Reconstruction and recovery of Romania through investments

EY Attractiveness Survey

Romania

July 2022

Building a better working world

Contents

We would like to extend our gratitude to Euromoney for their contribution to this report. Furthermore, we would like to thank the EY professionals who have taken the time to share their thoughts and insights with us regarding the future of Foreign Direct Investments in Romania.

Foreword

A developed country is judged by how open it is to trade with the outside world, and this key point is usually illustrated by the level of foreign investment in that country.

Foreign investment is linked directly to how well an economy will perform, how investors will regard it, how profitable business ventures will be, how many jobs are created and how much tax revenue it will bring for the communities.

In 2021, Romania and the world breathed a sigh of relief, the pandemic was slowly but surely being brought under control, businesses started returning at least to some degree of normalcy and we looked forward to how we were going to recover the lost ground because of Covid-19. Then 2022 came and we saw another crisis being thrust upon us, the war in Ukraine, with the potential to be even more destructive than the global pandemic.

Even though the crisis is still unfolding, the business environment and the Romanian society at large braced bravely and managed to keep under control the spiral of negative effects brought on by the war. FDI flow is once again on the rise, as 2021 brought 7.2 billion EUR from 3 billion in 2020. Almost 60% of respondents believe Romania is attractive for investors and is the potential location for future investment. High investor confidence is illustrated by the GDP growth registered in 2021 (5.9%) and by the increase in FDI in 2021 in comparison to 2020 (from 3 to 7 billion EUR). Now, with one crisis at its closure and one in full effect, our economy is once again tested.
We see how Covid-19 redefined geopolitical and economic patterns and on top of that we now see how the war in Ukraine is changing supply & demand for many industries and sub-industries, ranging from energy, manufacturing, mining & metallurgy all the way to tech and agriculture.

In today's context, Romania must secure its energy independence and use current events to its advantage by supporting as many businesses from the affected areas as possible, which might seek to relocate abroad and choose our country as a potential destination.

As things stand currently, Romania is in a unique situation to take advantage and harness even more FDIs in the near future. The approved EU-funded "National Recovery and Resilience Plan" offers enough financial support for Romania in key areas like digitalization, green energy and infrastructure.
Under the present circumstances, European support packages destined for member countries will in turn help national governments, including Romania in this case, secure the necessary means to create a stable environment, which should attract even more foreign investors. With current shortages Romania must use all means available to secure both its energy independence and its agricultural needs, while at the same time looking out for the manufacturing and IT sectors, which are increasingly becoming the focus of interest for global demand.

Looking at the views of top-level investors from over 20 countries, we have some recommendations that we hope will show possible avenues of approach for future opportunities. As we look to the future, foreign investment will be of paramount value to Romania and to our way going forward in transforming and reinforcing the Romanian economy.

Bogdan Ion
Country Managing Partner
Romania & Moldova
EY Central, Eastern and
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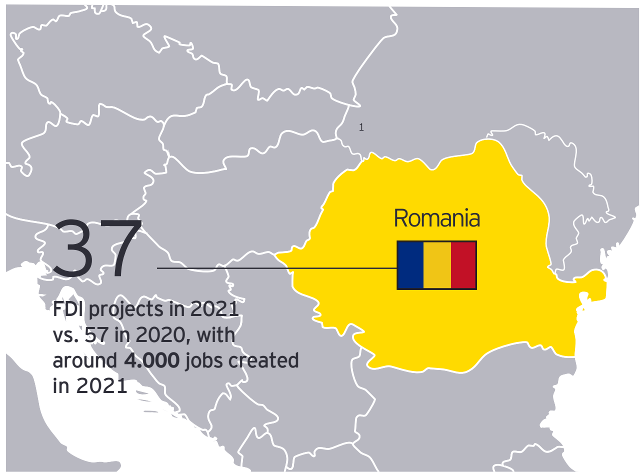
Chief Operating Officer

Executive Summary Romania's Attractiveness 2022

Chapter 1

NOW: Romania's Foreign Direct Investments in between crises

Two years after the start of the pandemic and with the new geopolitical challenge that has recently emerged, Romania's economic resilience proved to be efficient, with 95% of the FDIs representing new projects, compared to only 75% in 2020



1 | 19.4% Software & IT Services
-13% ▼

2 | 19.4% Transportation Manufacturers & Suppliers/ Transportation and Logistics
14.4% ▲

3 | 13.9% Machinery & Equipment
9.9% ▲

7.2 billion EUR

in terms of FDI flow in 2021 according to the National Bank of Romania vs. 3 billion in 2020.

7% of executives intend to invest over EUR 100 million

59.8% of the respondents believe Romania is attractive for the investors

Romania was ranked the **2nd** in Eastern Europe (**4%**) after Poland (**6%**) in terms of the most appealing investment destinations in 2022

Chapter 2

NEXT: Romania - the most attractive country in terms of supply chains and logistics across Europe

In the face of the new challenge arisen in Eastern Europe and despite the war in Ukraine and its proximity to the unfolding conflict, Romania is still a preferred location for the investors.

56% of the investors want to invest in Romania over the next year vs. 66% in 2020 - still higher than the European average of 53%

42% of the investors are looking to invest in Romania in **Supply Chains and Logistics - highest percentage in Europe**

23% of the investors want to invest in Romania in **Business Support Services - second at European level**

14% of the investors want to invest in Romania in **Manufacturing**

The investors considered the following factors as the most important to invest in Romania:

Reliability and coverage of infrastructure 77.5%

Cost-competitiveness of the country 61.8%

The safety and security measures put in place to cope with a possible future crisis 56.9%

Chapter 3

BEYOND: Technology and the digital transformation are going to reshape Romania

Romania's forecast for the near future seems to be positive, however there are essential steps to be followed to remain competitive on the global markets.

33.3% of the investors believe Romania's attractiveness will evolve over the next 3 years

Investors believe Romania should focus on the following aspects to stay competitive:

52% Support small and medium-sized enterprises

46% Encouraging environmental policies and attitudes

35.3% Support high-tech industries and innovation

In the views of the investors Romania's growth potential lies in sectors such as:

TMT (Technology, Media and telecoms) 55%

Consumer industry - including agri-food 37.3%

Automotive and mobility 36.3%

According to the European Cross Country Analysis, the main business sector that will substantially evolve in the coming years for Romania is digital economy

55% believe digital sector will drive Romania's growth

1

Now

Foreign Direct Investments in Romania in between crises

37

FDI projects announced in Romania in 2021 compared to 57 in 2020

around

4.000

jobs created

FDIs within the European architecture: uncertain times create strong economies

After two difficult years where FDIs were affected by the Covid-19 pandemic, investments seem to have unleashed. The appetite to invest in Europe is higher than in previous years – 53% of executives intend to invest in Europe in the next year. Last year 5.877 projects were announced, compared to 5.578 in 2020. 2021 meant a 5% increase compared to 2020, but still not as high as the level before the pandemic (-12% compared with the record level in 2017).

Europe's FDI recovery is slow, gradual but real. Investors showed increased interest in terms of FDI in Europe after COVID-19 delayed or curtailed previous plans during the past two years. Nevertheless, the war in Ukraine represented a slowdown in the recovery of foreign investments in Europe. 81% of companies surveyed before March 1 planned to invest in Europe over the next year. This percentage drops to 66% for those surveyed after March 1.

However, companies present in Europe are considering accelerating their supply chain reorganization to adapt to the rising energy and scarce material costs. Also, they are trying to keep an eye on the effects of inflation on markets. One interesting aspect is the fact that smaller businesses (<Eur1.5bn in revenues) are taking longer to recover than larger businesses: 26% of smaller businesses mentioned that their investment plans increased due to the pandemic, compared to 65% of larger businesses.

At European level, France attracted the most FDIs last year, followed by UK and Germany. Brexit was expected to impact UK's FDIs, but, since that happened, UK has shown good resilience, with more headquarters opened there than in any other country.

Germany is losing ground even though it is still the number one economy in Europe. France announced a 24% increase in projects, while UK projected a 2% increase. Germany suffered a decrease of 10% in terms of FDIs.

In terms of location decisions, companies now ranked digital market transformation and business process automation currently as the top drivers for choosing their location (30% and 15%), with environmental sustainability and geopolitical tensions also on their radar, both with 15%.

The investment climate in 2022 is marked by the supply chain reorganization. 53% of companies are exploring nearshoring closer to customers (compared to 23% last year) and 43% plan to reshore their business back to their domestic market (compared to 20% last year).

The desire to establish new HQs or back-offices started to diminish due to the future of work. The upswing of FDIs in Europe will be more focused on R&D projects, supply chains and manufacturing. The increased number of hybrid work types underlines the drop of intentions to open new headquarters or business services.

Agenda for 2025

Five priorities for 2025

In the next three years, investors anticipate slight improvement only in Europe's attractiveness, which seems to be directly linked to the war in Ukraine. Strategic risks in focus: investors worry about uncertainty due to geopolitical, regulatory and trade tensions.

Priority 1 Double down on digital:

Moving forward, digitalization of markets and business activities will dominate the "investment agenda". Technology-related factors that determine location decisions include the availability of a workforce with technology skills and the proper degree of IP rights protection. For half of the companies with investment plans in Europe over the next 3 years, the priority is to increase their R&D and industrial presence. And investors say that the digital economy, clean techs and life sciences will drive Europe's future growth.

Priority 2 Intensify Europe's green competitiveness:

91% of business leaders say sustainability is "important" or 'critical' to their investment strategy. The top two sustainability-related factors that determine location decisions are the presence of regulations that supports sustainable business practices and the presence of skills that facilitate sustainability projects.

Priority 3 Increase the pool of 'green' and 'digital' talents:

The availability of skills in management and leadership (48%) in innovation and technology (39%) is the human resource feature most sought-after by foreign businesses.

The levels of productivity of the European workforce and Europe's educational standards make the region much easier to invest in.

Priority 4 Make tax agility as important as tax rates:

To attract foreign investment, governments must focus on increasing the digitization and flexibility of their tax administration (45% and 36%). As the green and digital transition intensifies, companies say they will also pay attention to environmental taxation (39%) and tax incentives that encourage innovation (38%).

Priority 5 Make European stimulus work for all, starting with small businesses:

On several levels, our survey reveals that the views of small and medium-sized companies are less positive and less optimistic than those reflected by the management of multinationals. Policymakers must work closely with SMEs (99% of companies in the EU's) to understand the challenges they face. Useful support might include enhanced protection for late payments, improving access to financing and reducing regulatory burdens.

