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What to think of when doing business in Romania

TMF Group Paper



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About this paper

“Doing business in Romania” is a TMF Group paper about the specifics of the Romanian business environment. The findings are based on the results of the TMF Group’s survey conducted from 2-26 September 2014 among 50 professionals of international and local businesses working in Romania.

About TMF Group

TMF Group helps global companies expand and invest seamlessly across international borders. Its expert accountants and legal, HR and payroll professionals are located around the world, helping clients to operate their corporate structures, finance vehicles and investment funds in different geographic locations. With operations in more than 80 countries providing outsourced compliance services, TMF Group is the global expert that understands local needs.

TMF Group in Romania offers local and international companies a full range of professional services, from accounting and reporting to HR, Payroll and Corporate Secretarial. Operating in the Romanian market since 1999, TMF Group Romania has a team of over 100 professionals. With experts in accounting, legal, finance, corporate secretarial, HR and payroll, we can assist both start-ups and mature ventures in achieving their business targets while meeting local and international compliance requirements.

Romania business outlook

Romania is currently one of the most attractive destinations for foreign direct investment (FDI) in Central Eastern Europe. After joining the European Union (EU) in 2007, the country has been going through many reforms and changes to improve transparency and the ease of doing business. Structural reforms introduced in Romania, such as the liberalisation of energy markets and the new labour code, are starting to show initial results. Increasing domestic demand is expected to gradually overtake net exports as the main driver of growth.

Romania had a promising year in 2013 with one of the highest GDP growths in Europe at 3.5%. According to the European Commission (EC), the biggest South East European land will grow robustly by 2.5% (2014, yoy) and 2.5% (2015 yoy). This year The Global Best to Invest Report has ranked Romania as the fourth best investment destination in the CEE region.

According to The Economist Intelligence Unit, contractions in the fiscal and current account deficits will reduce dependence on external finance. Romania has risen to 50th place in The Economist global rankings and 10th out of 16 in The Economist regional ranking for 2014-2018.

The stable growth is strongly supported by a progress in infrastructure projects; one of the biggest challenges for international investors setting up in Romania. Infrastructure and rapidly changing legislation remains one of the biggest pitfalls for international businesses operating in the country.

Improved business environment can be also seen in the latest Global Competiveness Index results, published by the World Economic Forum in October 2014. Romania is ranked 59 (1 being the highest result) in 2014-2015 ranking, comparing to 76 position in 2013-2014.



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Romanian Business Environment

TMF Group asked 50 specialists to give their opinions on the Romanian business environment. More than one third of our respondents are working for international companies with headquarters in Western Europe. A third of our respondents have their operations and headquarters in Romania and 12% in the rest of CEE. The remaining respondents worked for companies with headquarters in various locations across the world.

Most of the respondents are working in the oil and gas industry (26%), retail (20%) and financial services (16%). Of the 42% of clients whose headquarters are located in Central and Eastern Europe, 29% are part of the oil and gas industry and 29% are part of the retail industry.

The current fiscal and tax environment

The introduction of forms and tax regulations in the last three years is perceived to have had mostly no impact on the local businesses of respondents (53%). However, 34% indicated that they had to hire more legal and tax staff. Even though the changes have not impacted the wider business environment, it has affected the internal workings of their companies. The requirement of more legal and tax staff indicates that the processes have become more complex. This is supported by the respondents' perception of specific areas of Romanian business - while the majority of processes are seen neutrally, 63% view tax level and legislation as well as collaboration with authorities (53%) negatively.

Complexity of Romanian regulations is also supported by the fact that 78% of respondents view understanding and complying with local rules, regulations and processes as the top challenge of doing business in Romania. The negative view of tax levels, legislation and collaboration with authorities is inextricably linked to respondents' belief that the biggest challenge businesses face is navigating the local rules, regulations, and processes. Compared to the 2013 IDC report produced by TMF Group, which indicated that the top challenge of global expansion was finding the right premises and local suppliers, the results of this questionnaire suggest the top challenge in Romania is highly dependent on the local regulations.

When asked about their biggest payments to the state government, VAT and social contributions received a rating of 3.76 and 3.74 out five, making them the highest payments to the state government. Due to the risk of non-compliance when dealing with VAT and social contributions as well as the perceived complexity of tax and legal requirements it is unsurprising that the top three services the respondents would outsource the associated services - 80% would outsource tax compliance, 74% accounting and 66% HR and Payroll.

Future prospects

Romania currently is in the discussion about joining the Eurozone in 2018-2020. When asked on how the change would affect their business the response was that the change would have a positive effect on revenue (79%), exports (79%), administrative burden (70%) and competitiveness (79%). Only operational costs had a more muted positive response, as 47% view that the euro will have a negative effect on it.

This positive outlook was also seen when respondents were asked how much they expect to grow in 2015. Moderate to high growth of 0 to 5% and 5 to 10% is expected by 58% of respondents. A further 22% expect to grow by 10 to 15%. Companies that expect growth of 10 to 15% and more than 20% are more likely to expand internationally; 60% of those expecting to grow by the former and 20% of those expecting to grow by the latter answered yes to international expansion.

A total of 35% of respondents plan to expand. Four times more people plan to expand globally (28%) than within Romania (7%). The 7% that plan to expand into other regions of Romania are all equally interested in growing in all regions apart from the Sud region. The main drivers for expansion within Romania are to increase sales, saturate the market and optimise operations and logistics.

Of the 28% of respondents who plan to expand globally, 69% are interested in expanding to Central and Eastern Europe. Africa is also an extremely popular destination, with 62% earmarking it for their expansion plans, while 39% highlighted Asia Pacific. Almost 80% of respondents said that their main reason to grow outside of Romania is to increase their sales.

Of the 70% of respondents who work for international companies, 34% said they wanted to further expand internationally. Of that percentage, 20% are planning to expand into the CEE Region, while 7% said they wanted to expand into other regions of Romania. Of the 30% of respondents whose headquarters are located in Romania, 13% want to expand internationally into Africa and CEE and 7% want to expand domestically into the Sud-Est, Sud and Bucuresti-Ilfov regions.

Conclusion

Romania continues to be an attractive destination for the global expansion that will be showing GDP growth and economic development for the following years. The European Union and the country are investing in building competitive infrastructure and introducing new reforms to improve the business environment for domestic and international investors.

Complex accounting and tax regulations are still one of the biggest challenges to do business in Romania. Many companies are solving this by hiring more accounting and tax staff or by outsourcing the services to local experts. International companies setting up their sights on Romania require a trusted partner to keep the documentation compliant with the local regulations and be up to date with the rapidly changing regulations.



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How TMF Group can help

Operating a network of more than 100 offices in 80+ countries with 5 offices newly opened in Africa, TMF Group is a leading global provider of high-value business services to clients operating and investing globally. We focus on providing specialised and business-critical financial and administrative services that enable our clients to operate their corporate structures, finance vehicles and investment funds in different geographical locations. TMF Group serves clients of all sizes and from all sectors; everyone from a technology start-up to a large multi-national.



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