

THE BUSINESS ENVIRONMENT IN ROMANIA COMPARED TO EUROPE AND CENTRAL ASIA

Alina HAGIU¹, Marinela BĂRBULESCU²

¹ Faculty of Economics and Law, University of Pitesti, Romania
alina.hagiu@upit.ro

² Faculty of Economics and Law, University of Pitesti, Romania
marinela.barbulescu@yahoo.com

***Abstract:** The legislative environment in Romania has become a very unpredictable one, and the companies when they plan to maintain investments, increase investments, make business plans, in fact, take into account such indicators as the stability and predictability of the legislative system in a particular country and then, obviously, the concerns are growing, because unfortunately for us, things change from day to day, this in the context where the tax changes should have happened six months before and appeared only from January 1 of the following year, so that the business environment has sufficient time for debates, consultations, just to try to solidify the confidence. In the present paper we aim to present comparatively the ease of doing business in Romania compared to the EU and some selected countries from Central Asia, taking into account some important indicators in the characterization of the business environment, such as: ease of starting a business, ease of getting a credit, ease of registering property, paying taxes, trading across borders, etc.*

Keywords: business environment, doing business, competitiveness, performance.

JEL Classification Codes: M21, F40.

1. INTRODUCTION

Romanian capitalism is marked by a paradox: the age of the bulletin is almost 30 years (since the fall of communism), but the actual age of active companies in Romania is 10 years (average life of an active company in Romania), the difference of them being 20 years old (the moment we make this balance).

Compared to the situation of two decades ago, the macrostability of the financial system is significantly higher. Even though Romania continues to register the highest inflation in the EU (4.6% in 2018 and 4.2% in 2019), the predictability of interest, the level of inflation and the stability of the national currency (registering the lowest volatility in the region in last 2-3 years), it provides the business environment with a predictable financial context. (Figure no.1) In contrast, uncertainty is now fueled by unpredictable fiscal and legal changes, in a political scene marked by frequent changes that make the continuity of structural reforms impossible.

The full liberalization of the capital account (September 2006) and the full convertibility of the national currency, doubled by the increase of the financial stability of the Romanian economy (interest, inflation and currency fluctuation below 5% for most years of the last decade), determined the increase of the degree of openness of the economy from 50% (1999) to 86% (2018) as well as the FDI advance. Instead, their progress was significantly lower than the countries in the region.



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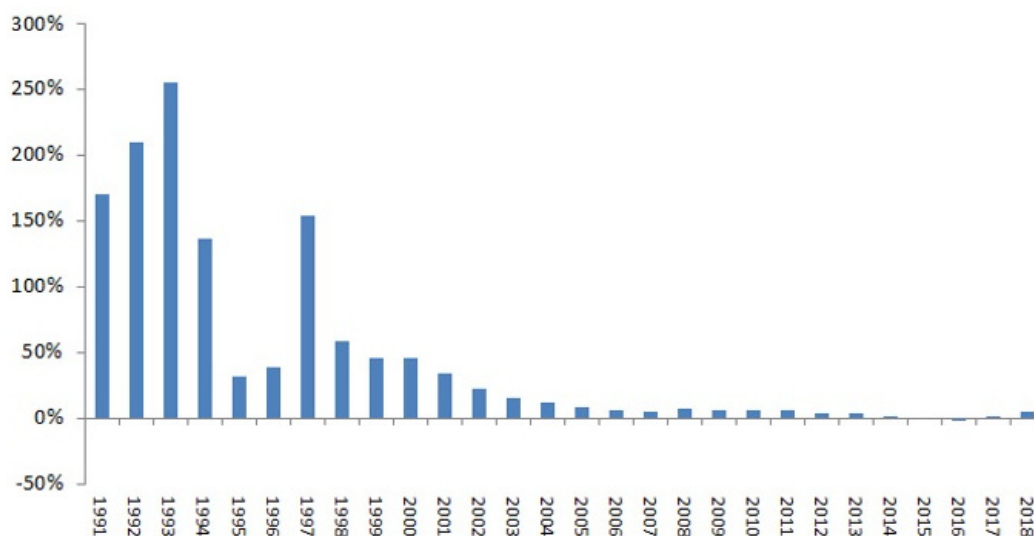


Figure no. 1 The inflation evolution in Romania

Source: www.insse.ro

The competition at the moment is very high in most sectors, with the exception of segments of some through customized services offering the opportunity of monopoly / oligopoly oases. The business environment is highly concentrated among large companies, and the middle layer is very small. Basically, the largest 1000 companies from the perspective of income, concentrate almost half of the turnover reported by the almost 500,000 companies that are active in Romania. Basically, one of two companies active in Romania is set up after the local impact of the global financial crisis from 2007-2008, thus being prone to emotional behavior in the next period of economic recession and adjustment. On the other hand, only two out of ten companies active in Romania are established before 2000 (the core of mature companies) – Figure no.2.