Top 20 European destination countries for FDIs

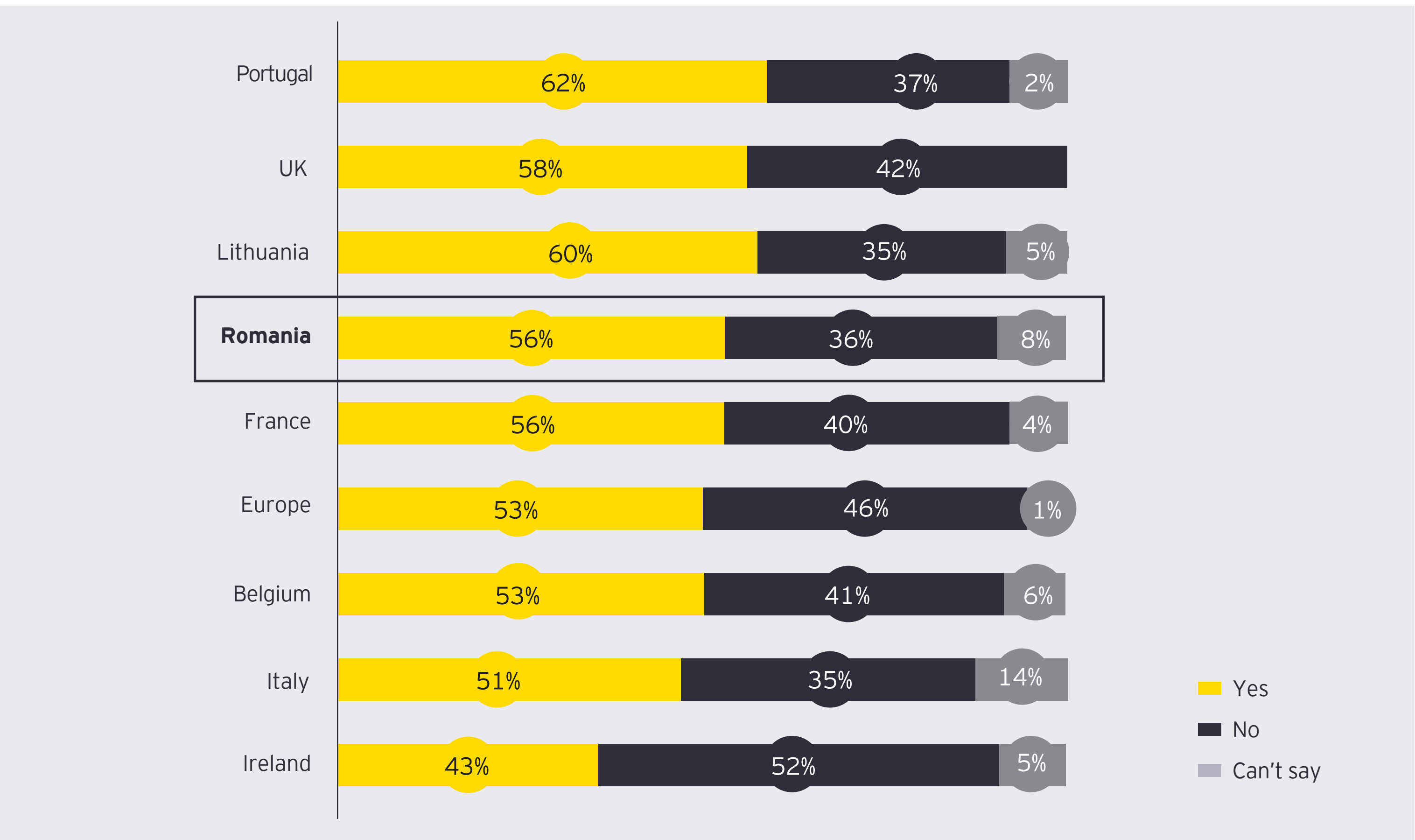
Rank	Country	Number of projects announced in 2021	Number of projects announced in 2020	Market share 2021	2020 vs 2021
1	France	1222	985	21%	24%
2	United Kingdom	993	975	17%	2%
3	Germany	841	930	14%	-10%
4	Spain	361	354	6%	2%
5	Turkey	264	208	5%	27%
6	Belgium	245	227	4%	8%
7	Italy	207	113	4%	83%
8	Portugal	200	154	3%	30%
9	Poland	193	219	3%	-12%
10	Ireland	152	165	3%	-8%
11	Netherlands	151	193	3%	-22%
12	Finland	124	92	2%	35%
13	Austria	103	76	2%	36%
14	Russia	101	141	2%	-28%
15	Hungary	76	48	1%	58%
16	Switzerland	75	91	1%	-18%
17	Serbia	73	70	1%	4%
18	Denmark	54	44	1%	23%
19	Sweden	48	75	1%	-36%
20	Bosnia and Herzegovina	41	25	1%	64%
21	Lithuania	62	53	6% (including other countries)	-16%
22	Romania	37	57		
23	Slovakia	31	18		
24	Czech Republic	30	21		

How has the current geopolitical situation impacted FDIs in Romania

At the European level, FDIs are set to recover slowly, gradually, but surely. Businesses around the world announced 5.877 FDI projects, a 5% annual increase. All types of foreign investments are welcomed by the countries, in particular the industrial projects (manufacturing, logistics and R&D). These are most sought-after due to their capacity to create jobs and stimulate growth.
Moreover, due to the new hybrid and remote work models, the investments in sales and marketing offices fell 25% in 2021. These had been the largest category of foreign investments in 2020.
However, the war in Ukraine represented a new shock. The survey data gathered before the outbreak of the war indicated a clear desire of the businesses to invest in Europe: 81% of investors surveyed before March 1st, 2022, said that they had plans to establish or expand operations in Europe, compared to 66% between March 2nd and 14th.

Therefore, most businesses acknowledge the situation created by the war. Nevertheless, even with the Ukrainian situation, the FDIs will recover their pace soon: 53% of surveyed businesses plan to establish or expand operations in Europe during the next year.
Romania finds itself in a unique position, taking impressive steps in terms of recovering after the pandemic period, although being located close to the present events within the European sphere.
Compared to last year when around 41% of investors saw Romania's attractivity growing over the next three years, this year the foreseen attractivity for the next three years decreased to 33%. However, Romania is the 4th preferred investment location for investors across Europe next year, with 56% of them having plans to establish or expand operations in Romania, above the European average (53%) and on the same level with France (see Figure 1).

Figure 1: Companies plans to establish or expand operations over the next year

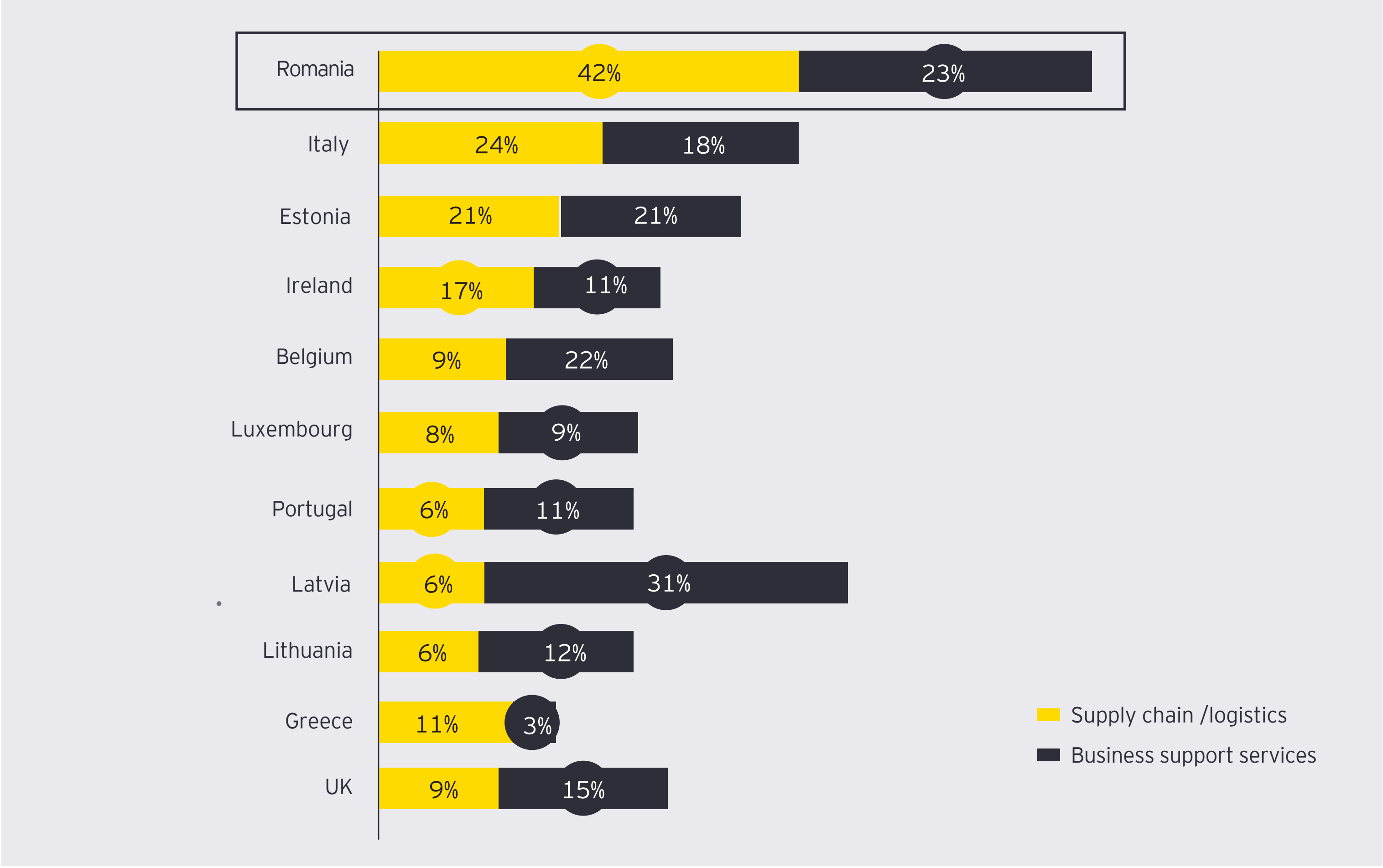


How the current geopolitical situation has impacted FDIs in Romania

After March 14th, 64% of investors believe that Europe's attractiveness will improve over the next three years. The percentage is even higher than previous years (2019 – 2021). This means that the outlook for the next three years is positive, but there are still some headwinds remaining. Europe will be the most affected and it will have to cope with higher prices and tightening financial conditions. Some countries have faced massive inflows of refugees and others were impacted by the natural gas ban. The top risk for the business agenda is represented by the high volatility of currencies, commodities and capital markets. The second greatest risk is given by the legislative framework for digital services and markets. Also, there is a fear that climate change policies will push energy prices up.
Europe will likely feel the impact of the war's side effects, although the signs are that the recovery in FDI will gather pace.

In the proximity of the war's outbreak, Romania faced a waiting pattern scenario, but currently FDIs in Romania are no longer critically affected now by geopolitical uncertainty. There are two main reasons that contribute even more to the feasibility of this situation: the geopolitical situation may even increase the FDIs in Europe if supply chains are disrupted to the point that businesses begin to either re-shore or nearshore operations back to Europe. Romania is the top preferred location by the executives when it comes to supply chains and logistics – 42% of the executives plan to relocate their supply chains and logistics to Romania (see Figure 2). The second reason why investments will recover quickly is because COVID-19 restrictions have impeded investment for the past two years but now the situation is more flexible.
Moreover, Romania ranks 2nd in terms of investments projects in business support services, after Latvia (see Figure 2).

Figure 2: Investments in Supply chains & logistics/ Business support services



How has the pandemic situation has impacted FDIs in Romania

Before the Ukrainian crisis impacted Romanian FDIs, the global pandemic put investors' appetite for Romania and Europe on hold. However, 2021 represented a year of mixed recovery, with 5,877 FDI projects announced across Europe, a 5% increase from the previous year. This uptick followed a particularly weak year for investment in 2020, when COVID-19 caused the number of projects to fall 13% compared to 2019.

