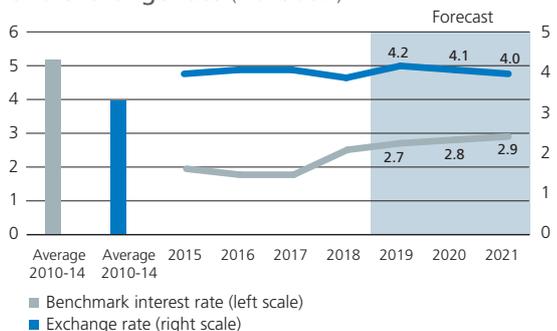
CPI. Year-on-year change (%)



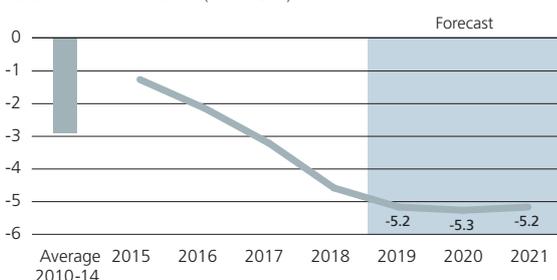
- Inflation rose sharply in 2018, to levels above the Romanian Central Bank's target range (2.5% +/-1 pp), due to a boost in domestic demand, the behaviour of commodity prices and strong wage growth. Looking ahead to 2019-2021, inflation will fall from its 2018 levels but it will remain high, due to upward pressure caused by the strength of the labour market (the unemployment rate is at its lowest level in 20 years) and the public sector pay rises that were passed in legislation.

Economic policy

Benchmark interest rate (%) and exchange rate (RON/USD)

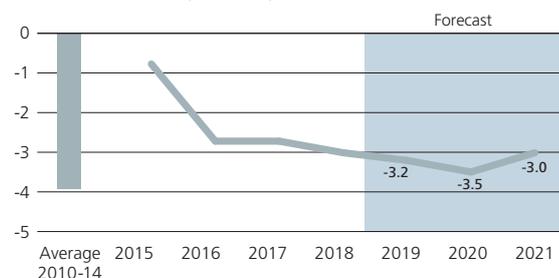


Current account (% GDP)

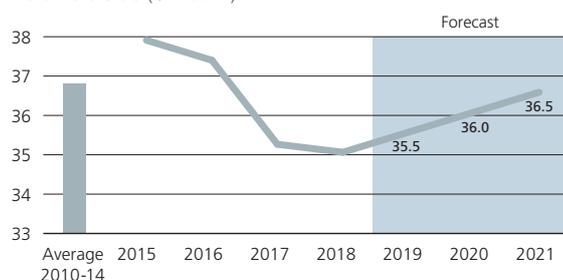


- Strong private consumption has boosted imports, while the economy's loss of competitiveness (largely due to a sharp rise in wage costs) has hit exports. This has led to a steeper rise in the external deficit, to a level where Romania remains vulnerable to changes in international investment sentiment.
- After raising the interest rate three times in 2018, and despite the pressure on the demand side, we expect Romania's Central Bank to follow a cautious approach with regards to further rate hikes, especially given the high current account deficit and the external climate created by the ECB's accommodative tone. We do expect the Romanian Central Bank to continue intervening in the FX market to avoid any sudden fluctuations in the exchange rate.

Fiscal balance (% GDP)



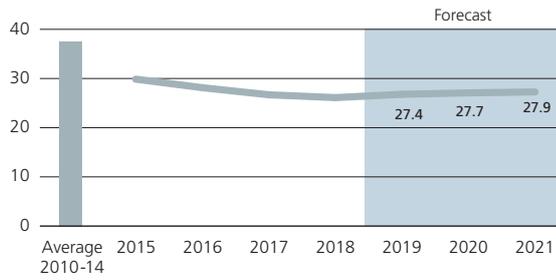
Public debt (% GDP)