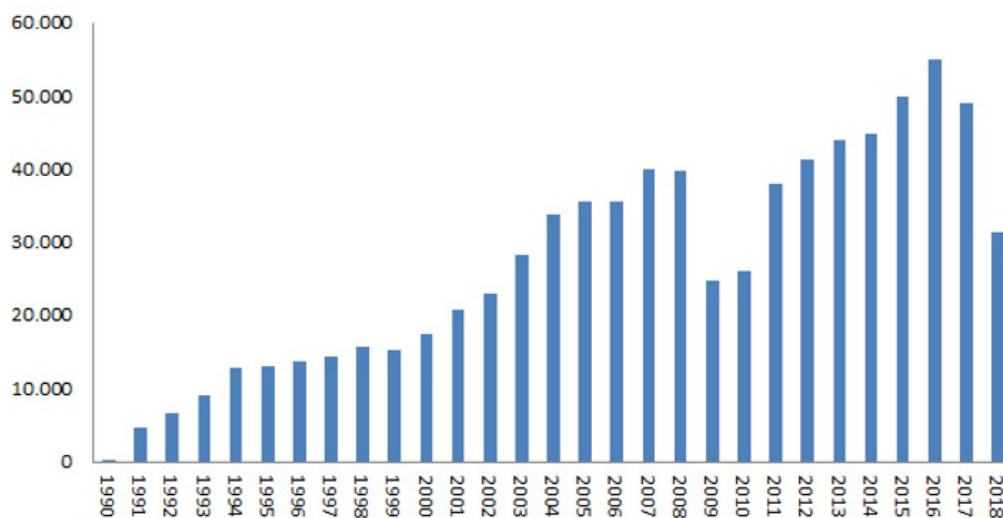


Figure no. 2 The distribution of the companies based on the year of establishment

Source: www.insse.ro

2. THE ANALYSIS OF THE BUSINESS ENVIRONMENT

The analysis is made based on the data provided by the World Bank in its Doing Business Report. The report of the international financial institution analyzes 190 economies based on several criteria for each country like: Starting a business, Dealing with construction permits, Getting electricity, Registering property, Getting credit, Protecting minority investors, Paying taxes, Trading across borders, Enforcing contracts, Resolving insolvency.

We extracted data for Romania, the average for European Union (EU) and Europe and Central Asia (ECA) and for Turkey which we considered to be a relevant country for the region of Europe and Central Asia.

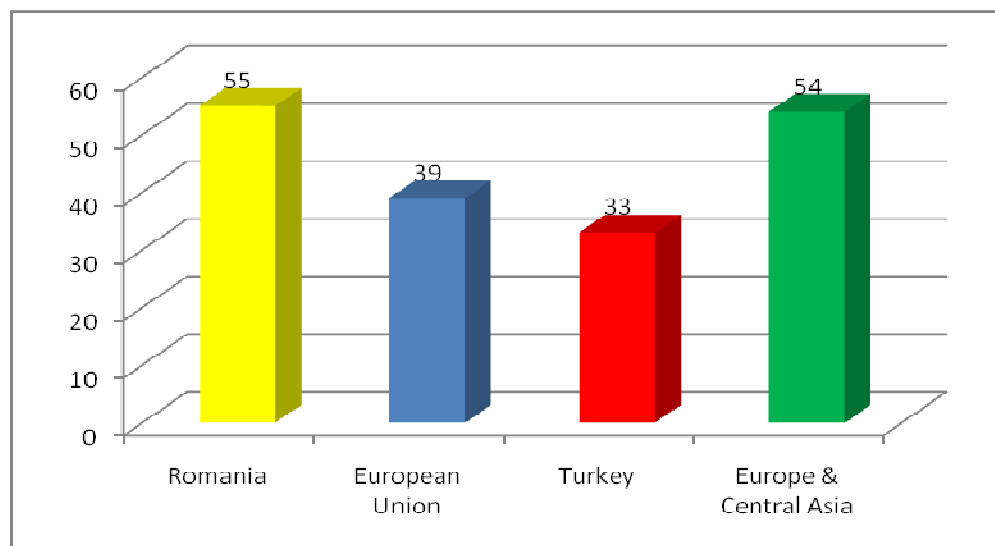


Figure no. 3 Ease of doing business

Source: realized by the author based on the data from World Bank, Doing Business Report 2020