The number of projects announced for Romania in 2021 was 37, a visible decrease compared to 2020 when 57 FDI projects were announced (see Figure 3). Nevertheless, the number of jobs created in 2021 was around 4.000, double compared to the number of jobs created in 2020 which was 2.000. It is still a decrease from 2019 when around 5.000 jobs were created (see Figure 4), but Romania follows the European forecast for our country which announced that the unemployment rate will drop below 5% in 2022.

Figure 3: FDI evolution (number of projects)

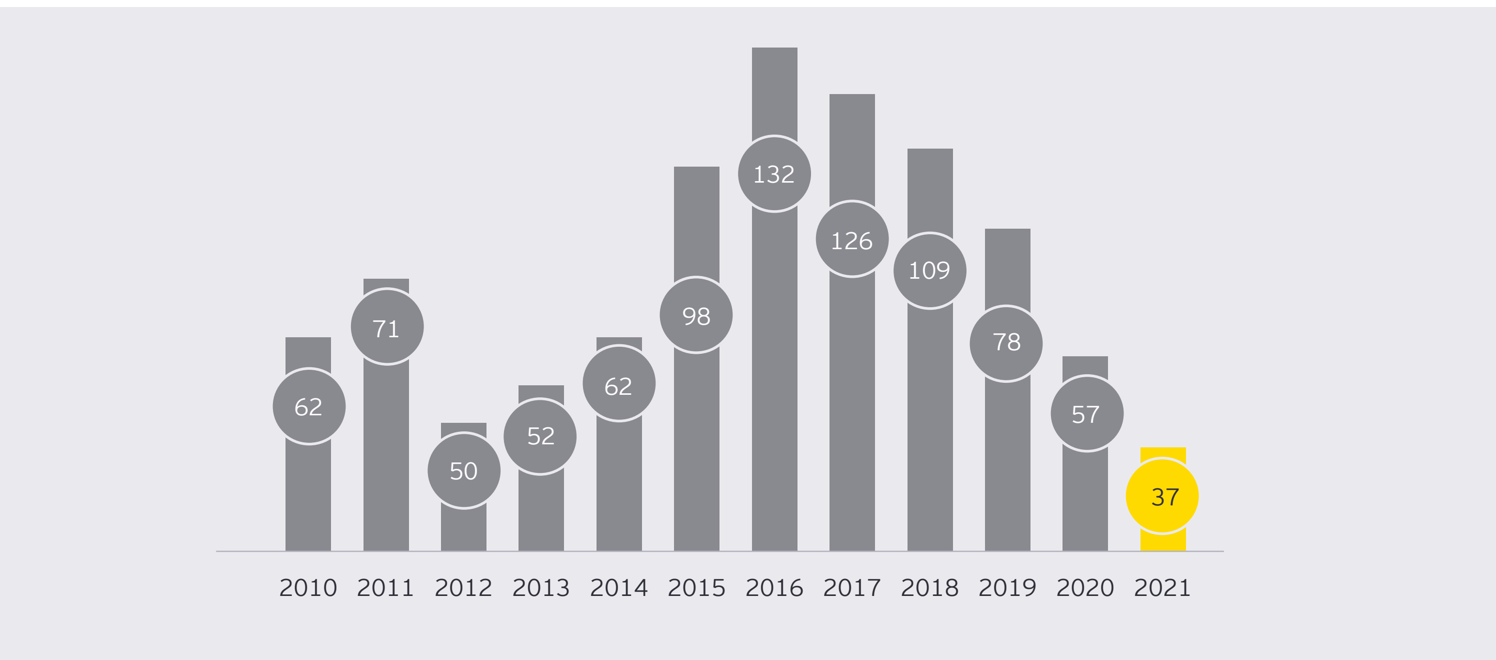
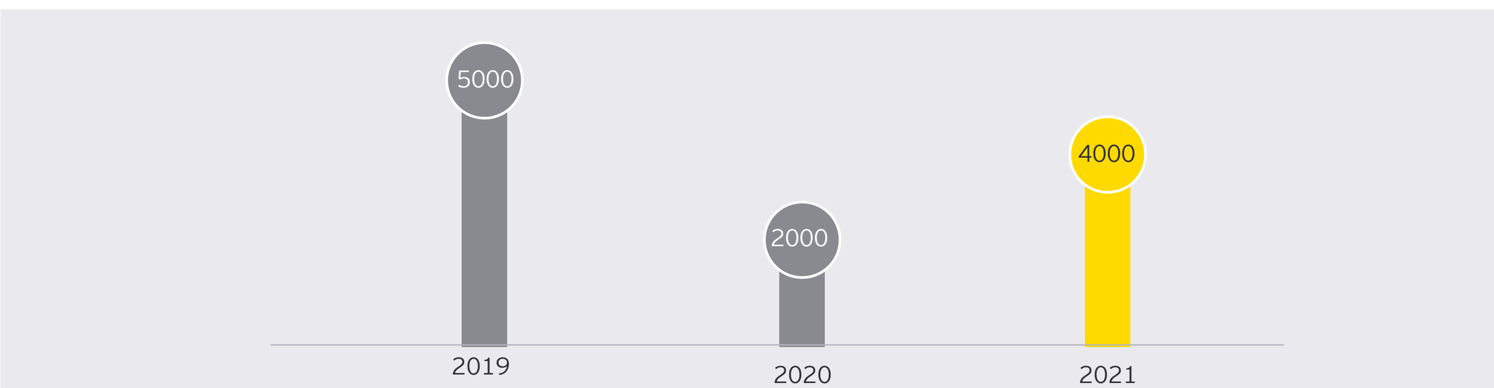


Figure 4: FDI evolution (number of jobs created)



Source: *EY European Investment Monitor (EIM) 2022.*

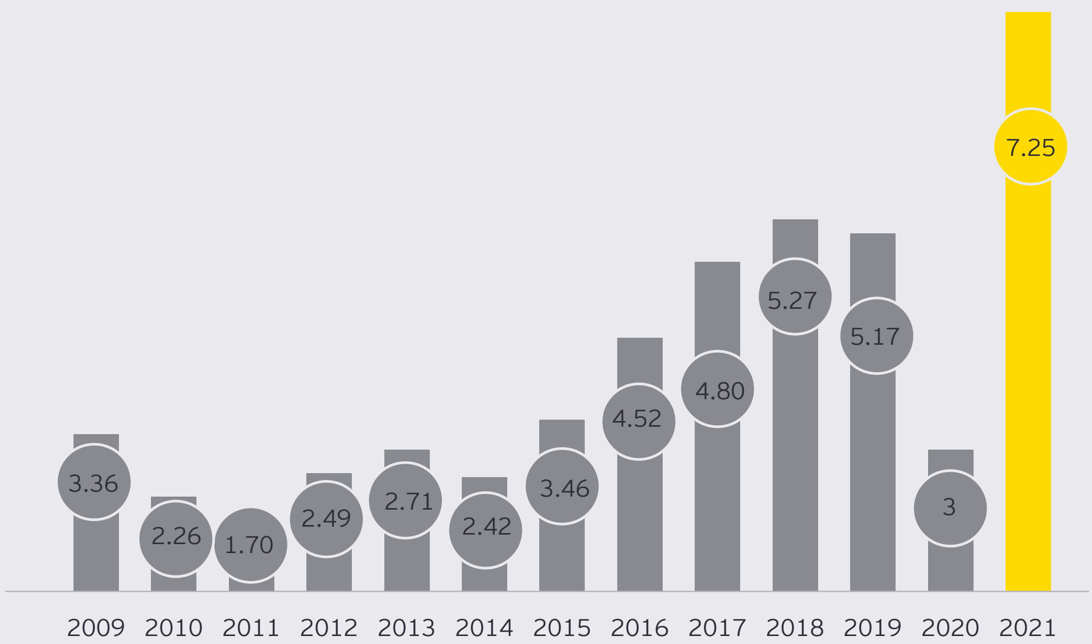
How has the pandemic has impacted FDIs in Romania

According to the data provided by the National Bank of Romania, FDI flow was valued at 7.251 billions euro, marking the highest amount in the last thirteen years and an increase of 140% compared to last year. Thus, Romania showed great resilience after 2020, which was the year with the lowest level in terms of FDI inflow to Romania after 2018 (see Figure 5). Moreover, the data delivered by the National Bank demonstrates great resilience on the part of the Romanian markets in the context of the Ukrainian crisis, but also an increased appetite for businesses to infuse money in Romania.

927 FDI projects were seen in Romania in January and February 2022, from 844 projects in the same period of 2021.

Romania is showing signs of maturity and trust in terms of FDI. Having less projects compared to last year, but more than double the FDI flow uncovered that businesses are trusting Romania more than ever, with companies like DeLonghi, Coca-Cola and Continental significantly increasing their operations in 2021.

Figure 5: FDI flows evolution in Romania over the last 13 years

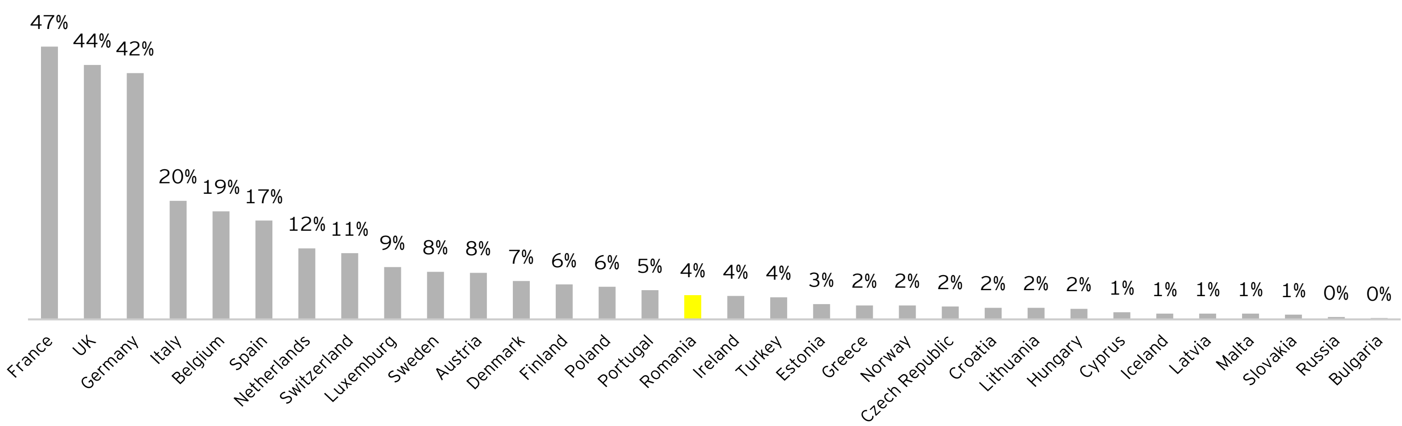


Source: *National Bank of Romania Direct investments of non-residents in Romania 2021*

