I. Country information

Romania is located in Southeast Central Europe, north of the Balkan Peninsula, on the lower Danube and bordering the Black Sea. Its relief is harmoniously distributed, with mountains, hills and plains, each covering about one-third of the country’s area. Forests still cover 28% of the area, and the fauna is one of the richest and most varied in Europe.

Romania occupies an area of 238,391 sq. km with a population of 22.651 million people (1996). The capital is Bucharest (population of 2.3 million) and other main cities are Constanta, Iasi, Timisoara, Cluj Napoca, Galati, Brasov, Craiova and Ploiesti. The official language is Romanian.

Romania is rich in oil (crude oil reserves are estimated to be between 1 billion and 1.6 billion barrels), methane gas, coal, non-ferrous ores, gold, silver and salt.

II. Economic overview

2.1. General economic indicators

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</tr>
</thead>
<tbody>
<tr>
<td>1. GDP, USD bin</td>
<td>83,225</td>
<td>82,897</td>
<td>86,149</td>
<td>92,311</td>
<td>95,947</td>
<td>89,620</td>
<td>83,078</td>
<td>-</td>
</tr>
<tr>
<td>2. GDP per capita, PPP USD</td>
<td>3,652</td>
<td>3,643</td>
<td>3,790</td>
<td>4,070</td>
<td>4,244</td>
<td>3,975</td>
<td>3,692</td>
<td>-</td>
</tr>
<tr>
<td>3. Economic growth rate, %</td>
<td>-8.8</td>
<td>1.5</td>
<td>3.9</td>
<td>7.1</td>
<td>3.9</td>
<td>-6.1</td>
<td>-5.4</td>
<td>-3.2</td>
</tr>
<tr>
<td>4. Annual inflation rate, %</td>
<td>210.4</td>
<td>290.3</td>
<td>138.8</td>
<td>32.3</td>
<td>38.8</td>
<td>154.8</td>
<td>59.1</td>
<td>54.8</td>
</tr>
<tr>
<td>5. Annual unemployment rate, %</td>
<td>8.2</td>
<td>10.4</td>
<td>10.9</td>
<td>9.5</td>
<td>7.3</td>
<td>8.9</td>
<td>10.3</td>
<td>10.3**</td>
</tr>
<tr>
<td>6. Minimum monthly gross salary, ROL</td>
<td>15,215</td>
<td>45,000</td>
<td>65,000</td>
<td>75,000</td>
<td>97,000</td>
<td>250,000</td>
<td>350,000</td>
<td>450,000</td>
</tr>
<tr>
<td>7. Average monthly gross salary, ROL</td>
<td>25,781</td>
<td>76,452</td>
<td>184,719</td>
<td>281,287</td>
<td>426,610</td>
<td>846,450</td>
<td>1,357,132</td>
<td>2,222,369+</td>
</tr>
<tr>
<td>8. Current account, USD bin</td>
<td>3.2</td>
<td>4.2</td>
<td>5.5</td>
<td>6.7</td>
<td>8.8</td>
<td>9.8</td>
<td>10.2</td>
<td>10.7</td>
</tr>
<tr>
<td>9. Exchange rate for 1 USD (in ROL), end of year</td>
<td>-</td>
<td>1,726</td>
<td>1,776</td>
<td>2,578</td>
<td>4,035</td>
<td>8,015</td>
<td>11,095</td>
<td>18,255</td>
</tr>
</tbody>
</table>

Source: National Commission for Statistics

Notes: * Provisional data
** May 1999
+ November 1999

2.2. Foreign trade

2.2.1. Foreign trade regime and major regulations

Export and import from and to Romania’s customs territory has been largely liberalised and do not require special licenses, except exports subject to control according to the international commitments of Romania. Since January 1, 1998 Romania has no quantitative export restrictions and no export prohibition.

The Import Customs Tariff is the main trade policy instrument used by Romania. Customs duties are applied on an “ad-valorem” basis. The Import Customs Tariff is based upon the customs classification and denomination set up by the Harmonised System, at an eight-digit level.

2.2.2. Customs regime, export and import quota and license system, tariffs

The new Romanian Customs Code, passed in 1997 (Law No. 141/1997), provides the main regulations in this field. The procedure for establishing the customs value is set out by the Agreement regarding the enforcement of Article VII of the General Agreement for Tariffs and Trade.

No customs duties are charged on exports. Clearance is granted on a condition that the commodities leave Romania in the same conditions as they were at the time of registration of the exported customs declaration.

The following assets are exempted from import customs duties:

- goods introduced in Romania by a foreign investor as a contribution in kind to the share capital of a Romanian commercial company and those subscribed as contributions in kind to the increase of the share capital;
- maritime and ocean fishing products and other products extracted from the territorial sea of a country by vessels registered in Romania and navigating under Romanian flag;
- goods obtained from the above-referred products aboard a factory-vessel which meets the legal requirements for incorporation in Romania and is navigated under Romanian flag.