Regarding the indicator of “Starting a business” Romania ranks 91, not an honorable place compared to European Europe average of 68, Europe & Central Asia average of 57, or even Turkey, a relevant country of EUA, ranking 77.

The indicators underlying this ranking are more relevant. Thus, regarding the number of procedures needed to start a business, in Romania there are needed 6 procedures, in Turkey 7, the average for EU is 5.3 and for ECA is 5.2. As respects, the time required to complete each procedure (in calendar days), Romania does not stand very well. In our country starting a business requires 20 days, in Turkey 7 days, while the average for EU and ECA is 11.9.

Another indicator which characterizes “Starting a business” is the cost required to complete each procedure (% of income per capita). Romania stands very well to this indicator with a 0.3% of income per capita. We can’t say the same for Turkey (6.0%), EU (3.1%) or ECA (4.0%). Regarding the paid-in minimum capital (% of income per capita), indicator referring to the funds deposited in a bank or with third party before registration or up to 3 months after incorporation, in Romania the percent is of 0.4, in Turkey 0.0, the EU average is 8.1, and ECA 0.7

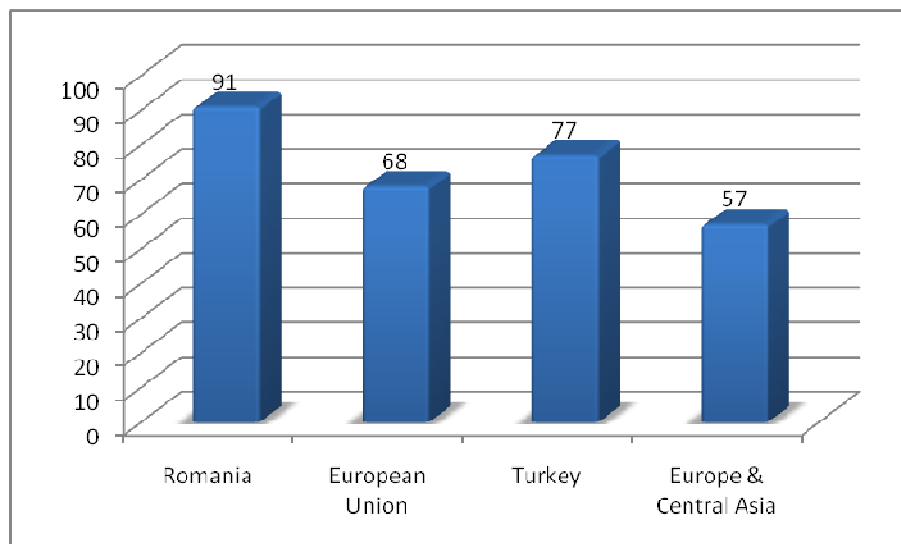


Figure no. 4 Starting a business

Source: realized by the author based on the data from World Bank, Doing Business Report 2020

Regarding the indicator of “Dealing with construction permits” is almost in the back of the ranking, being on 147 place. Turkey stands very good, ranking 53, while the EU average is 68, and ECA average is 85. In Romania there are 24 procedures to fulfill for getting construction permits, in Turkey 18, EU 13.7 and the average for ECA is 16.2. The time needed for all the procedures is 260 days in Romania, 100 days in Turkey, 176.5 days in EU and 170.1 days in ECA. If we refer to the cost of these procedures as a % of warehouse value, in Romania is 2.0%, in Turkey 3.6%, in EU 1.9% and in ECA 4%.