Romania more attractive, large cities most popular

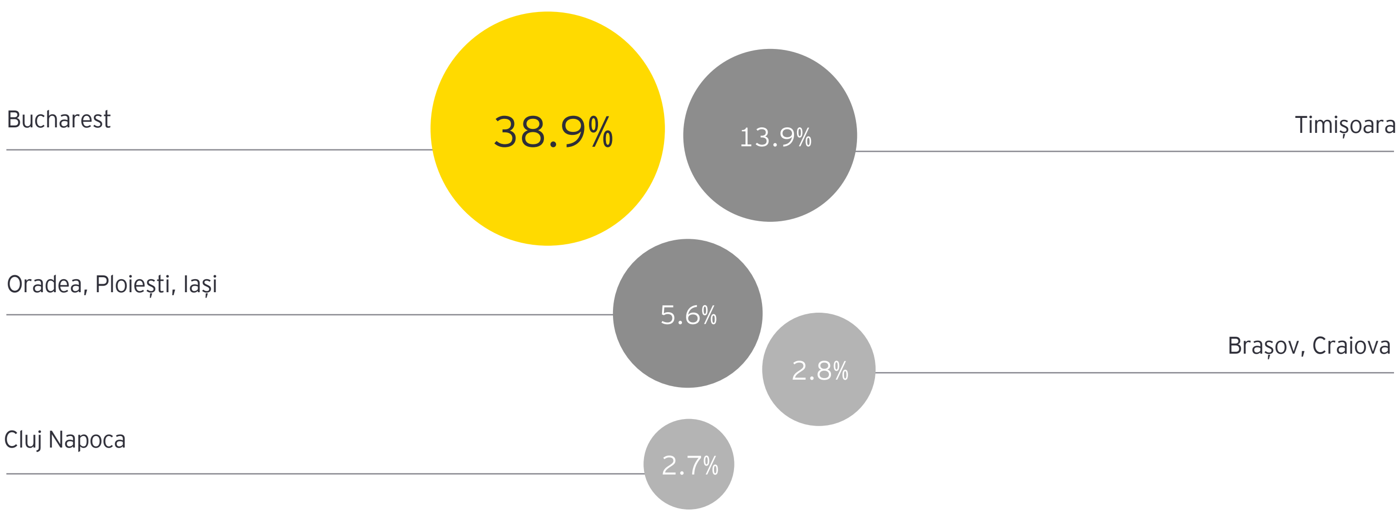
Among the European countries, 4% of the total number of respondents see Romania as the preferred location for future investment (see Figure 6). The same as in the previous year, Bucharest remained the most important recipient of foreign investment in Romania in 2021, with 38.9% of the new projects coming here. At European level, Bucharest finds itself ranked as the 25th most preferred location for businesses over the next three years, overtaking cities such as Oslo, Budapest, Vilnius, or Glasgow.

Figure 6: Romania's rank in terms of attractivity in 2022

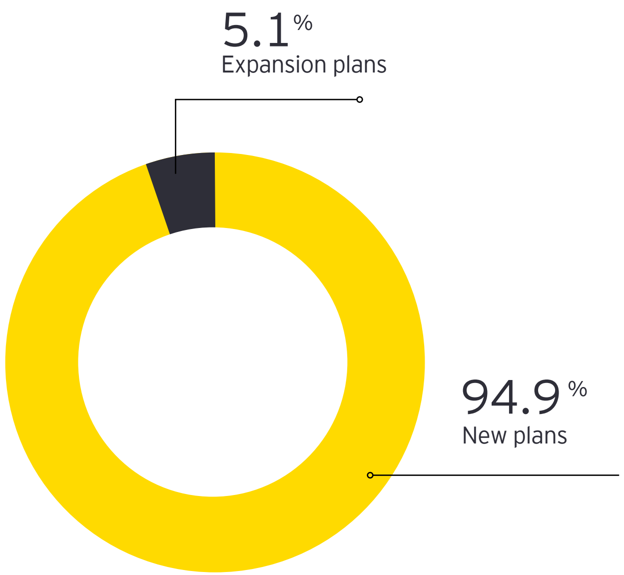


Bucharest (38,9%) is followed in investors preferences by the Western region of Romania. Therefore, the second most preferred location is Timisoara (13.9%), then Oradea (5,6%), Ploiesti (5,6%), Iasi (5,6%), Brasov (2.8%) and Craiova (2,9%), and then Cluj with 2,7% (see Figure 7).

Figure 7: FDI breakdown across Romania's cities in 2021

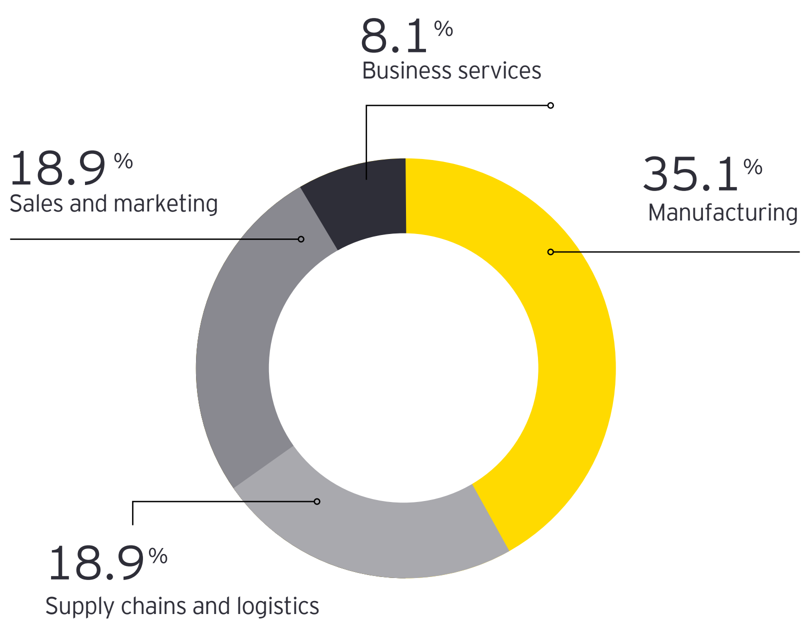


Compared to the previous year (75% new projects), 94.9% of the FDI projects announced in 2021 represented new plans. Expansion projects accounted for only 5.1% last year. The new FDI projects were mostly announced in the software and IT sector, at a tie with Transportation Manufactures & Suppliers/ Transportation and Logistics. They were followed the Machinery & Equipment sector, which ranked third.



Nevertheless, if we look at the activities within the above sectors, manufacturing is leading the ranks with more than one third (35.1%), followed by supply chains and logistics (18.9%), which share spots with sales and marketing (18.9%). Business services rank third (8.1%)

As far as the expansion projects are concerned, the only activities that moved in this direction were manufacturing and logistics, with two projects each.



Software & IT Services sector, leader in FDI project numbers

In line with the overall European market and the previous year trends, the software & IT sector in Romania implemented the largest numbers of FDI projects, with a 18.9% market share. The sector suffered a decrease from the 32% market share seen last year.

Transportation Manufacturers & Suppliers/ Transportation and Logistics are ranked on the same spot as the Software & IT sector, with a 18.9% market share.

The third place is held by the Machinery & Equipment segment, which generated the most jobs on the Romanian market.

2021 Top sectors	Number of FDI projects	Market share	Job creation
Software & IT Services	7	18.92%	Cca. 1000
Transportation Manufacturers & Suppliers/ Transportation and Logistics	7	18.92%	Cca. 900
Machinery & Equipment	5	13.51%	Cca. 1200
Electronics	3	8.11%	Cca. 600
Business Services & Professional Services	2	5.41%	Cca. 200
Chemicals, Plastics & Rubber	2	5.41%	N/A
Metals & Minerals	2	5.41%	N/A
Wholesale, Retail & Distribution	2	5.41%	Cca. 300
Pharmaceuticals	2	5.41%	65
Agri-food businesses	1	2.70%	N/A
Textile, clothing & leather	1	2.70%	N/A
Furniture, Wood, Ceramics & Glass	1	2.70%	N/A
Leisure, Culture & Tourism	1	2.70%	N/A
Textiles, Clothing & Leather	1	2.,70%	N/A
Grand Total	37	100%	Cca. 4200

The United States of America holds the first place among top investing countries in Romania in terms of the number of projects. Germany and Italy rank second and third, respectively, followed by France, China, India and the United Kingdom, each with the same number of FDI projects.

The rankings are the same for the jobs created, United States of America and Germany occupying the first places with around 1,500 jobs created, followed on the third spot by China (around 1,000), then Italy (around 750), India and United Kingdom (both around 250).

Top investing countries by number of projects

	2021
United States	25%
Germany	19.4%
Italy	11.1%
France	5.6%
China	5.6%
India	5.6%
United Kingdom	5.6%
Austria	2.8%
Greece	2.8%
Luxembourg	2.8%
Norway	2.8%
Poland	2.8%
Russia	2.8%
Canada	2.8%
Japan	2.8%

Source: *EY European Investment Monitor (EIM), 2021*

Top countries by jobs created (percent)

	2021
United States	26%
Germany	24%
China	16%
Italy	14%
India	5%
United Kingdom	5%
Canada	0.3%
Japan	0.1%

Source: *EY European Investment Monitor (EIM), 2021*

At the European level, investors have clearly shown their intentions, keeping Western Europe on the first place in terms of FDI projects – 4,856 projects were registered last year in Western Europe, compared to 1,021 in Eastern Europe. However, the Eastern part of Europe is on a positive trend, seeing a small increase in 2021 compared to 2020, namely, 1%. Overall, Europe seems to have a slow comeback to the pre-pandemic period's levels. In 2021, the total number of the projects in Europe was 5,877, compared to 2019 when 6,412 in 2019.

As in Romania's case, the United States is the main investor in Europe this year, followed by Germany, United Kingdom and France. More than one fifth of the European market share is represented by the United States investments – 22%.

Romania’s economic outlook

The last two years challenged Romania’s economy – the pandemic period and its consequences shifted the way of living and doing business. The situation seemed to be recovering, but the war in Ukraine started and the Romanian economy was forced to redefine its resilience. However, this is not necessarily the worst situation, on the contrary, Romania could seize some opportunities resulted from these uncertain times.

Before the Ukrainian crisis, the European Commission’s autumn report (2021) for Romania underlined that, after a strong rebound in the first half of 2021, Romania’s GDP will overtake its levels from the pre-pandemic period in 2022. By the end of the year, the Romanian economy was expected to remain robust at around 5% being driven by the following most important pillars in supporting the investments: domestic consumption and the National Recovery and Resilience Plan. Therefore, the last year forecast for Romania predicted a strong growth ahead in 2022. After the 3.9% decrease in GDP in 2020, the estimate for 2022 was a 5.1% increase by in GDP, with another 5.2% increase in 2023 . Moreover, the unemployment rate was projected to fall bellow 5% over the next years. In 2022 and 2023, the unemployment rate is expected to decline, while nominal wage growth is thought to become stable in the future horizon.

Nevertheless, the European Commission’s winter forecast for Romania has shown that Romania’s economy has grown by 6.3%, mainly driven by strong domestic demand. The National Recovery and Resilience Plan is again projected to be the main support and facilitator for foreign investments. More than that, according to the data provided by the European Commis- sion, private consumption is expected to pick up in the second half of 2022, due to the easing of restrictions and the moderation of inflation. Foreign trade is expected to benefit from the supply chain activities, but not to enable growth contribution. Regarding the GDP, the winter forecast stated that it is expected to rise by 4.2% in 2022 and 4.5% in 2023.