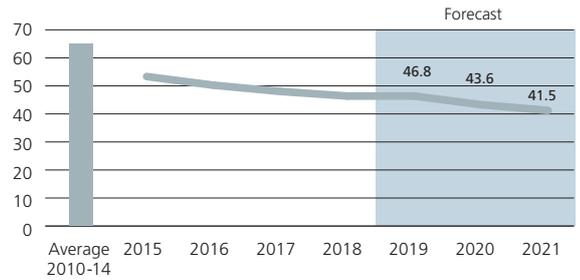
- In 2018, the public deficit reached the threshold of 3% of GDP with the government's stimulus measures (sharp rise in public sector wages and an income tax cut). Looking ahead to 2019-2020, we expect the public deficit to be notably higher than 3% of GDP, due to higher expenditure on public sector wages and pensions (after the changes introduced in the parameters used for pension indexing). However, we cannot rule out the government implementing specific measures (as it did in 2018) to prevent the deficit from skyrocketing.
- Therefore, it is likely that the European Commission will start the process for launching another excessive deficit procedure against Romania (the last time was in 2009-2010), which could lead to sanctions amounting to as much as 0.2% of GDP and the suspension of EU structural funds. Furthermore, this decline in the fiscal position will lead to a considerable rise in public debt.

Financial conditions

Private credit (% GDP)



Gross external debt (% GDP)



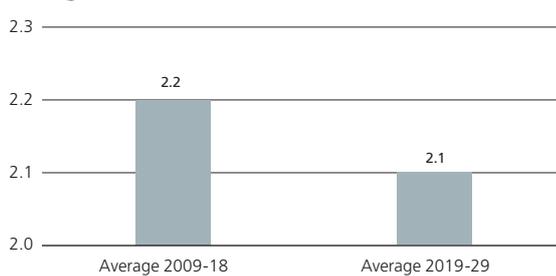
- The significant decline in the fiscal deficit in recent years led to the government introducing taxes in key sectors such as banking, energy and telecommunications at the end of 2018 (without any forewarning). The nature of these taxes, such as the tax on bank assets, took the markets by surprise and led to a sharp depreciation of the leu. In response, the government decided to change the legislation on bank tax to significantly reduce the burden on the sector. In its amended version, it is estimated that the tax on bank assets will raise between 400 and 800 million leus a year (0.05% of GDP).
- The banking sector is in a solid position to continue supporting the activity. In particular, the sector has adequate levels of capital and liquidity, and delinquency (5.2% in 4Q 2018) has been reduced to levels closer to the EU average. However, the correlation between sovereign and banking risk is increasing, since the holdings of domestic sovereign bonds by banks have increased and are above 18% of total bank assets.

Political situation

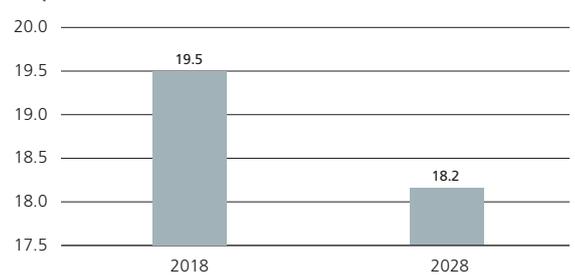
- Despite the electioneering policies introduced in recent years and the plans to introduce additional measures (with one eye on the presidential elections at the end of 2019 and the parliamentary elections in 2020), the coalition government between the socialists and liberals (in power since the end of 2016) was greatly weakened in the European elections in May 2019. This decline in electoral support seems to reflect the electorate's desire to reverse certain measures that have weakened the independence of the judiciary and the rule of law.
- Frequent legislative changes, unpredictability when implementing policies and repeated attempts to decriminalise corruption in the country have eroded confidence, hitting the country's investment and growth prospects.

Long-term outlook

GDP growth (%)



Population (millions of inhabitants)

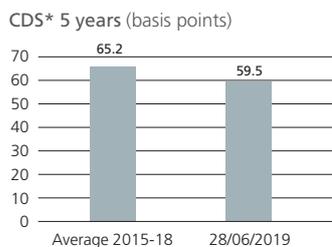


- The main challenge for Romania is to maintain a sustainable rate of medium- and long-term growth that allows it to continue the process of convergence with the advanced economies of the EU. Thus, Romania needs to implement an agenda of structural reforms to consolidate the progress it has made in recent years, thoroughly improve the quality of its institutions and invest to increase the economy's growth potential. All of this is especially relevant given the demographic outlook (shrinking and ageing population).
- In particular, Romania needs to improve the quality of public institutions, the business environment, its productivity growth and the planning and use of EU structural funds.
- Since 2014, political instability has prevented parties from reaching a consensus on the implementation of deep structural reforms. We expect this period without reforms to continue in 2019-2021.