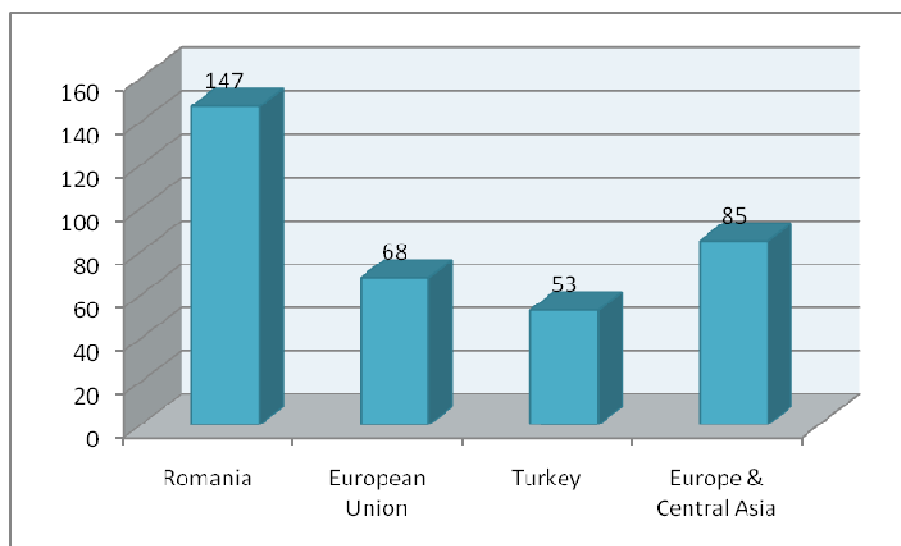


Figure no. 5 Dealing with construction permits

Source: realized by the author based on the data from World Bank, Doing Business Report 2020

In what regards “getting electricity”, Romania ranks 157 (with 9 procedure to fulfill, 262 days needed, at a cost of 405.8% of income per capita), Turkey has a much better position – 41 (with only 4 procedure to fulfill, 34 days needed, at a cost of 62.3% of income per capita), EU ranks 52 and ECA 81.

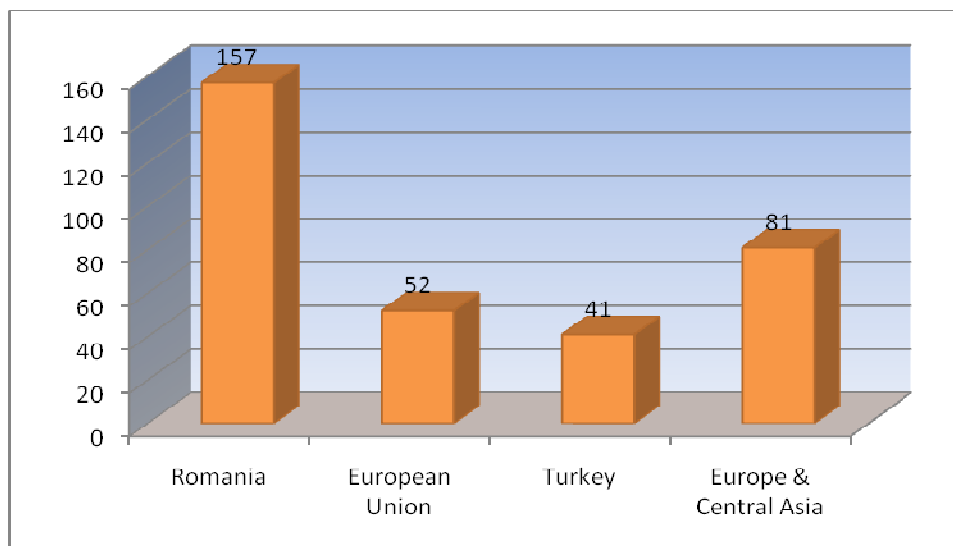


Figure no. 6 Getting electricity

Source: realized by the author based on the data from World Bank, Doing Business Report 2020

If we refer to “Registering property” Romania ranks 46, Turkey 27, EU 54 and ECA 49. In Romania there are needed 6 procedures to legally transfer title on immovable property, the same in Turkey, 5.1 in EU and 5.5 in ECA. The time required to complete each procedure is of 14.5 in Romania, 4.5 in Turkey, 27.1 in EU and 20.8 in ECA. In what regards the cost required to complete each procedure is of 1.3 % of property value in Romania, of 3% in Turkey, 4.8% in EU and 2.7 in ECA.