Annual percentage change (unless otherwise stated)					
		2020	2021	2022	2023
GDP		-3,7	2.4	4,2	4,5
Private Consumption			7.5	4.2	4.5
Public Consumption		1.7	2.3	0.7	0.7
Gross fixed capital formation		6.8	8.8	9.5	12.5
of which: equipment		1.9	9.2	7.8	17.4
Exports (goods and services)		-9.7	9.6	7.1	5.8
Imports (goods and services)		-5.1	10.3	6.3	6.1
GNI (GDP deflator)		-3.8	7.3	5.4	5.5
Contribution to GDP growth:	Domestic demand	-1.5	7.2	5.1	6.2
	Inventories	-0.8	0.5	0.0	-0.6
	Net exports	-1.6	-0.7	-0.1	-0.5
Employment		-1.8	1.1	0.6	0.5
Unemployment rate (a)		5.0	5.0	4.8	4.5
Compensation of employees / head		7.0	6.8	7.5	9.9
Unit labour costs whole economy		9.3	0.9	2.9	5.1
Real unit labour cost		5.4	-2.9	-1.4	0.9
Saving rate of households (b)		:	:	:	:
GDP deflator		3.8	3.9	4.4	4.1
Harmonised index of consumer prices		2.3	4.0	4.0	2.8
Terms of trade goods		3.4	-1.9	-0.5	0.5
Trade balance (goods) (c)		-8.8	-9.8	-10.0	-9.8
Current-account balance (c)		-5.5	-6.5	-6.3	-6.1
Net lending (+) or borrowing (-) vis-a-vis ROW (c)		-3.8	-4.9	-4.7	-4.4
General government balance (c)		-9.4	-8.0	-6.9	-6.3
Cyclically-adjusted budget balance (d)		-7.5	-7.1	-6.4	-6.1
Structural budget balance (d)		-7.5	-7.1	-6.4	-6.1
General government gross debt (c)		47.4	49.3	51.8	53.2

Source 1: *European Commision - Economic performance and forecasts*

Source 2: *National Bank of Romania - Direct investments - directional principle*

Source 3: *National Bank of Romania*

AAfter the shock produced by the pandemic period, Europe suffered yet another impact due to the Ukrainian crisis. Estimates show that the economic growth in Europe will be marked by a 2% or 3% decrease this year. On the other hand, on a global level, the decrease will only stand at 1% . In the present context, Romania needs to prove that its resilience can once again overcome these uncertain times. Even if the European Commission announced a 4.2% economic growth in 2022 for Romania (estimate given before the start of the war), the World Bank estimated the Romanian economic growth to be only around 1.9% this year.

However, in this situation of volatility, Romania is privileged, firstly because its direct exposure to the Ukrainian and Russian markets is limited. Secondly, Romania is empowered by a highly advanced IT&C infrastructure and the business services sector supporting the multinational companies is extremely important. Anyway, Romania is facing a paradox in terms of its proximity to Ukraine – the opportunity arising from this situation has to do with the relocation of businesses from Ukraine to Romania and we have already seen that Romania is the main location among the investor's priorities in terms of supply chains and logistics.

In the current environment, independent of relocation, Romanian authorities and private companies should focus on the following sectors in the near future : agri-business, transportation (particularly maritime and rail), and logistics. Mentioning transportation, after the Ukrainian crisis, the port of Constanta is expected to have an increased role for businesses than it had before the war. However, as far as relocation is concerned, if there is a reliable business reason, the global business services, namely R&D and Automotive, will remain highly important.

2 Next

Romania - most attractive country in terms of supply chains and logistics across Europe

59.8%

say that Romania is still attractive to foreign investors

77.5%

consider the reliability and coverage of infrastructure as a main factor in deciding to invest in Romania

The appetite for investment is still high in 2022

Even if the crisis in Ukraine seemed to affect investments in Romania in the proximity of its outbreak, 56% of investors want to invest in Romania (see Figure 8). The percentage is smaller than last year's (66%), however, it is more than half taking into consideration that Romania was challenged by the beginning of the war.

Moreover, 59,8% of the respondents believe Romania is still attractive in the view of investors. Nevertheless, the number of undecided investors is higher than last year. This can be viewed as an opportunity – if half of them decide to come to Romania, then the percentage will rise to 60% , and this is a plausible scenario because Romania has seen, after two month of crisis, a secure country with strong bonds with the Euro-Atlantic Alliance. In the last two months, being part of NATO became a business asset in the views of the investors.

In terms of investment amounts, a solid majority (70,2%) want to invest less than 10 million EUR. There are few investors who want to inject in Romania amounts from 11 – 100 million EUR. A small majority intend to invest in Romania between 101 million EUR and 500 million EUR.

Compared to last year's figures, this year there were no announcements for investments worth over 500 million EUR.

However, even with this kind of investments (over 500 million EUR) missing, there is still a positive trend and we have seen figures improving over the last years (see Figure 9).

Figure 8: Executives' intentions to invest in Romania over the next year compared to last year

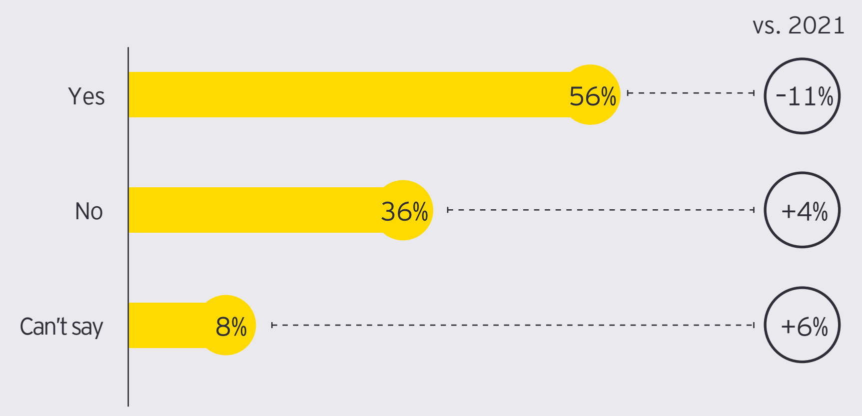
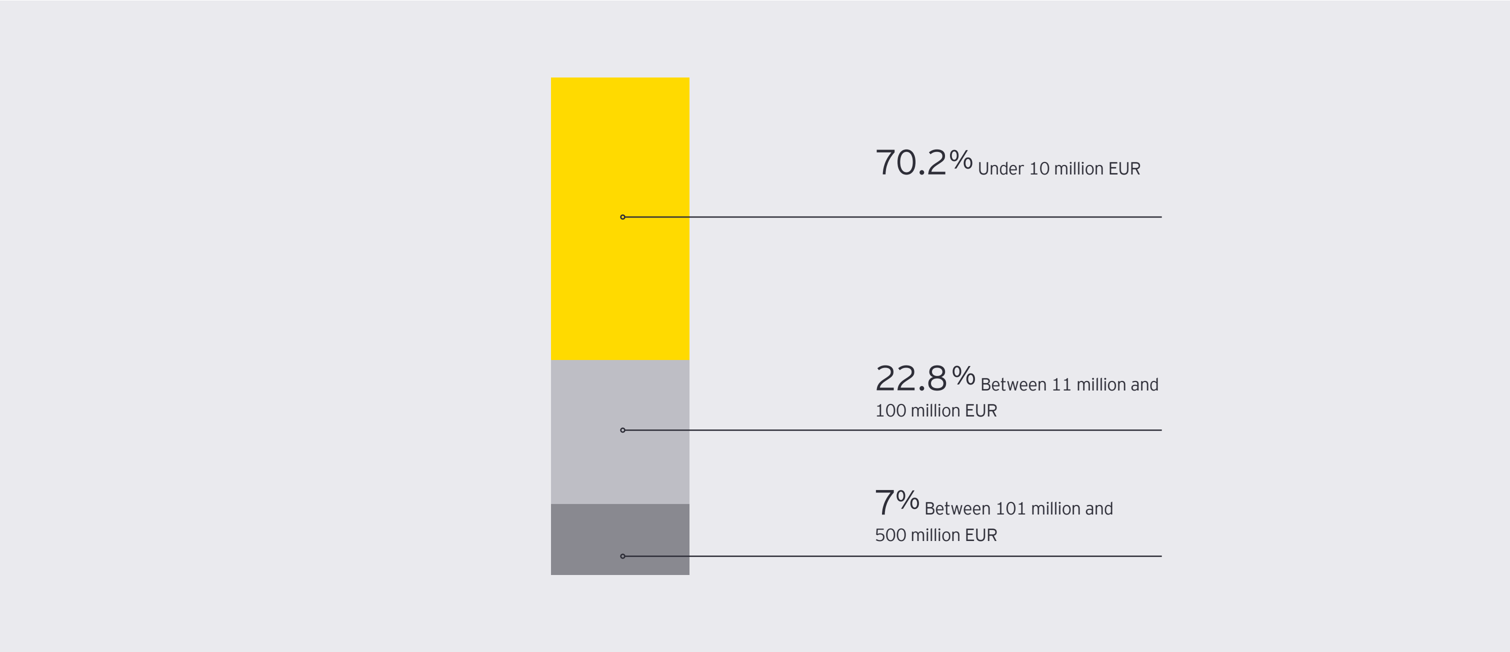


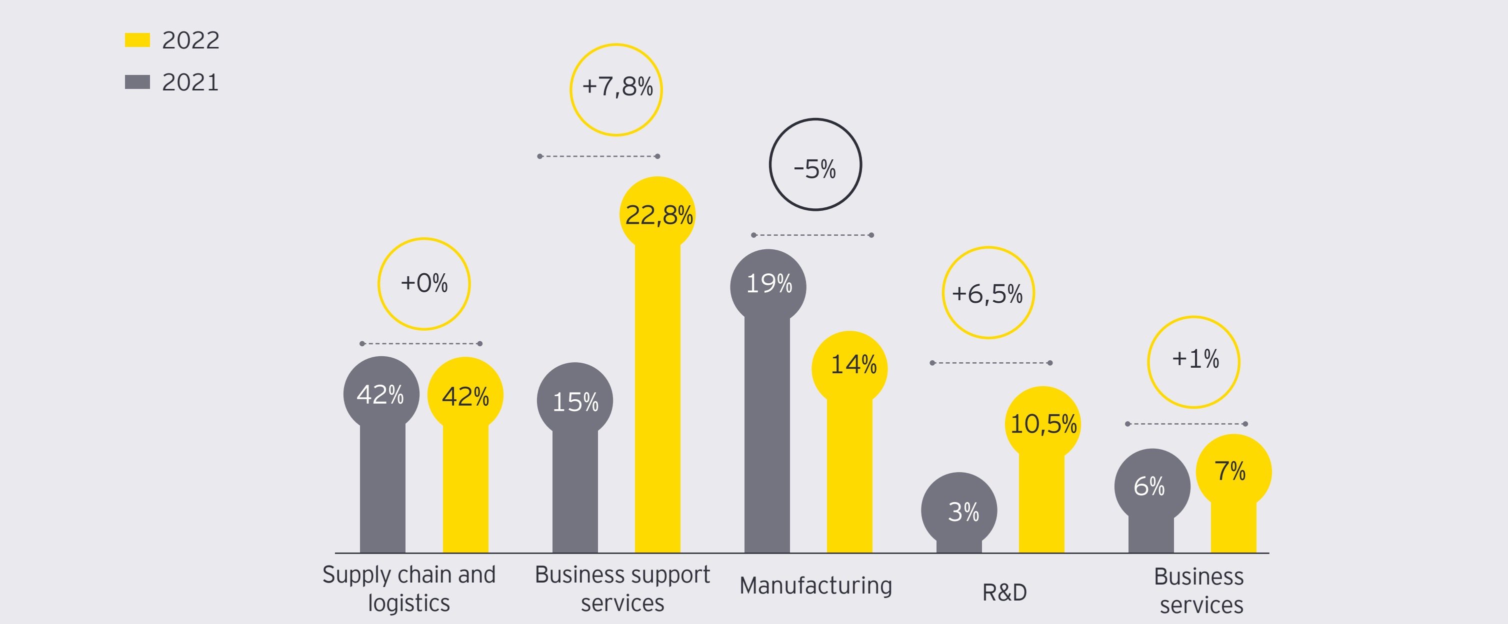
Figure 9: FDI values in 2022



Logistics ranks first, but is not the only sector of interest

Besides logistics and supply chains, there were other key sectors of interest. Compared to last year, manufacturing was overpassed by the business support services sector in terms of investor preferences, going down to the 3rd place. Research and development projects climbed up on the 4th position for future investments in Romania, compared to last year when R&D was ranked 7th. The top 5 is completed by the projects in business services.