Export and import transactions can be performed only by the economic operators entitled by their legal object of activity to carry out such operations. Export licensing is used only for a few products and operations, all traders having equal and non-discriminatory access to it.
Automatic export licensing applied, in 1999, only to 511 tariff lines (out of 10,587) for the following products: few raw materials, products containing precious metals and stones, oil and petroleum products, iron and steel products for countries outside the EU. The export of iron and steel products to the EU countries is subject to ECSC type export license, within the double-checking system agreed with the EU.

Import and export licenses are used for goods under the following categories:
- under quantitative restrictions, subject to the control regime according to Romania’s international commitments;
- for entering into counter trade operations or for being registered in clearing, barter or co-operation accounts, a specific form of import and/or export license is required. These licenses are to be used for banking purposes only.

2.2.3. Exports and imports (in billion USD)

|------|------|------|------|------|------|------|------|

2.2.4. Major trade partners
The top trade partners in 1999 have been Italy (19.6% of total imports and 23.3% of total exports), followed by Germany (17.1% of total imports and 17.8% of total exports), France, UK, Hungary, USA, Austria, Russian Federation, Turkey, Netherlands, Austria, Greece and Korea.

2.2.5. Structure of foreign trade by regions (imports and exports)

2.2.6. Structure of foreign trade by commodities (imports and exports)
2.2.7. Free zones

Free trade zones (regulated by Law No. 84/1992) are established in Romania in certain maritime and river ports alongside the Danube - Black Sea channel, other navigable channels and in areas neighbouring border checkpoints. At present, there are 6 free zones already established: Braila, Constanta - Basarabi Sud, Curtici, Galati, Giurgiu, Sulina.

A number of incentives are provided in the free zones, e.g. customs duties exemption for means of transportation, commodities and other goods brought from abroad or destined to other countries which are introduced into or taken out of the free zones; exemption from the payment of VAT, excise and profit tax for activities performed in the free zones, etc. The land and constructions in the free trade zones may be leased or rented to Romanian or foreign natural or legal persons, for a period of maximum 50 years.

2.3. Foreign exchange regulations

The interbank currency market in Romania began operations in 1995. In early 1997, the Government lifted all forex dealership restrictions. In 1998, the Romanian government implemented new regulations that liberalised the foreign exchange market on the current account. New forex rules, consistent with the IMF’s article VIII, were issued by the National Bank of Romania (1 February 1998) regarding the domestic current-account convertibility of the ROL.

The ROL is fully convertible for business purposes. Foreign investors may freely repatriate profits and dividends in hard currency. Proceeds from the sale of shares, bonds, or other securities, as well as from winding-up an investment can also be repatriated. There is no limitation on the inflow or outflow of funds for remittances of profits, debt service, capital gains, returns on intellectual property or imported inputs. Foreign investors are permitted to maintain ROL accounts to purchase goods domestically. Capital exports, although permitted by law, with a few exceptions, are generally discouraged.

2.4. Privatisation

2.4.1. Privatisation policy

The State Ownership Fund (SOF), established in 1991 (Law No. 58/1991), has the task to manage the state participation in commercial companies up to their complete privatisation. It is authorised to sell state-owned stocks of shares. The Government Privatisation Program has in view the priority privatisation of large commercial companies, insurance/reinsurance companies, some banks, as well as commercial companies. Between December 1992 and 31 December 1999, SOF privatised 6,350 companies with a sold share capital of ROL 16,231.86 bn. SOF privatised 872 companies during the first half of year 2000 (ROL 6,371.92 bn). The number of share-sale-purchase contracts with foreign participation amounts to 234 between January 1992-December 1999 (95% of the deals concluded during the last 2 years).

Privatisation offer program for 2000 involves 2,505 companies with a total share capital of ROL 30,714.9 bn, including 164 large companies, 519 medium-sized companies and 1,822 small companies.

Privatisation methods include public offering; methods of sale specific to the capital market; negotiation; open outcry or sealed bid auction; depositary receipts issued by investment banks on the international capital market, and combination of these methods.

The recently adopted Law No. 99/1999 provides measures for the acceleration of the economic reform, creates a more permissive framework and provides potential investors with wider possibilities for buying shares.

2.4.2. Large privatisation has been substantially accelerated in 1998-1999 with several large transactions, including Romtelecom, Romanian Bank for Development and Dacia Automobile. Measures are taken to raise efficiency of restructuring large loss making companies.

2.4.3. Small privatisation is near to its completion using voucher privatisation and MEBOs.

2.5. Foreign investment

2.5.1. Foreign investment by years and by type of investment

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<tr>
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<tbody>
<tr>
<td>Total</td>
<td>699.5</td>
<td>599.2</td>
<td>415.2</td>
<td>902.4</td>
<td>298.8</td>
<td>694.4</td>
<td>508.6</td>
<td>228.3</td>
<td>256.3</td>
</tr>
</tbody>
</table>

Source: Romanian Trade Registry Office

For the period 1990-1999, the cumulative amount of foreign investment in Romania has reached USD 6.354 billion, out of which USD 4.364 billion representing foreign direct investment and USD 1.991 billion investment engaged in privatisation agreements contracted by the SOE (1 January 1993 - 31 December 1999).