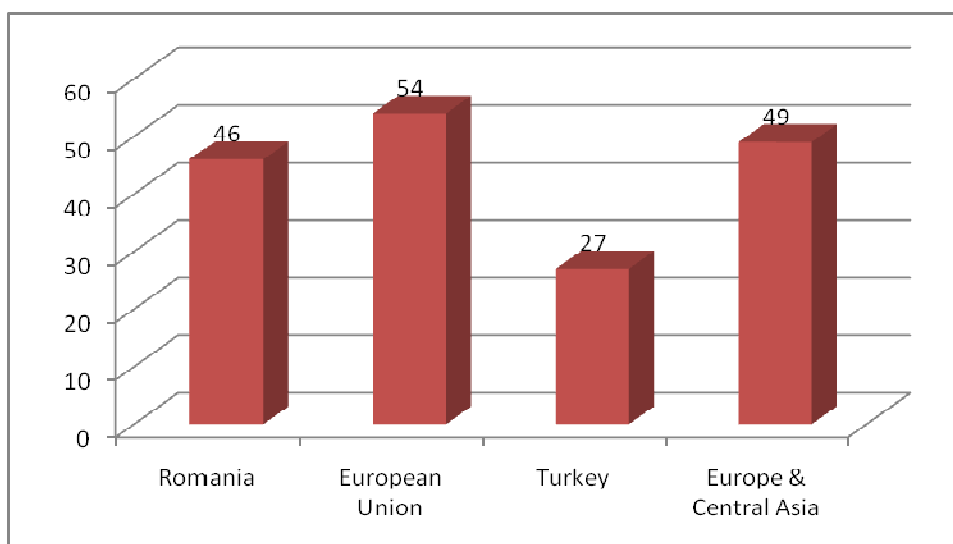


Figure no. 7 Registering property

Source: realized by the author based on the data from World Bank, Doing Business Report 2020

Getting Credit indicator analysis two sets of issues—the strength of credit reporting systems and the effectiveness of collateral and bankruptcy laws in facilitating lending. At this chapter Romania ranks 25, Turkey 37, EU 77 and ECA 48.

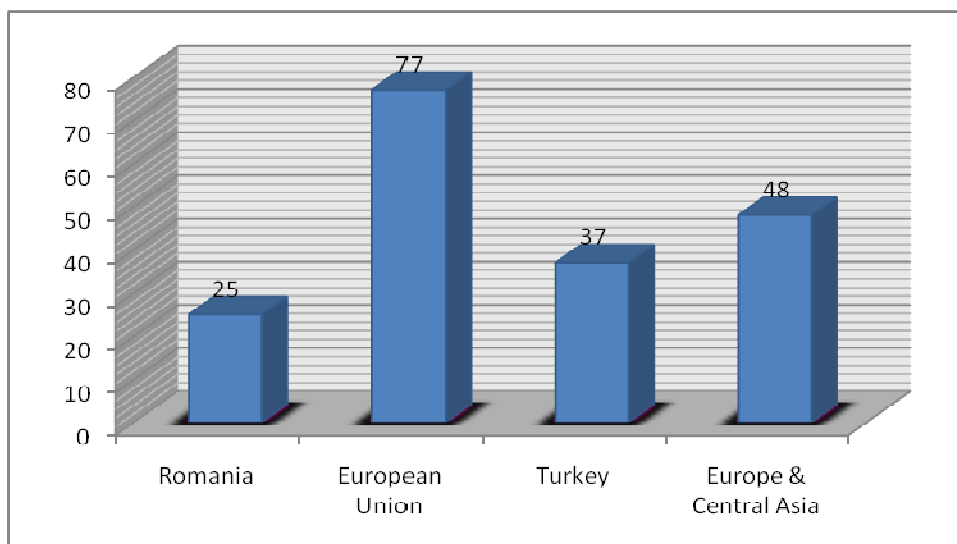


Figure no. 8 Getting credit

Source: realized by the author based on the data from World Bank, Doing Business Report 2020

Regarding “Protecting minority investors”, Romania ranks 61, Turkey 21, EU 48 and ECA 67. This indicator measures the strength of minority shareholder protections against misuse of corporate assets by directors for their personal gain as well as shareholder rights, governance safeguards and corporate transparency requirements that reduce the risk of abuse, and a high level of ranking means that indicate an economy’s regulations offer stronger investor protections against self-dealing in the areas measured.