Indeed, Romania is the most preferred location in terms of FDI in logistics and supply chains, but Romania holds yet another asset. Looking ahead and compared with other countries in South-Eastern Europe, Romania has a number of graduates higher than other countries, and more cost effective as well.



Infrastructure, Cost competitiveness, Safety & Security

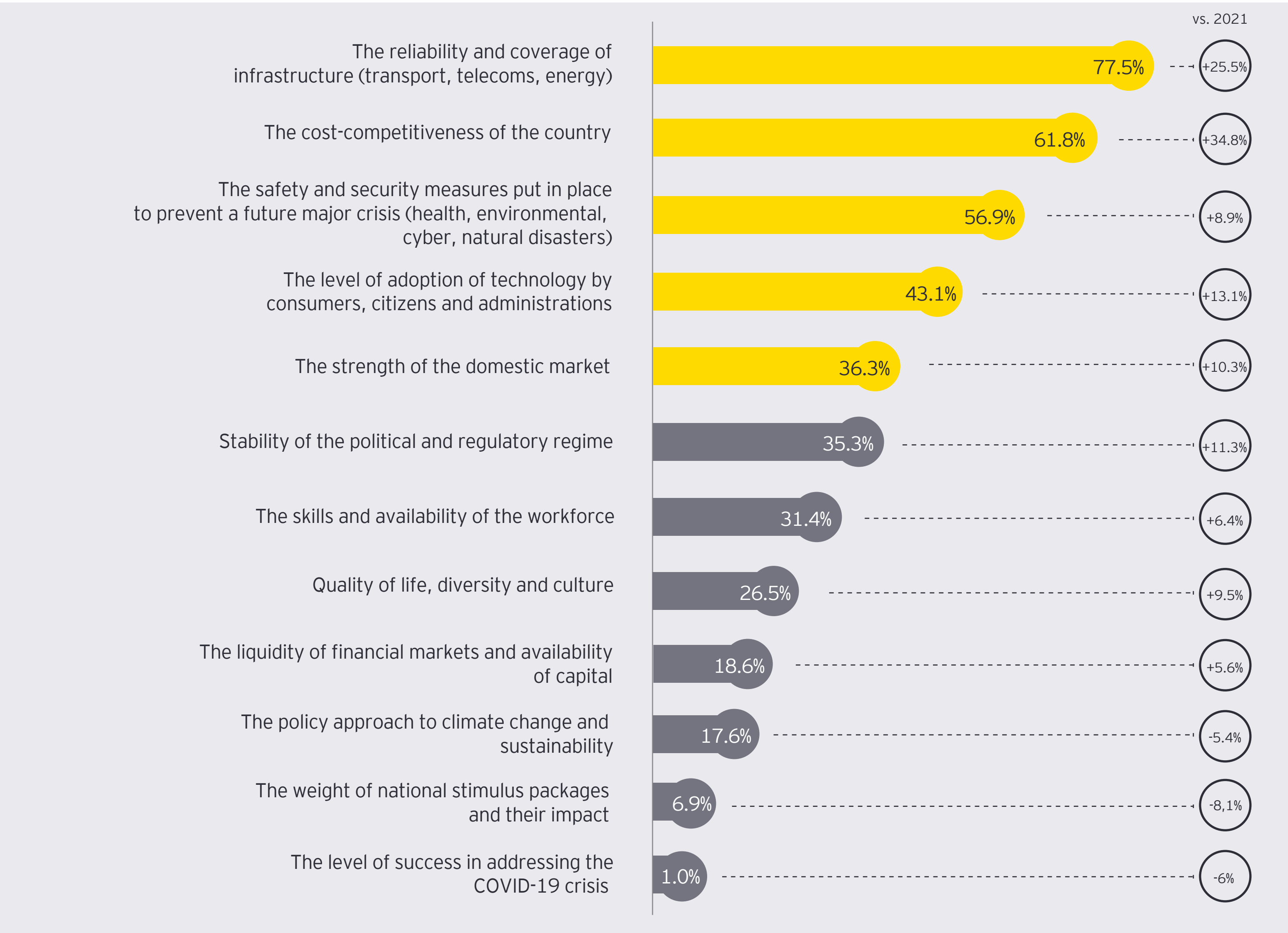
Across Europe , the level of adoption of technology by consumers, citizens and administrations is the number one factor in investment decision-making. The respondents in the European survey ranked policy approach to climate change and sustainability as the second most important aspect when choosing a country to invest in.

For Romania, the level of adoption of technology ranks 4th in the views of investors. Also, the second most preferred aspect at European level can be found almost in the final part of the ranking when it comes to Romania.

For the second year in a row, the reliability and the coverage of infrastructure is the most influential factor for investors when looking to invest in Romania (77.5% in 2022 vs. 52% in 2021). Different from last year is the aspect related to the country's cost-competitiveness – in 2021 it was selected as the 4th most important driver, compared to this year, when it went up to the 2nd place (62% in 2022 vs. 27% in 2021).

Compared to 2021, the investors considered the safety and security as the third most important factor that can influence their decisions to invest in Romania (57% in 2022 vs. 48% in 2021). (see Figure 10)

Figure 10: What factors may influence your decision to select Romania as a future destination or expansion location for your company?



The western region of Romania aims for the top spot

Across Europe, Bucharest ranks 25th out of 44 cities, overpassing capitals such as Budapest, Vilnius, Riga, but also important European cities, like Munich, Porto, Rotterdam, Geneva, Valencia.

In 2021, Bucharest was clearly the most targeted city in Romania for FDIs, leading the top with 38.9%, while the Western region summed up 19,5% of the FDIs, with Bihor and Timiș counties being its only constituents to be targeted by FDIs.

However, the Western region and Bucharest may be almost equals in terms of investors' plans for this year. Almost a quarter of future investments (24%) in Romania will be attracted by the Western region, the leading county from the area being Salaj County with 9% of the investments, followed by Arad, Timiș and Bihor, each with 5% (see Figure 11).

Muntenia ranks third, with Argeș and Prahova being its only destination counties, each with 3.5% of the total investments. On the other hand, the North-Eastern part of Romania is represented by Neamt (1.8%) and Suceava counties (1.8%).

In the Southern part of Romania, the only county that will attract investments, according to the respondents, is Teleorman with 1.8% of the total.

Different from last year is the fact that counties such as Sibiu, Brașov or Ilfov do not represent locations for investments in the views of investors.

Figure 11: In which county in Romania do you plan to invest?