2.5.2. Foreign investment by countries

The five largest investors are Netherlands (USD 508.18 mln), Germany (444.38 mln), Cyprus (USD 345.13 mln), USA (USD 336.42 mln), Italy (USD 332.34 mln). Other big investors are France (USD 312.04 mln), Korea (USD 234.10 mln), UK (USD 223.40 mln), Austria (USD 221.95 mln) and Turkey (191.87 mln).
2.5.3. Foreign Investment by Sectors

Among the top investors are Unilever (Netherlands), British American Tobacco (Germany), DRM Draxlmaier (Germany), Hochland (Germany), Poliflex (Austria), Billa Invest (Austria), Purolite Int. Ltd. (UK), PAK Holding (Turkey), OTE (Greece), Alcatel (France), etc.

2.5.4. Government Institutions in the Field of Foreign Investment

National Agency for Regional Development - established in December 1998 (took over the tasks of the Romanian Development Agency (RDA) in the field of foreign investment) under Government Urgency Ordinance no. 48/2000 on the merging of RDA (established in 1991) and the National Agency for Small and Medium Size Enterprises with the National Agency for Regional Development. Specialised body of the central public administration, directly subordinated to the Prime Minister; implements the development strategy and the economic policy of the Government for attracting foreign investment, promoting privatisation strategy, diminishing the existing regional lack of balance and the stimulating balanced development, supporting new enterprises, establishing and developing SMEs, encouraging reconstruction of unfavoured zones.

Its main activities are to initiate, prepare and present to the Government drafts of legislation regarding the attraction of foreign investment, regional development and SMEs; to elaborate the draft of National Development Plan; to elaborate and promote the privatisation and post-privatisation strategies; to provide all types of business information, assistance, consulting and post-care services to foreign investors; to co-operate with public and private entities for establishing a favourable business environment.

III. Establishing Business in Romania

<table>
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<tr>
<th>Company Regime</th>
<th>Legal Framework</th>
<th>Company Law No. 31/1990</th>
</tr>
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<tbody>
<tr>
<td>Types of Companies</td>
<td>General partnership &quot;societate in nume colectiv&quot; (SNC); Limited partnership &quot;societate in comandita simpla&quot; (SCS); Limited liability company &quot;societate cu raspundere limitata&quot; (SRL); Joint stock company &quot;societate pe actiuni&quot; (SA); Limited partnership by shares &quot;societate in comandita pe actiuni&quot; (SCA).</td>
<td></td>
</tr>
<tr>
<td>Partnerships</td>
<td>Partners 2 or more partners - domestic or foreign legal or natural persons. Characteristics There are no requirements for minimum or maximum contributions. Partners may contribute in cash, in kind as well as in rights or services. All partners bear unlimited liability for the obligations of the general partnership but shall be claimed only after a creditor's unsuccessful claim against the general partnership itself. In a limited partnership there must be at least one general partner who is fully liable (private assets included) and at least one limited partner whose liability is limited to the amount of the contribution agreed. In a limited partnership by shares besides the corporation itself, one or several general partners assume full liability.</td>
<td></td>
</tr>
<tr>
<td>Limited Liability Company</td>
<td>Shareholders From 2 to 50 shareholders. Under certain conditions a limited liability company may be set up by a sole shareholder. Minimum Capital ROL 2,000,000 Share and Contribution Requirements The shares have registered value of no less than ROL 100,000. Shares can not be freely traded, neither can they be pledged as a collateral for loan. Company Management Decisions are made by a majority vote in the general meeting of the shareholders (one share equals to one vote). Decisions involving changes in the agreement of incorporation must be agreed by all shareholders unless the agreement of incorporation provides otherwise. One or more directors/managers are appointed in the general meeting and are put in charge of the management of the company.</td>
<td></td>
</tr>
</tbody>
</table>
3.2. Foreign investment regime

The legal framework for foreign investment ensures that foreign investors are granted national treatment and free access to the domestic market.

### National treatment

The Romanian legislation provides national treatment to foreign investors. Non-resident investors benefit from the same rights as any resident investor. There is no limit on the foreign participation in companies; a foreign investor may establish a 100% owned enterprise in Romania.

When Romania is a party to bilateral agreements for the mutual promotion and protection of investment with other countries and the provisions of such agreements are more favourable than the Romanian investment legislation, the investors from such countries will benefit from the provisions of these agreements.

### Freedom of investment forms and methods

Pursuant to this principle, the investor may freely choose the type of investment to be performed. There are two investment forms in Romania:

- Direct investment;

The Romanian legislation allows foreign investors to engage in business activities in any of the following manners:

- to contribute to the capital in hard currency and/or in-kind for establishing a company, Romanian legal person, or in increasing the capital of such a company directly or indirectly through one of the company's subsidiaries;
- to invest in Romania the Romanian lei (ROL) dividends to the end of increasing the share capital of the business in question and/or to start a new investment;
- to purchase shares in a company operating on the capital market or from the State Ownership Fund according to the statutory provisions or to purchase shares held by the State in companies due to be privatised, shares held by Romanian natural or legal persons in other companies, or also the acquisition of certain corporate assets;

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**Joint-Stock Company (AD)**