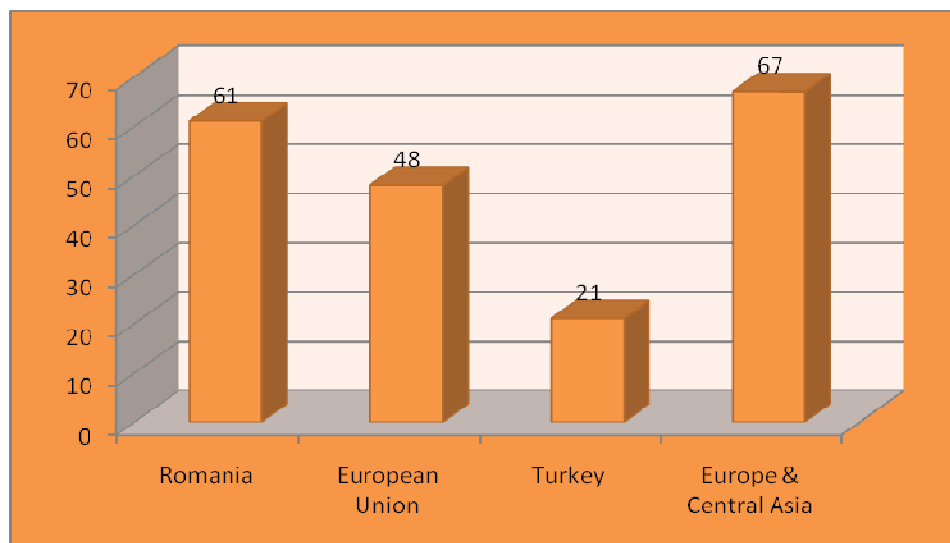


Figure no. 9 Protecting minority investors

Source: realized by the author based on the data from World Bank, Doing Business Report 2020

In what regards “Paying taxes”, Romania ranks 32, Turkey 26, EU 26 and ECA 67. This indicators refers to the taxes and mandatory contributions that a medium-size company has to pay or withhold in a certain year, as well as the administrative burden of paying taxes and contributions and complying with postfiling procedures (VAT refund and tax audit). In Romania there are 14 taxes to be paid per year, In Turkey 10, In EU 10.3 and in ECA 14.4. The time needed for paying this taxes is of 163 days per year in Romania, 170 hours in Turkey, 171.5 hours in EU and 213.1 hours in ECA. Total tax and contribution rate (% of profit) is of 20% in Romania, 42.3 in Turkey, 39.7 in EU and 31.7 in ECA.

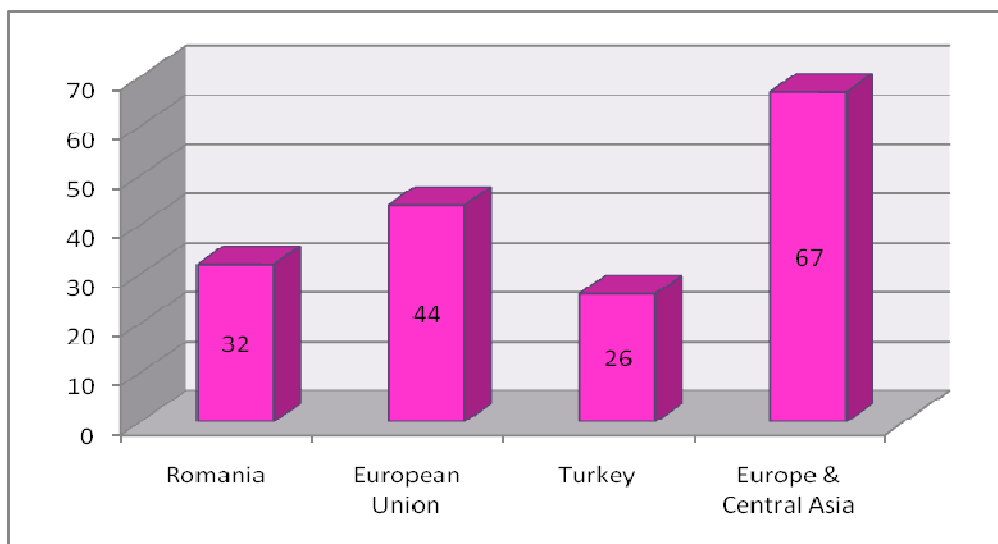


Figure no. 10 Paying taxes

Source: realized by the author based on the data from World Bank, Doing Business Report 2020

“Trading across Borders “ refers to the time and cost associated with the logistical process of exporting and importing good. Romania ranks the best to this indicator, rank 1, with a score of 100 points on a scale from 0 to 100. Turkey ranks 44, EU 14 and ECA 53.