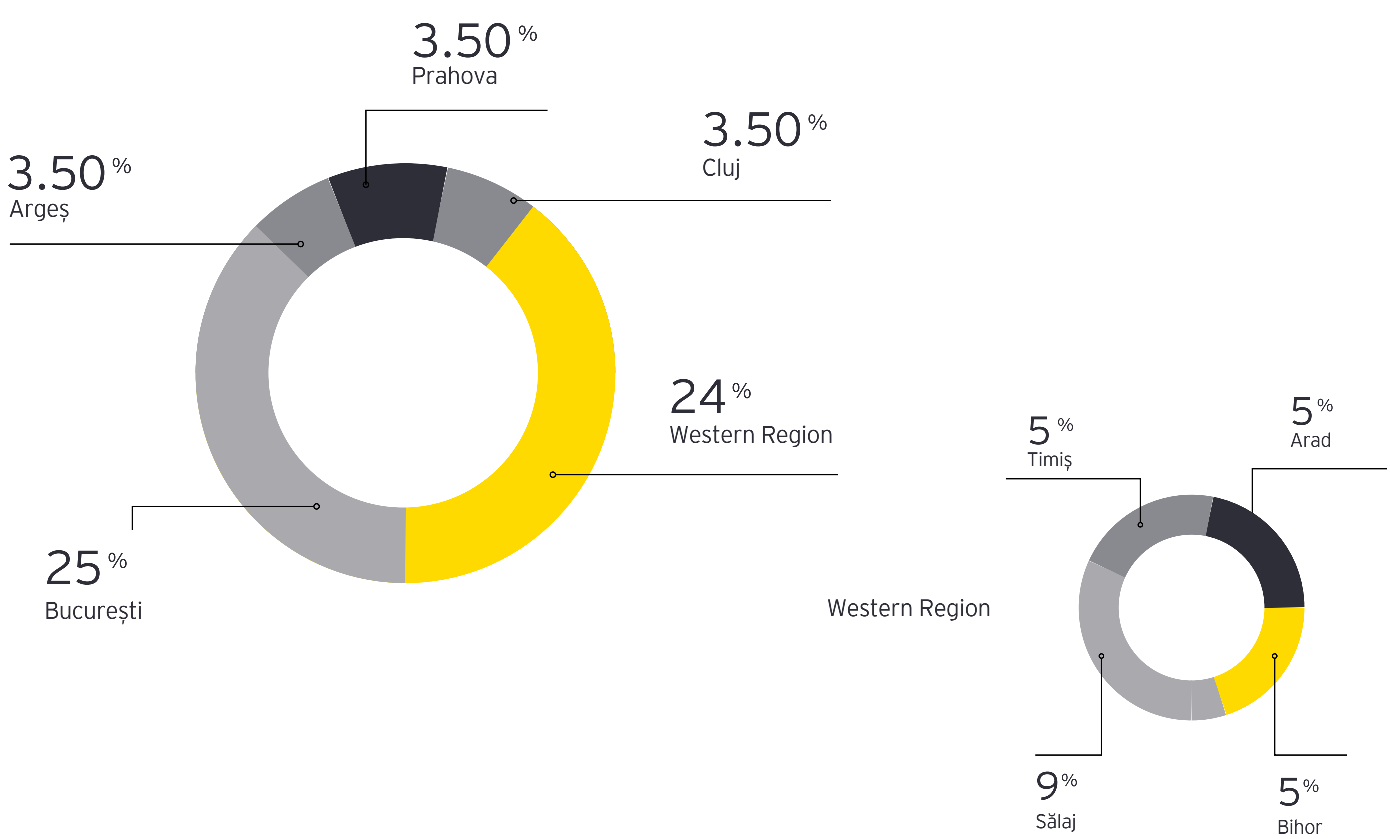
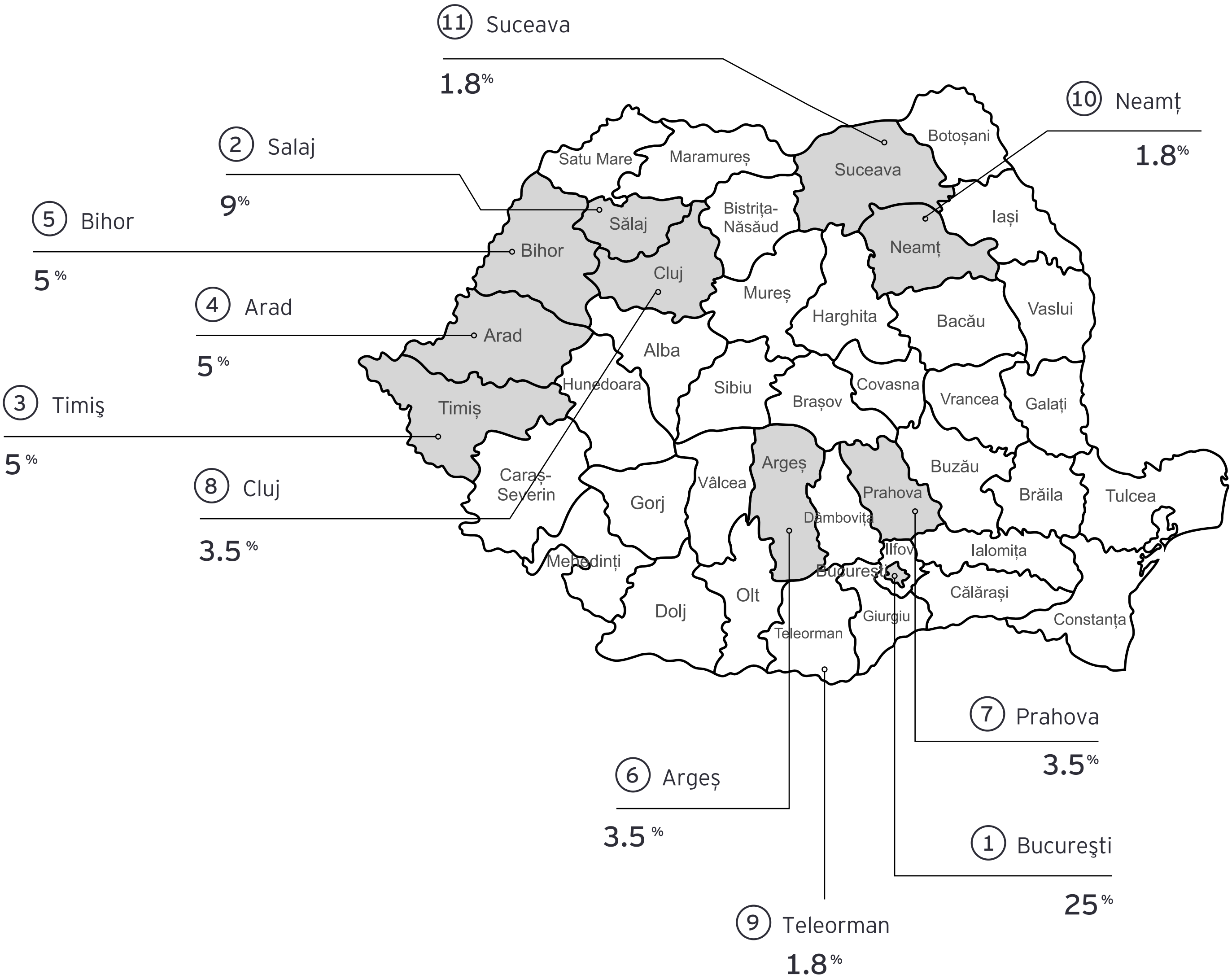


Figure 12: Map of investments across Romania's territory



Internal
Viewpoint

Massimo Betanin
Partner, Sustainability & Climate Change, EY Romania

Would this war between the Russian Federation and Ukraine affect the European journey toward a carbon neutral and more efficient economy?

This is probably one of the more frequent questions I have been asked recently. Although it is impossible to predict the future, we are seeing some interesting trends which started with the pandemic crisis and have been exacerbated by the conflict in Ukraine. The EY survey on Europe's and Romania's attractiveness, which partially factors in the effects of the Russian-Ukraine war, confirms Sustainability as the second most important factor influencing the decision on where to invest.

This increased focus on sustainability by businesses may be driven by a growing regulatory, investor and consumer pressure to decarbonize companies' activities across the whole value chain. Furthermore, the Russian-Ukraine conflict has highlighted the need to make Europe less dependent on strategic natural resources, which will require an acceleration towards a net-zero economy, with renewable energy resources being those mostly available on the continent.

Thanks to courageous goals, policies and programs on climate change and sustainability, such as the Green Deal, Fit-for-55, Nearly Zero-emission Building (NZEB), EU Taxonomy and the proposed CSRD, just to mention a few, Europe is increasingly seen as a "green leader" and this is expected to give Europe a competitive edge. With 83 countries (representing 74% of global GHG emissions) committed to achieve net-zero by 2050, regulators around the world are pushing through mandates that make climate change mitigation measures compulsory to listed companies. Soon regulations will not only mandate disclosure of climate-related information, risks and performance, but will also demand this data to be incorporated within financial filings.

While regulatory pressure is expected to grow, capital markets are moving even faster. The sixth EY Global Institutional Investor Survey, the results of which were released in November 2021, indicates that the COVID-19 pandemic acted as a powerful catalyst for new expectations and behaviors by the investment community. The research shows that, since the COVID-19 pandemic, 90% of investors surveyed attach greater importance to companies' ESG performance when it comes to investment decision-making. ESG has become an even more important part of investors' decision-making with up to 74% saying that COVID-19 has made them more likely to divest based on poor ESG performance.

Regulators and capital markets are not the only stakeholders putting business under pressure. More people around the world want a proper response to the environmental crisis we are facing from climate change to loss of biodiversity. According to the largest ever global opinion survey carried out at the end of 2020 by the UN Development Program ('The People's Climate Vote'), up to 64% of the people considered climate change as a global crisis. The recent political elections in Australia, a country which was recently badly hit by extreme weather events, seems to confirm a significant shift of Australian public attitude with the election of a record number of climate change-focused candidates that it is keen on more climate action.

Not surprisingly, the response of Romanian organisations involved in the EY survey is consistent with the rest of Europe. The development and implementation of sound 'sustainability-related policies and culture' in Romania is ranked the most important criteria influencing the country investment attractiveness, after the support to SME enterprises. Moreover, it is worth noting that other important factors typically included in the sustainability agenda of many organisations across all sectors, namely innovation, quality of products, presence of competent and skilled human resources (including workforce prepared to facilitate sustainable projects), improvement of social and healthcare systems and better quality of life for workers are, ranked among the top ten priorities.

Romania has a significant gas and renewable energy potential and its power grid already has carbon intensity in line with the European average (281 gr/kWh vs 230 gr/kWh). Also, the country seems to be well positioned in terms workforce capacity, a key element to make a transition towards a low-carbon economy feasible. Hence, Romania has the right ingredients to achieve a leadership position on sustainability within the EU. However, businesses consider the 'evolution of environmental legislation and policies' as one of the most important risks in Europe, potentially fuelling the energy price increase which has already started in many European countries, including Romania, since the beginning of 2022. Policy- makers therefore have to find the right balance between incentivizing action on climate change and other key sustainability issues and, at the same time, ensuring businesses are not burdened with excessive costs or administration.

Secure Romania's competitiveness in sustainability and innovation

Sustainability

Sustainability policies are now a key determining factor in influencing location decisions. At European level, the policy approach to climate change and sustainability is ranked as the second most important factor to invest in a country. Twelve months ago, investors ranked sustainability policies as the second-least important factor that determined where they invested.

The sustainability agenda has risen firstly because, after the COVID-19 pandemic, most businesses realized that the pandemic lifted the expectations of consumers, investors, regulators and their own staff to tackle climate change and other societal issues. Secondly, the EU made available more funds, and the governments offered more stimuli for sustainability initiatives.

About Europe, 83% of the businesses stated that it is a "green leader". However, there is a potential downside: the evolution of European environmental legislation and policies is considered the fourth greatest risk to Europe's attractiveness during the next three years. With inflationary pressures, businesses are starting to worry about the increased costs produced by the environmental legislation.

Nowadays, in order to facilitate the sustainability policies, you need to ensure that the workforce has the proper skills and competencies – this aspect was ranked joint-first when it comes to choosing which country to invest in. In this context, The International Energy Agency estimates that, by 2030, almost 14 million jobs will be needed in the energy sector for the transition toward net-zero emissions.

Among Europe's countries, Ireland and Belgium have the higher share of investors that consider environmental sustainability strategy a minor or unimportant factor to their investment decision.

However, Romania has shown great potential in terms of sustainability. Being the main European destination for investors from the perspective of supply chains, Romania is also positioned 3rd regarding the location's potential to decarbonize the supply chains – 32% of the respondents said that Romania is performing better than the European average and 63% that is performing as well as the European average (see Figure 13).

Moreover, related to the ecosystem of clean tech initiatives and sustainable businesses, according to 81% of companies, Romania is performing as well as the European average and only 12% believe that Romania is performing better than the European average. 75% of respondents also think that Romania is performing as well as the European average when it comes to renewables in electricity supply and only 25% say that it is performing better than the European average (see figure 14).

Nevertheless, Romania registered the highest performance compared to the European average from the perspective of the workforce. 34.3% mentioned that Romania has the capacity to perform better than the European average when it comes to workforce, skills and competencies needed to facilitate the sustainability projects.