- **Shareholders**: 5 or more shareholders.
- **Minimum Capital**: ROL 25,000,000
- **Share and Contribution Requirements**: The face value of one share is minimum ROL 1,000. At the time of the registration of the company, each shareholder has to pay at least 30% of registered share capital, and the rest of 70% can be paid in maximum 12 months. The shares can be either registered or bearer and can be freely traded or pledged.
- **Company Management**: Decisions are made by a majority vote in the general meeting of the shareholders, held at least once a year, within no more than 3 months before the end of the financial year. A board of directors assumes the management of the joint stock company, although it is possible to have only one administrator. At least half of the directors must be Romanian citizens unless the articles of incorporation provide otherwise. The directors are elected by the general meeting of shareholders for a maximum of 2 years, unless otherwise stipulated in the articles of incorporation. They may be re-elected. The initial directors may be appointed in the Articles of Incorporation, for a maximum of 4 years and may be re-elected. Before starting their activity, the directors must deposit a guarantee, representing at least the value of ten shares or double the amount of their monthly remuneration. At least three auditors must be appointed by the general meeting of the shareholders. At least one of them must be a Romanian chartered or certified accountant.
- **Specific Features**: Management requirements for joint stock companies with more than 400 million of founding capital, or more than 500 employees, or more than 100 registered shareholders, or listed on the stock exchange.

### Branches

Foreign companies may establish branches in Romania. Branches are working units with no legal personality and are registered with the Commercial Register in accordance with the place of their office. The legal status of the branch applies to any other secondary office (agency, working point) to which the foreign company confers the branch status.

### Representative Offices

Legal Framework: Decrease-Law no. 122/1990 on the Authorization and Operation in Romania of the Representative Offices of Foreign Companies and Corporations Registration Foreign companies may open representative offices (agencies) in Romania following a straightforward registration procedure with the Ministry of Commerce. Representative offices cannot carry out commercial activities on their own behalf, but are entitled to promote and supervise the business of their parent organisations.

### Bankruptcy


### Anti-Trust Rules


### Foreign National

Legal Framework: Law no.25/1969 on the Foreign Persons' Regime; Ordinance no.27/1998 on the Juridical Regime of the Foreigners in Romania

**Characteristics**: The work permits are issued by the Ministry of Labor and Social Protection for performing of any qualified activities from the economic field, commercial, transportation or other similar from private and public sector, after approval of the ministries or sectoral departments.
Foreign investors have the right to convert and transfer profits and capital repatriation. The existing body of legislation in Romania provides guarantees against measures of nationalisation and expropriation, and other similar measures. Such measures may be taken only when required for reasons of public utility, in accordance with express legal provisions and provided they are non-discriminatory. In this case, investors are entitled to receive a prompt, adequate and effective compensation.

**Profit and capital repatriation**

Foreign investors have the right to convert and transfer abroad, without any restrictions, after payment of taxes and fees, the incomes derived from their investment in Romania. The revenues may consist of:

- dividends or benefits obtained from a company, if the investor is a shareholder or associate, or the profit is obtained from a branch set up in Romania;
- incomes obtained from a partnership association;
- incomes obtained from the share sale;
- amounts obtained from the voluntary liquidation of a company or from its liquidation according to the bankruptcy procedure;
- amounts obtained as compensation following an expropriation or other similar measures;
- other incomes according to the type of investment.

**Ownership rights over real estate**

According to the Romanian Constitution and the Government Urgency Ordinance 92/1997, as amended by Law 241/1998, foreign citizens, stateless persons and non-resident legal persons may not own land in Romania. The above persons may acquire other real rights over land, such as the right of use, obtained by way of concession.

However, there is no restriction on foreign investors in Romania to acquire ownership rights over real estate, including land, via the establishment of a Romanian company, irrespective of the structure of the share capital of such a company (i.e. fully or partially foreign-owned). Within one year of closing the company, the foreign person must transfer his rights over land to a buyer with the legal right to purchase such an asset.

**Investment policy and incentives**

In 1999 the Romanian Government undertook a major fiscal reform conceived as an essential element in the policy of economic recovery. The Government implemented a generally applied tax reform, instead of granting complex and difficult-to-manage exemptions and exceptions from the payment of fiscal obligations. These reform measures came into effect on 1 January 2000 and resulted in lower corporate tax rates (from 38% to 25%) and VAT (from 22% to the uniform level of 19%), reduced rates of excise duties and a broader excise duty base.

The Romanian law on stimulation of FDI (Law 241/1998) granted a number of customs and fiscal incentives to the foreign investors, including an exemption from customs duties and VAT on imported goods that represent a contribution in-kind to the capital of the company and an exemption from profit tax payment for different periods of time. In March 1999, all tax and fiscal incentives for the foreign investors were suspended for one year. At the end of 1999 the Government adopted two emergency ordinances (Government Emergency Ordinance No. 215/1999 on the Value Added Tax and Government Emergency Ordinance No. 217/1999 on the profit tax), which cancelled the incentives granted by prior laws. Only investment projects with major economic impact were still given various incentives under the terms of a special Emergency Ordinance 67/1999. This Ordinance was then abrogated in April 2000. During the same month, the Romanian Parliament adopted the State Budget Law, which re-introduced some of the fiscal incentives for SMEs. This confusing situation was clarified by the Government Emergency Ordinance No. 6/2000, adopted in February. This confirmed that only incentives referring to profit tax were cancelled. Incentives that were granted with regard to custom duties exemption and VAT on imported contributions in-kind or as raw materials, components, etc. remain in force until their expiry date.