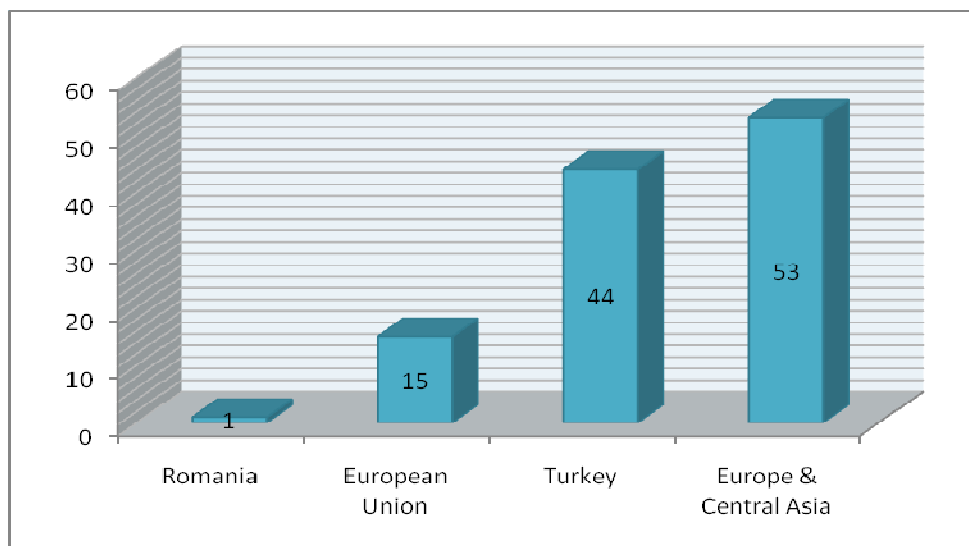


Figure no. 11 Trading across borders

Source: realized by the author based on the data from World Bank, Doing Business Report 2020

“Enforcing contracts” is an indicator that takes into consideration the time and cost for resolving a commercial dispute through a local first-instance court, and the quality of judicial processes index. At this indicator Romania ranks 19, Turkey 24, EU 50 and ECA 54. In Romania the time required to enforce a contract through the courts is of 512 calendar days, the cost (% of claim value) is of 25.8%, and the quality of judicial processes index is 14 on a scale from 0 to 18.

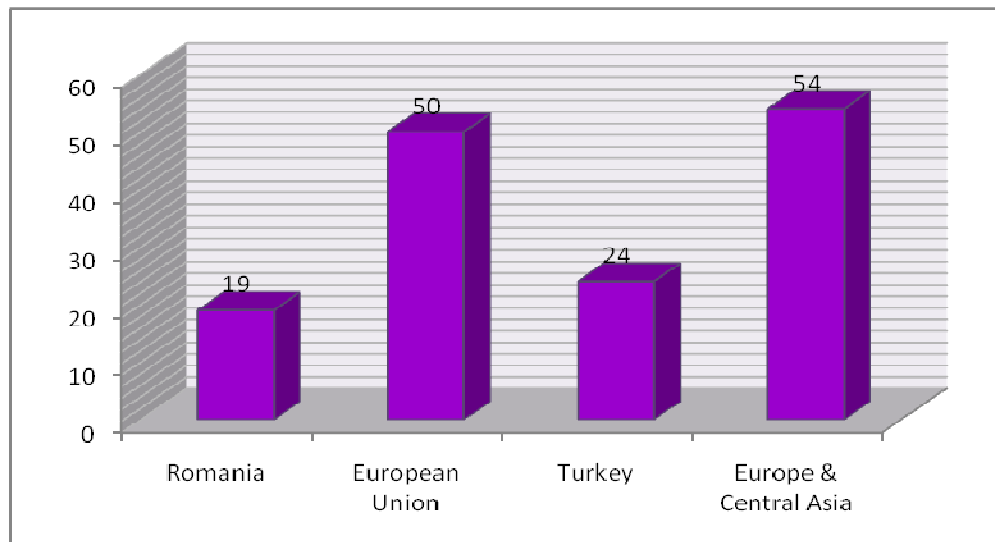


Figure no. 12 Enforcing contracts

Source: realized by the author based on the data from World Bank, Doing Business Report 2020