Country risk

	Rating	Last changed	Outlook
STANDARD & POOR'S	BBB-	16/05/14	Stable
MOODY'S	Baa3	21/04/17	Stable
FitchRatings	BBB	04/07/11	Stable

■ Indicates that the country has "investment grade".
 □ Indicates that the country does not have "investment grade".



OECD credit risk rating (from 0 to 7, with 0 being the best)

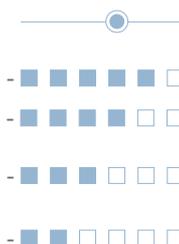


*Credit default swap: measurement of country risk that reflects the cost of ensuring the non-payment of the sovereign bond.

Risks

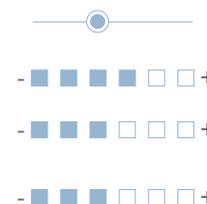
SHORT-TERM

- Excessively procyclical fiscal policy
- Political instability
- Increased risk perception in emerging markets
- Greater than expected slowdown in the euro area



LONG-TERM

- Failure to push for modernisation
- Negative demographic outlook
- Impact of Brexit on EU structural funds and remittances



Business environment

STRENGTHS

- Size of the domestic market.
- Regional business hub.

WEAKNESSES

- Institutions (corruption and pending modernisation).
- Quality of infrastructures.
- Shortage of qualified staff/brain drain.
- Modest financial development.
- Limited innovation.

Main sectors

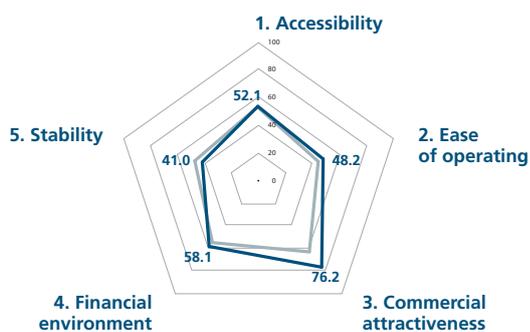
- Industry: machinery and equipment, textiles, metal products, agri-food products, chemicals and hydrocarbons.

CIBI | CaixaBank Index for Business Internationalisation

POSITION IN COUNTRY RANKING



PILLARS



— Eastern Europe and Central and Western Asia — Romania (Min. 0 - Max. 100)

SUBPILLARS

Top
 Ease of operating a business
 Similar tastes to Spain
 Financial development

Bottom
 Infrastructures
 Macroeconomic stability
 Institutional stability

Taxation

Romania has a healthy fiscal policy, with a corporate tax of 16% and a tax rate for micro-enterprises of 3% on turnover if they turn over less than 65,000 euros and if the invoicing for consulting and management services is lower than 20%. General VAT is 24%, with a lower VAT rate of 9% for products and services such as books, newspapers, hotels, camping sites

and some food products such as bread and confectionery. There is an exemption from local taxes in the case of firms located in industrial and technological parks. There are fixed taxes for representative offices (EUR 4,000 per year) and for subsidiaries, including limited liability companies, which pay 16% tax.

Investment

In Romania, foreign direct investment for 2015 was 3.388 billion dollars. This represents a 5% increase over 2014. The main investment sectors were mainly the industrial sector, with one-third of the total invested (mainly in manufacturing). Other sectors of activity by

order of importance in total investment are: construction, telecommunications, trade, the hotel industry, the restaurant industry and transport. The main investing countries were France, Austria, the Netherlands and Germany.

Establishment

LOCAL COMPANY

There are five forms of establishment in Romania, the first two of which are the most common: limited liability company (*societate cu raspundere limitata* – SRL); joint stock company (*societate pe actiuni* – SA); general partnership (*societate în nume colectiv* – SNC), where the partners have unlimited liability with all their assets for any debts resulting from the company's operations; ordinary limited partnership (*societate în comandita simpla* – SCS), where the partners have limited liability for debts, only up to the amount each one has contributed; and partnership limited by shares (*societate în comandita pe actiuni* –

SCA), company whose stock is divided into shares, where the administrators, who can also be shareholders, are personally, jointly and severally liable for any company debts. All forms of establishment must be registered with the Oficiul Național al Registrului Comerțului (<http://www.onrc.ro/>). Limited liability companies cannot have more than 50 shareholders; initial investment cannot be less than RON 200 (EUR 45). With regard to joint stock companies, at least two shareholders are required with a minimum share capital of RON 90,000 (EUR 25,000), 30% of which must be paid-up at the start.