**3.3 Legislative framework of concessions**

Law 219/1998 regulates the concession regime for assets that are public or private property of the state, county, town or village, as well as public activities and services of national or local interest. The following bodies have the power of a conceding authority on behalf of the state, county, town or village:

- ministries or other specialised bodies of the central public administration, for assets that are public or private property or for public activities and services of national interest;
- county councils, local councils or public institutions of local interest, for assets that are public or private property of the county, town or village or for public activities and services of local interest.

The subject of concessions may be assets, activities and public services in the following fields: public transportation; highways, bridges and road tunnels with taxation; road; railway, port and civil airport infrastructures; the construction and exploitation of new hydro-electric plants, including the plants in conservation; postal services; spectrum of frequencies and the telecommunication transport and distribution networks; economic activities related to natural and artificial water ways, works of water administration, stations and measurement installations - hydrological, weather, water quality and fisheries; public lands, beaches, quays and free trade zones; pipelines for transport and distribution of oil and fuel gases; thermal and electrical energy transportation and distribution networks; transport and distribution networks for drinking water; exploitation of mineral resources and substances - solid and fluid; exploitation of thermal resources; natural resources of the economic zone of maritime and continental plateau; sports grounds, entertainment places, specialised show establishments; medical units, sections and laboratories of those medical units, as well as auxiliary medical services; economic activities related to capitalising historical monuments and sites; gathering, storage and valuation of waste; any other goods, activities or public services that are not prohibited by special laws.

Any Romanian or foreign, natural or legal person may have the quality of a concessionaire. Any interested investor as well as the conceding authority may initiate the concession procedure. The concession is made by public auction (open or open with pre-selection) or by direct negotiation. The concession agreement is to be concluded under Romanian law, for no more than 49 years, starting from the date of its signing. The concession agreement may be extended for a period, equal to no more than half of its initial duration, by the mere consent of the parties. The concession duration is to be set up according to the depreciation period of the investments, which are to be performed by the concessionaire.

Specific regulations govern concessions in the terrestrial communication field for the construction and exploitation of some highway and railway sections as well as for carrying out mining activities and petroleum operations in Romania. The regulations contain various exemptions from the payment of customs duties and taxes.

### Facilities granted to the holders of oil agreements:

- the delivery of outfits and equipment as well as services related to oil activities carried out by the holders of oil agreements that are, foreign legal persons, will be VAT exempted and the suppliers of these products and services have the right to reduce the VAT (according to UGO No 17/2000 regarding VAT);
- the exemption from payment of customs duties for the imports of necessary goods for the carrying out of oil activities, made by the holders of oil agreements or by their sub-contractors; According to the UGO No 17/2000 regarding value added tax, imported goods which are custom duties exempted by laws or Government ordinances, are also VAT exempted;
- exemption from payment of customs duties on the imports of household and personal goods used by the holders of oil agreements, their foreign employees and sub-contractors; the goods which are custom duties exempted shall be nominalised in the oil agreement's attachment. According to UGO No 17/2000 regarding value added tax, the imported goods which are custom duties exempted by laws or Government ordinances are also VAT exempted;
- the exemption from the payment of the export customs duties for the oil quotas in accordance with the agreement as well as exemption from the payment of the customs duties for imported goods made by the holders of the oil agreements or their foreign personnel.

### 3.4. Dispute resolution mechanisms

The foreign investors' rights may be enforced through the Romanian courts or third-party arbitration if agreed by the parties to the dispute. International commercial arbitration may take place before the Romanian International Commerce Arbitration Court administrated by the Romanian Chamber of Commerce and Industry.

Romania is a signatory to the New York Convention on Recognition and Enforcement of Foreign Arbitral Awards. It is also a party to the European Convention on International Commercial Arbitration and a member of the International Centre for the Settlement of Investment Disputes.
IV. Taxation

4.1. Taxation of individuals

4.1.1. Taxpayers, salary tax
Currently, salary tax is payable by individuals on salaries received for services performed in Romania. Salary tax is levied on gross salary as well as on other salary rights such as bonuses, premiums, in-kind benefits. It is normally withheld and paid by the Romanian employer at the same time with monthly salaries.

Foreign individuals are considered taxpayers in any particular calendar year if they are physically present in Romania for a period exceeding 183 days in any 12-month period starting or ending in the respective year. Individuals may be exempt from salary taxation under international conventions for the avoidance of double taxation signed between Romania and their country of residence.

From January 2000, a global income tax has been introduced with a maximum rate of 40% (down from 45% in 1998 and 1999) on salaries higher than ROL 60 mil per annum (approximately USD 2,700).