“Resolving Insolvency” studies the time, cost and outcome of insolvency proceedings involving domestic legal entities. Romania ranks 56 to this indicator, Turkey 120, EU 37 and ECA 69. This indicator refers to issues like: time required to recover debt (years), cost required to recover debt (% of debtor’s estate), outcome, recovery rate for creditors or strength of insolvency framework index.

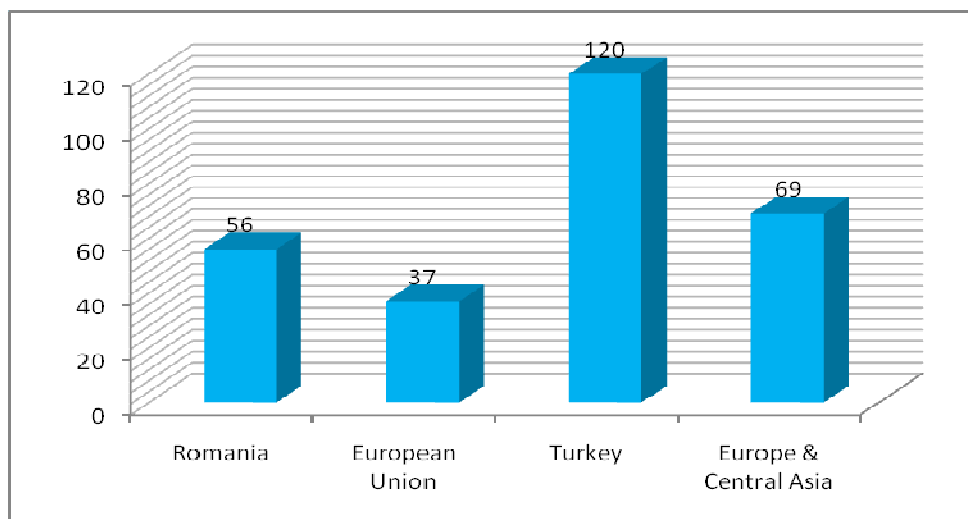


Figure no. 13 Resolving insolvency

Source: realized by the author based on the data from World Bank, Doing Business Report 2020

3. CONCLUSIONS

Romania lost three places in the Doing Business 2020 ranking, compiled by the World Bank, and dropped to 55 out of 190 countries, from 52 last year.

Romania has made it easier to start a business by simplifying the VAT registration procedure. Also, Romania made the payment of taxes less expensive by eliminating five taxes and contributions paid by the employer. At the same time, Romania introduced a new insurance contribution for work-related injuries and occupational diseases paid by the employer.

Romania is in the best position, 1st place, at the indicator that measures the ease with which transactions are made abroad, with a score of 100 points on a scale from 0 to 100. Another indicator at which Romania is placed good, 19, is the application of the contracts, as well as the indicator that measures the ease of obtaining a credit, the 25th place.

In contrast, Romania is only 157 when it comes to obtaining electricity, considering that it requires 9 procedures and can wait up to 174 days to connect to the electricity grid. As for the indicator regarding obtaining the authorization to build, Romania occupies the 147th place out of 190, with 24 procedures and a waiting period that can reach up to 260 days.

On the other hand, we can see that the economies of Europe and Central Asia have accelerated the pace of reforms aimed at improving the business environment, by implementing a number of 56 reforms and by leading the world in reforms directed towards the payment of taxes and the implementation of contracts.

The international financial institution points out that Europe and Central Asia are home to two of the top 20 business destinations in the world - Georgia (7th place) and North Macedonia (17th place). Tajikistan is among the top ten economies with the highest level of improvement worldwide in the 12-month period prior to May 1. Azerbaijan, Kyrgyzstan, Kosovo and Uzbekistan were among the top 20 economies with the highest improvement worldwide.

The economies of Europe and Central Asia continue to make significant progress in stimulating entrepreneurship and promoting economic growth. As the pace of reforms accelerates, the lagging economies can learn from the good practices adopted by neighboring countries.

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