BRANCH

Branches are simple extensions of the parent company and do not have legal personality or financial independence. Legally, they depend

on the country of origin of the parent company, which is responsible for creditors, employees, debts and obligations.

SUBSIDIARY

Unlike a branch, a subsidiary is a Romanian company for all legal purposes, and its registration in the country is therefore similar

to any other company, via the Registration Office, with the minimum capital required being governed by Romanian law.

REPRESENTATIVE OFFICE

The procedures to set up representative offices are direct, although these offices do not have a legal form and are limited to activities of promotion and marketing without being able

to make a profit. However, they must pay a fixed annual tax of EUR 4,000, paid in two equal parts, one by 25 June and the other by 25 December.

Alliances strategic

FREE TRADE ZONE

There are six free trade zones in Romania: Curtici Arad, Galati, Giurgiu, Braila, Sulina and Constanta Sud si Basarabi.

JOINT VENTURE

In Romanian, *Asocierea în participație*, an association of companies without legal form and, regarding third parties, it is not considered to be a different entity from its partners. The latter therefore enter into contracts and obligations with third parties on their own behalf, even when doing so in the name of the

joint venture. The most common forms of joint venture in Romania are as follows: limited liability and joint stock companies with Romanian and foreign shareholders, associations of two or more companies including foreign partners and cooperation agreements.

Customs conditions**FREE TRADE AGREEMENTS**

The 27 EU Member States form part of the same territory for customs purposes. The very definition of a customs union validates the inexistence of tariff barriers between Member

States. A common tariff is applied for imported products; once effective, goods can circulate freely throughout all countries in the EU.

FREE TRADE ZONE

Goods are exempt from VAT and import duties and tariffs. In the free trade zones of the EU, goods can be processed under customs control prior to them entering European Union territory or under the regime of inward processing prior to re-exportation. When goods leave a free trade zone, their final destination is not

restricted. If the goods are re-exported, they will not pay any customs duties or internal indirect taxes. If, on the other hand, the goods are released for free circulation, the corresponding customs duties and taxes for importation from the destination territory will have to be paid.

GENERALISED SYSTEM OF PREFERENCES (GSP)

Romania is one of the countries that grants tariff preferences by applying zero duty or reduced tariffs to beneficiary countries (less developed countries).

Negotiations and protocol**BUSINESS CULTURE**

Romanians culturally follow a hierarchical structure, so it is therefore advisable to know the rank of each contact to be able to greet those of highest category first, respectfully and politely. These people are also the ones who make the decisions, so the meeting should be

managed to ensure the truly important issues are discussed with them. They are not prepared to make unexpected changes and do not like positive or negative exaggerations. Family is extremely important; then come friends and close acquaintances.

Top fairs

- Gastropan.
- Construct Expo.
- AutoExpoTehnica.
- Tibco.
- Indagra.

Websites of interest

- Foreign investment agency: <http://www.arisinvest.ro>
- Department for Infrastructure Projects, Foreign Investment and the Promotion of Exports: <http://www.dpiis.gov.ro/>
- Public tenders: <http://www.e-licitatie.ro>
- Romanian Chamber of Commerce: <http://www.ccir.ro/>

Payment and charging methods**MEANS OF COLLECTION**

As the country belongs to the EU, the most widely used means of collection is international bank transfer, thanks to the facilities that exist between Member State banks. In this case it is advisable to have established a relationship of

trust with the Romanian firm, as there have been numerous instances of payment fraud by the country's companies. A safer means of payment is recommended for initial sales in the Romanian market.

MEANS OF PAYMENT

Bank transfers are becoming the most usual payment method with major Romanian banks, now connected to the SWIFT electronic network, which offers low costs and the flexible and quick processing of national and international payments. Bank transfers are a cheap, safe way to pay once the parties involved have established

a relationship of mutual trust. Another option is documentary credit, especially when the customer is not known. Another widespread method is the use of cheques but this is normally only at the national level. One way of ensuring payment of the cheque is using a guarantee by the administrator of the debtor company.

EXCHANGE RATE INSURANCE

It is advisable to use exchange rate insurance.

CaixaBank in the country

CaixaBank is a shareholder of Erste Group, one of the main financial groups in Central and Eastern Europe. CaixaBank has signed an agreement with Erste Group to provide a

service to our client companies in the following countries in Central and Eastern Europe: Austria, Hungary, Czech Republic, Slovakia, Romania, Croatia and Serbia.

CaixaBank in the world

- Branches
- Representative offices
- Spanish Desks