Foreign citizens working on foreign employment agreements are required to calculate and pay income tax and register monthly income tax declarations with the Romanian Tax Authorities either personally or through a fiscal representative. By means of a "statement", the local company which is the "beneficiary of the services" provided by foreign citizens has the obligation to inform the authorities about the starting and ending date of their assignment in Romania.

4.1.2. Social contributions
Employers must pay various social security contributions calculated on the gross salary:

- Social security fund 30% (generally)
- Health fund 7%
- Unemployment fund 5%
- Social Solidarity Special Fund 3%
- Education Fund 2%
- Chamber of Labour commission 1%

The employee pays the following contributions, which are deductible for salary tax purposes:

- Pension fund 5%
- Unemployment fund 1%
- Health fund contribution 7%

Foreign citizens working in Romania on a work permit and a labour contract, registered with the Labour Office, are considered Romanian employees and are required to pay most of the Romanian social security contributions.

A foreign citizen who is not employed or paid by an employer having a permanent establishment in Romania has no obligation to pay social security contributions and does not need to provide proof of payment of social security in another territory.

4.2. Taxation of corporations

4.2.1. Taxpayers, rates
All legal entities doing business in Romania are liable to pay corporate income tax ("profit tax") on their taxable profits. From 2000, the standard profit tax rate is 25% applicable both to Romanian incorporated companies and foreign legal persons operating through a "permanent establishment" in Romania.

Companies that obtain hard currency incomes from export of goods and services pay a reduced profit tax of 5% for the profit related to these export operations. This is conditional on the hard currency being received in a bank account in Romania.

4.2.2. Profit tax computation, deductions, non-deductible items, payments
The taxable income is determined on the basis of the accounting income adjusted for tax purposes. Generally, only expenses related to obtaining revenues are tax deductible.

The main non-deductible expenses are: expenses not based on specific justifying documents, provisions and reserves higher than the legal limits, contractual penalties and fines due to foreign businesses and to both Romanian and foreign authorities, social expenses over the legal limit. Protocol expenses are deductible up to 1% of profit and sponsorship expenses are deductible up to 5% of profit.

Expenses with services provided by non-residents are non-deductible for profit tax purposes (e.g. management and consulting) if their payment entails operational losses at the level of a tax year.

It is compulsory for a company to create legal reserve of 5% of the annual accounting profit before tax until it reaches 20% of the company's share capital. The legal reserves thus created can be deducted from the taxable base when computing the profit tax.

Dividends received by a Romanian legal person from another legal person, whether foreign or Romanian, are
not subject to profit tax. On dividends paid by all Romanian companies, a 10% dividend tax is applicable for the dividends distributed to legal persons and 5% for those distributed to natural persons. These rates are subject to treaty relief. Dividends may be distributed only after the submission of the annual Balance Sheet (15th April of the following year). No interim dividend distribution is allowed.

Profit tax is computed monthly on a cumulative basis for the calendar year (which is the Romanian fiscal year). It is paid quarterly up to 25th of the month following the quarter it relates to.

**4.2.3. Tax relieves, treatment of losses**

If tax on profits/income is paid abroad, whether directly (related to a permanent establishment abroad) or by withholding it from the taxpayer's revenues obtained abroad, it can be deducted from the profit tax payable in Romania.

Taxpayers acquiring technological equipment and transport vehicles (except cars) benefit from a tax deduction from the taxable base of 10% of the acquisition price.

A 5-year loss carry forward period is allowed. The fiscal losses cannot however be carried forward in case of merger or split. Loss carry-back is not permitted.

Currently there are no thin capitalisation rules in Romania.

**4.3. Tax exemptions**

The main fiscal facilities in force concern companies operating in certain areas (disfavoured zones, free trade zones, industrial parks) or for companies that observe certain conditions (i.e. small and medium sized enterprises). These fiscal facilities include mainly:

- Customs duties and VAT exemption for specific imports (i.e. equipment, know-how, installations, means of transport, raw materials, other depreciable assets) under certain conditions;
- Profit tax exemption for specific cases;

**4.4. Withholding taxes**

Non-resident legal and natural persons obtaining income from Romania are subject to the following main withholding taxes if no overriding provisions in international treaties exist:

- 15% on royalties;
- 10% on interest (bank deposit interest paid by Romanian banks are excepted);
- 15% on commissions;
- 15% on revenues obtained from technical assistance and most other services if they are performed in Romania;
- 15% on revenues from international transport activities.

The Double Taxation Agreements signed by Romania may reduce the withholding tax rates on the payments listed above. The Romanian authorities are frequently aggressive in collecting withholding tax, often disregarding international conventions on how treaties should be applied.

Failure by the payer to properly withhold taxes can lead to a penalty of up to 100% of the tax not withheld plus the delay penalties specified above.

**4.5. Indirect taxation - Value Added Tax**

**4.5.1. Rates, payments**

The Romanian VAT legislation generally follows the provisions of the EU Sixth VAT Directive.

A 19% VAT rate is applicable in Romania. For export of goods and services a 0% VAT rate applies, provided the foreign currency related to the export operation is paid into an account opened with an authorised bank in Romania.

VAT should be paid monthly by the 25th day of the month following the month it relates to. The VAT reverse charge should be paid within 7 days from the date the external invoice is received.

**4.5.2. VAT exemption**

A VAT exemption applies to a range of activities including banking, finance and insurance, types of research and development work and to specific activities performed inside the free trade zone. Romanian legislation also includes the concept of exemption with input VAT recovery.

**4.5.3. Fiscal representative for VAT purposes**

Foreign businesses can only register for VAT in Romania through a fiscal representative. In this case VAT on services and goods supplied in Romania is accounted for through a return submitted by the fiscal representative. The foreign business can recover VAT costs incurred through the returns.

**4.5.4. VAT refundable**

If a company is in a VAT reimbursable position, it is entitled to request a refund according to specific provisions, depending on its operations. Alternatively, the refundable balance can be offset against past or future VAT liabilities. In practice, if a refund is requested it can often take some months for the money to be effectively paid back.
4.6. Other Indirect Taxation

4.6.1. Customs duties

Romania’s Customs Duties and Tariffs System is in line with EU Standards and the "Brussels Harmonised System" for the denomination and classification of goods.

Certain internationally accepted factors are generally the most significant in determining the amount of customs duty on imported goods, such as customs heading, value for customs duty purposes (i.e. expressed as a percentage - ad valorem) and country of origin of the goods.

Except for agricultural and food products, which have a specific regime, customs duties generally amount up to 30% depending on the type and technical characteristics of the goods.

Preferential rates apply for goods originating from EU and CEFTA countries with which Romania has signed bilateral free trade agreements (Turkey and Moldova) and countries, members of P16 and GSTP. The trend is to reduce or eliminate the customs duties for the goods originating from these "Trade Blocs".

4.6.2. Customs surcharge

A 2% customs surcharge is applied on customs value of the imported goods. Exemptions from payment of the 2% import surcharge include products such as natural gas, crude oil, electrical power and certain categories of pharmaceutical products.

4.6.3. Excise tax

The excise tax applies on imports and production of excisable goods (i.e. alcohol, cigarettes, coffee, fuel, cosmetics and perfumes) and on some electric home appliances such as microwave ovens, video cameras or air conditioning units (i.e. Euro 270/ton for petrol, Euro 1,035/ton for roasted coffee, Euro 1.40/hl/1 degree alcohol for beer).

4.6.4. Clearance fees

A customs commission of 0.5% is applied on the declared customs value of the imported goods. If the goods originate from the above mentioned "Trade Blocs", no customs commission applies.

4.7. Tax treaties

Romania has signed a significant number of bilateral Double Tax Treaties. Most of these treaties follow the OECD model.

The Double Tax Treaties prevail over domestic legislation, provided a certificate confirming the fiscal residency of the beneficiary of the payment made abroad is issued for Romanian taxpayers.

**Double Taxation Agreements to which Romania is a party:**

<table>
<thead>
<tr>
<th>Country</th>
<th>Albania</th>
<th>Algeria</th>
<th>Armenia</th>
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<tbody>
<tr>
<td>Austria</td>
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<td>Bulgaria</td>
<td>Canada</td>
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<td>Croatia</td>
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<tr>
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<td>Jordan</td>
<td>Kazakhstan</td>
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<td>Vietnam</td>
<td>Yugoslavia</td>
<td>Zambia</td>
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**Withholding tax rates provided by some DTAS:**

<table>
<thead>
<tr>
<th>Country</th>
<th>Commissions (%)</th>
<th>Dividend (%)</th>
<th>Interest (%)</th>
<th>Royalty (%)</th>
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<tr>
<td>Non Treaty</td>
<td>15</td>
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<td>10</td>
<td>15</td>
</tr>
<tr>
<td>Austria</td>
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<td>10</td>
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<td>5/15</td>
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<td>5</td>
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<td>10/15</td>
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<td>15</td>
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<tr>
<td>Canada</td>
<td>X</td>
<td>15</td>
<td>15</td>
<td>15/10</td>
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<tr>
<td>Cyprus</td>
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<td>10</td>
<td>10</td>
<td>5</td>
</tr>
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<td>Czech Rep</td>
<td>X</td>
<td>10</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>Denmark</td>
<td>4</td>
<td>10/15</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Finland</td>
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<td>10</td>
<td>10</td>
<td>10</td>
</tr>
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<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Germany</td>
<td>X</td>
<td>10/15/25/75</td>
<td>10</td>
<td>10/15</td>
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<td>45/20</td>
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<td>5/7</td>
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<tr>
<td>Hungary</td>
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<td>5/15</td>
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<td>Israel</td>
<td>X</td>
<td>15</td>
<td>5/10</td>
<td>10</td>
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<tr>
<td>Italy</td>
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<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Japan</td>
<td>X</td>
<td>10</td>
<td>10</td>
<td>10/15</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>5</td>
<td>5/15</td>
<td>0/10</td>
<td>10</td>
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<tr>
<td>Malta</td>
<td>10</td>
<td>5/50</td>
<td>5</td>
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</tr>
<tr>
<td>Moldova</td>
<td>X</td>
<td>10</td>
<td>10</td>
<td>10/15</td>
</tr>
</tbody>
</table>
V. Audits and accounting


The companies and institutions obliged to keep their own accountancy are:
- Commercial companies;
- Public institutions;
- The associations or other legal persons;
- The units, which are legal persons established abroad but having the head office in Romania as well as the units established in Romania by legal foreign persons.

The book keeping is to be worked out in Romanian language and domestic currency. The operations in hard currency are to be made both in hard and domestic currency.

The responsibility for the organisation of activity is held in hierarchical order by:
- The director;
- The patrimony administrator;
- The employer in case in which the accountancy is not kept by authorized persons.

The compulsary registries of the accountancy of the commercial companies are the following:
- The register journal;
- The inventory book;
- The ledger.

VI. Investment opportunities by sectors

6.1. Sector overview

The major industrial branches are machine-building, metallurgy, chemistry, light industry, food industry, and wood processing.

6.1.1. Metal working, mechanical and electrical engineering

The projects in these sectors are focused on rehabilitation and modernisation of the viable companies, and increasing their product competitiveness.

6.1.2. Chemical and petrochemical industry

Actions are taken for preparing the oil-refining industry for Caspian oil processing. At present Romanian refineries work at less than half of their capacity.

6.2. Infrastructure

6.2.1. Transport

The total length of roads is 73,160 km (53% are paved), which includes 14,683 km of national roads. This also includes the two motorways Bucharest-Pitești (96 km) and Făleşti-Cernavodă (17 km), and 11 routes of European roads with total length of 4,783 km.

The rail network consists of 11,385 km of lines under operation, of which 3,929 km (35.7%) are electrified and 2,965 km (26.9%) are double track lines. The state railways company, SNCFR, has been transformed into a commercial enterprise. Further restructuring will split it into five separate companies. Foreign companies have invested in Romania’s freight carriage makers.

There are 17 airports in Romania, the most important ones being Bucharest Otopeni (about 75% of the total traffic), Bucharest Baneasa (9.3%), Timisoara (5.2%) and Constanța (2.2%). Recently 66% of the national carrier TAROM have been scheduled for privatisation.

Maritime transport is handled at 3 Black Sea ports (Constanța, Midia and Mangalia). There are 6 ports, that are used for inland waterway as well as maritime transport, and 26 other fluvial ports. Over 50% of the port infrastructure and some sectors of the inland waterways need reconstruction and modernisation.

Major projects to upgrade the road and rail network are being implemented with the assistance of IFIs (EBRD, EIB, IBRD, World Bank, JBIC) and the EU (PHARE and ISPA programmes).
Government priority is Romania’s integration in the trans-European transport networks. This implies continuation of the rehabilitation, construction and modernisation of the core transport network along Pan-European Corridors No. IV, VII and IX, and other additional links, as well as inter-connection with the TRACECA corridors.

6.2.2. Telecommunications
The government plans to invest USD 7-8 bln over 15 years in a programme supported by the EBRD and the World Bank, which includes provisions for the installation of 500,000 new phone lines and the introduction of digital systems.

A number of foreign companies are engaged in developing the telecom sector in the country. In November 1998 OTE (Greece) bought a 35% stake of the state monopolist RomTelecom. Under a USD 100 mln contract Ericsson (Sweden) and Intracom (Greece) expand Internet and voice services for RomTelecom’s fixed-line network. Alcatel (France) is implementing a project worth USD 120.7 mln for expanding the fixed telephone network over the next four years with the installation of at least 650,000 new telephone lines in Alcatel exchanges in the country.

At present there are 4 mobile telephone operators in the country, all with foreign participation. Two GSM licenses were granted in 1996 to Mobifon and MobilRom (900 MHz frequency range). Telemobil (450 MHz) and CosmoROM (1,800 MHz) still have limited national coverage.

6.2.3. Energy and gas
Projects are focused on connecting the National Power System (SEN) to the Union for Electrical Power Production and Transport Co-ordination (UCPTE):

- finalising the inter-connection of the Romanian SEN with the Hungarian power system by a 400 kV open line from Arad (project value of USD 20 mln);
- building a back-to-back AC/DC/AC high voltage converter station at the 750/400 kV Isaccea sub-station (project value of USD 60-90 mln, function of the existing technical alternatives).

Another priority is finalising the construction works at several HPPs, which are at different completion stages, as the focus goes to the 8 major HPPs needing more than USD 1 bln. Projects for meeting the rock gas demand by building underground deposits in the depleted deposits (Margineni-Roman, Piscolt, Boldesti) call for over USD 250 mln. Constructing LPG terminal at Constanta port and inter-connecting the Romanian gas transport network with those of the neighbouring countries (Hungary, Ukraine, Moldova, etc.) needs USD 150 mln and USD 50 mln, respectively. Projects for increasing Romania’s transit capacity for Russian gas to the Balkan Peninsula requires some USD 160 mln.

The power sector will also offer investment opportunities by purchase of the share the SOF holds in the commercial companies resulted from spin-offs or splitting of Termoelectrica S.A. and Electrica S.A. subsidiaries, or from turning small Conel production and power distribution units into commercial companies eligible for denationalisation.