Figure 13: Romania's performance at European level regarding location's potential to decarbonize the supply chain

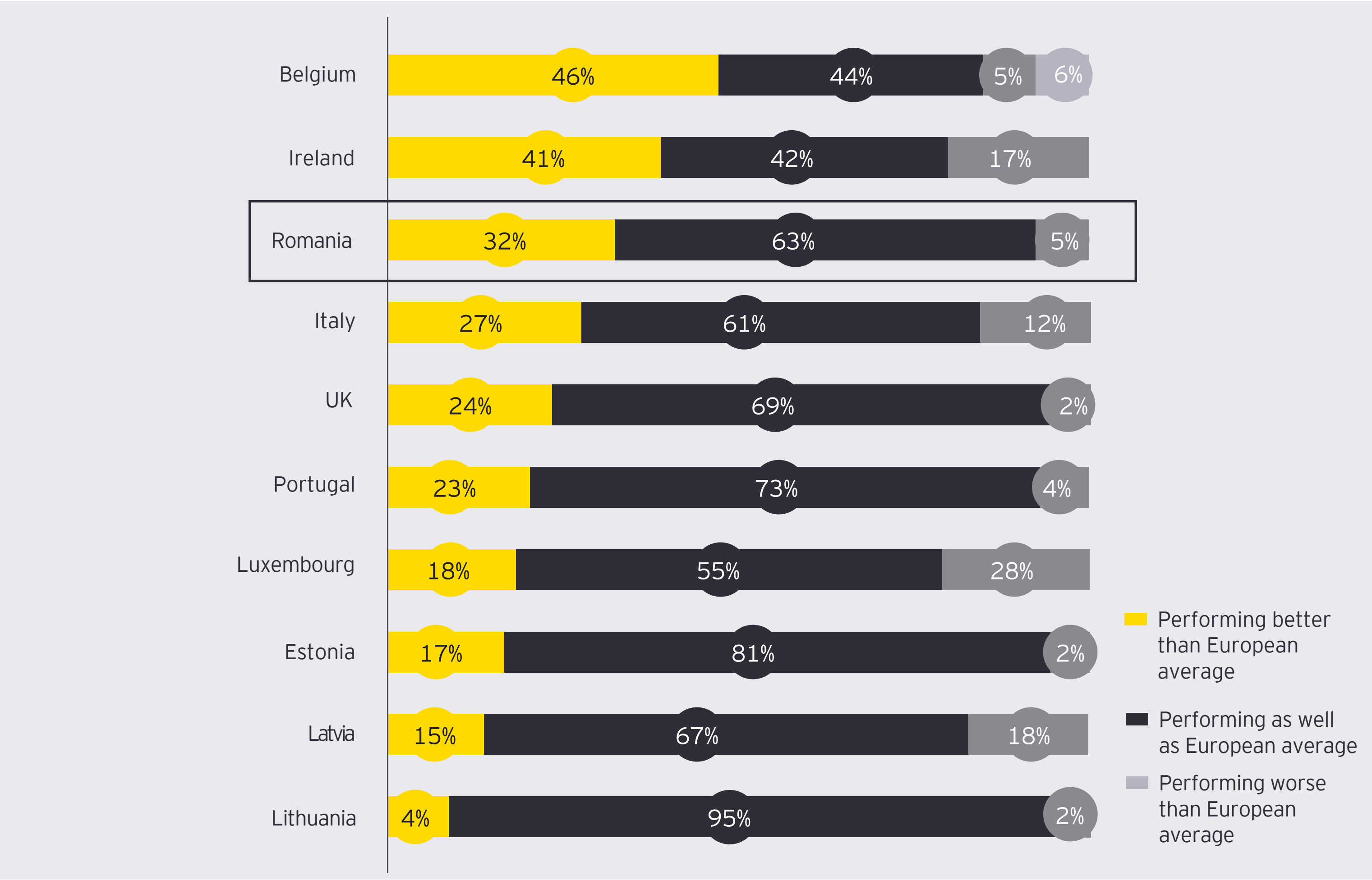
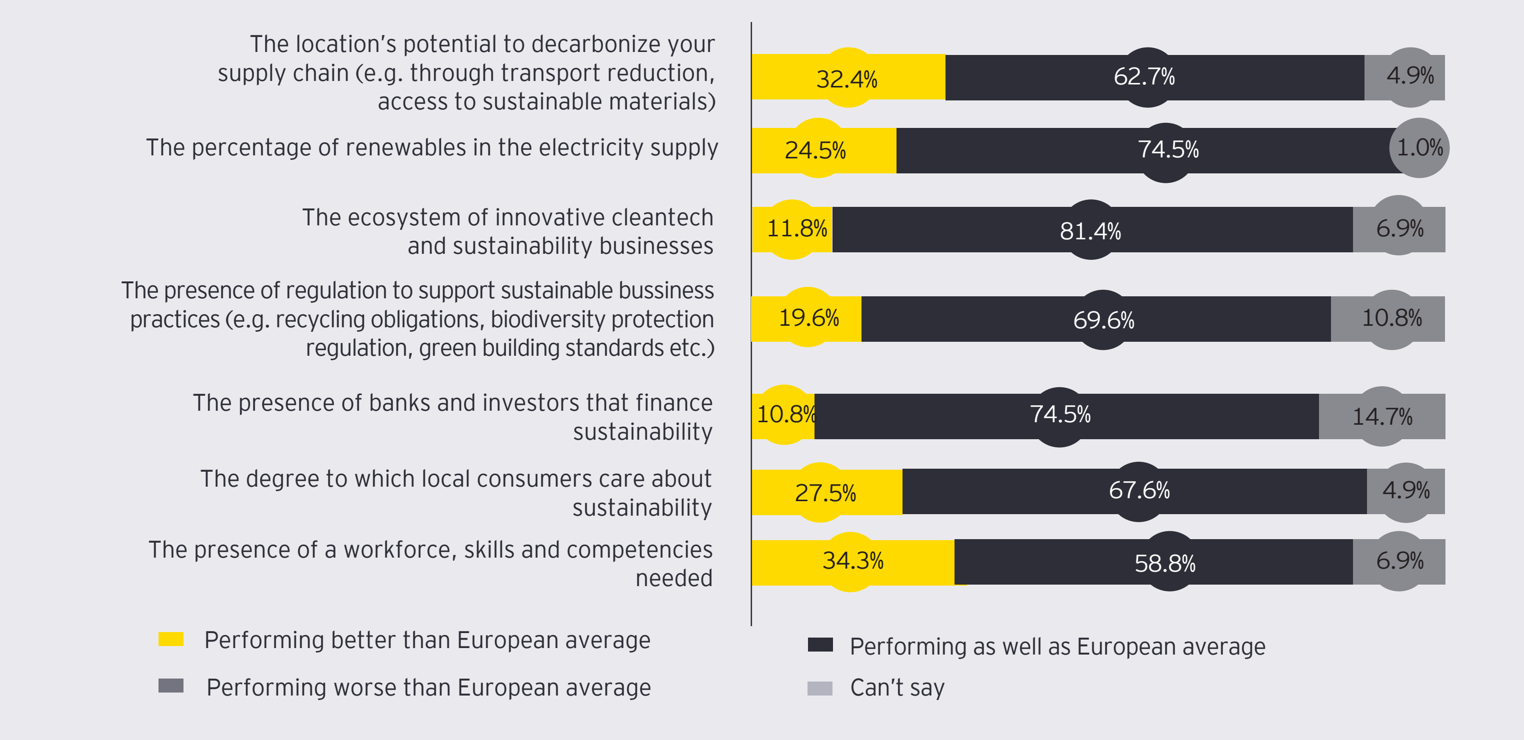


Figure 14: Romania's performance regarding the following sustainability-related factors



Technology

29% of respondents at European level believe that the most important factor in choosing a country to invest in is the level of technology adoption by consumers, citizens and public authorities. Last year, the technology element was ranked 5th in the preferences of companies.

This increase reflects the huge number of investments made by companies in technology in order to facilitate remote working and digital customer propositions. In addition, the transition to remote working caused FDIs to decline, in part because hybrid working allows businesses to expand their operations through existing offices.

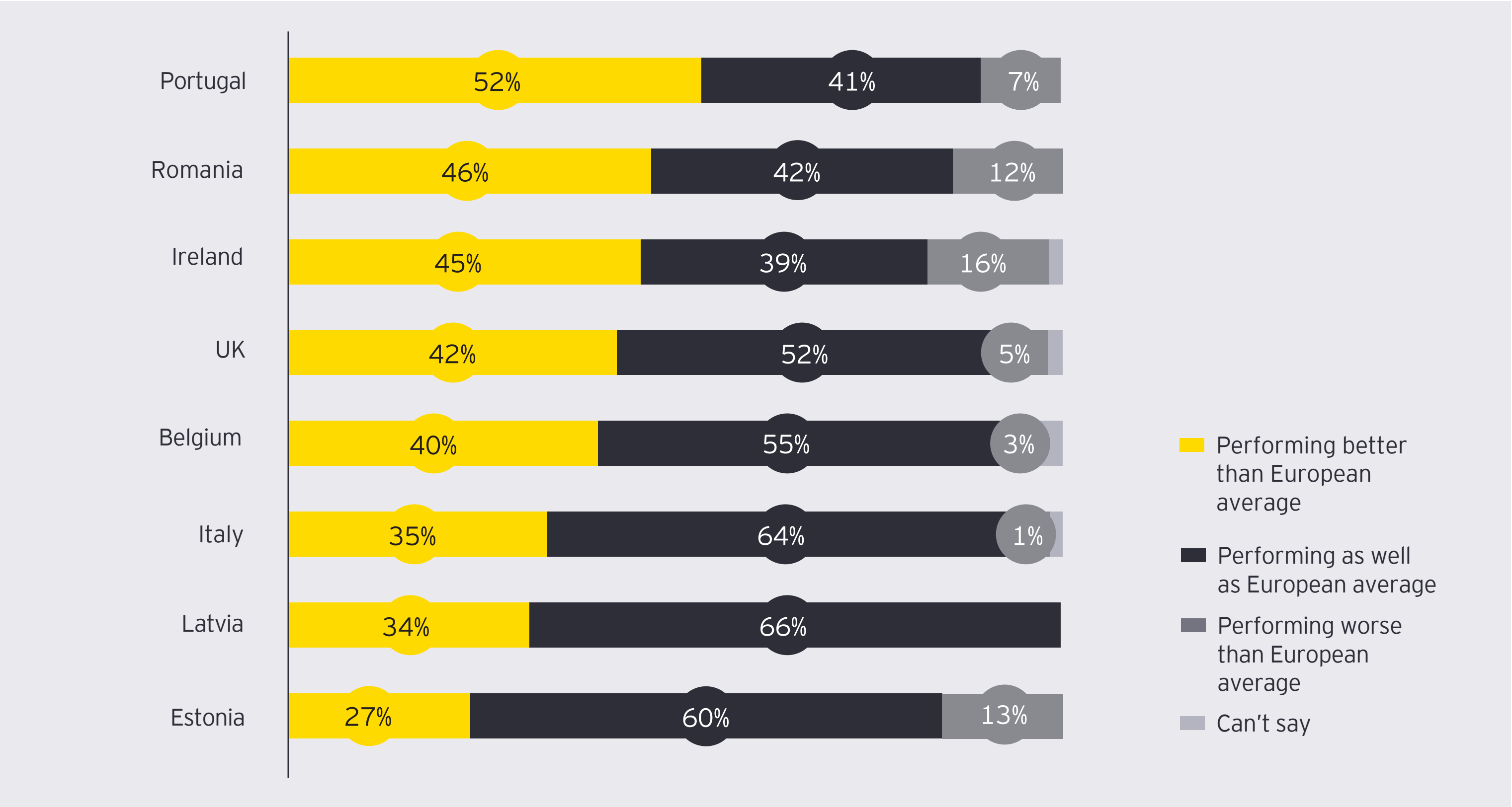
However, 56% of investors think Europe is more attractive than other regions when it comes to technology-related issues – only 12% say it is less attractive.

Businesses from all sectors put great emphasis on technology factors when they think about their investment decisions. It is anticipated that the technology factor will increasingly drive Europe's growth over the next years.

When asked which sector will drive Europe's growth in the coming years, the digital element is mentioned most frequently (45%), followed by clean tech, renewable energies and healthcare.

On a European level, Romania is on the 2nd place regarding the availability of the workforce with technology skills, after Portugal. 46% of the companies mentioned that Romania is performing better than the European average and 42% that is performing as well as the European average (see Figure 15).

Figure 15: Romania's performance at European level regarding the availability of workforce with technology skills



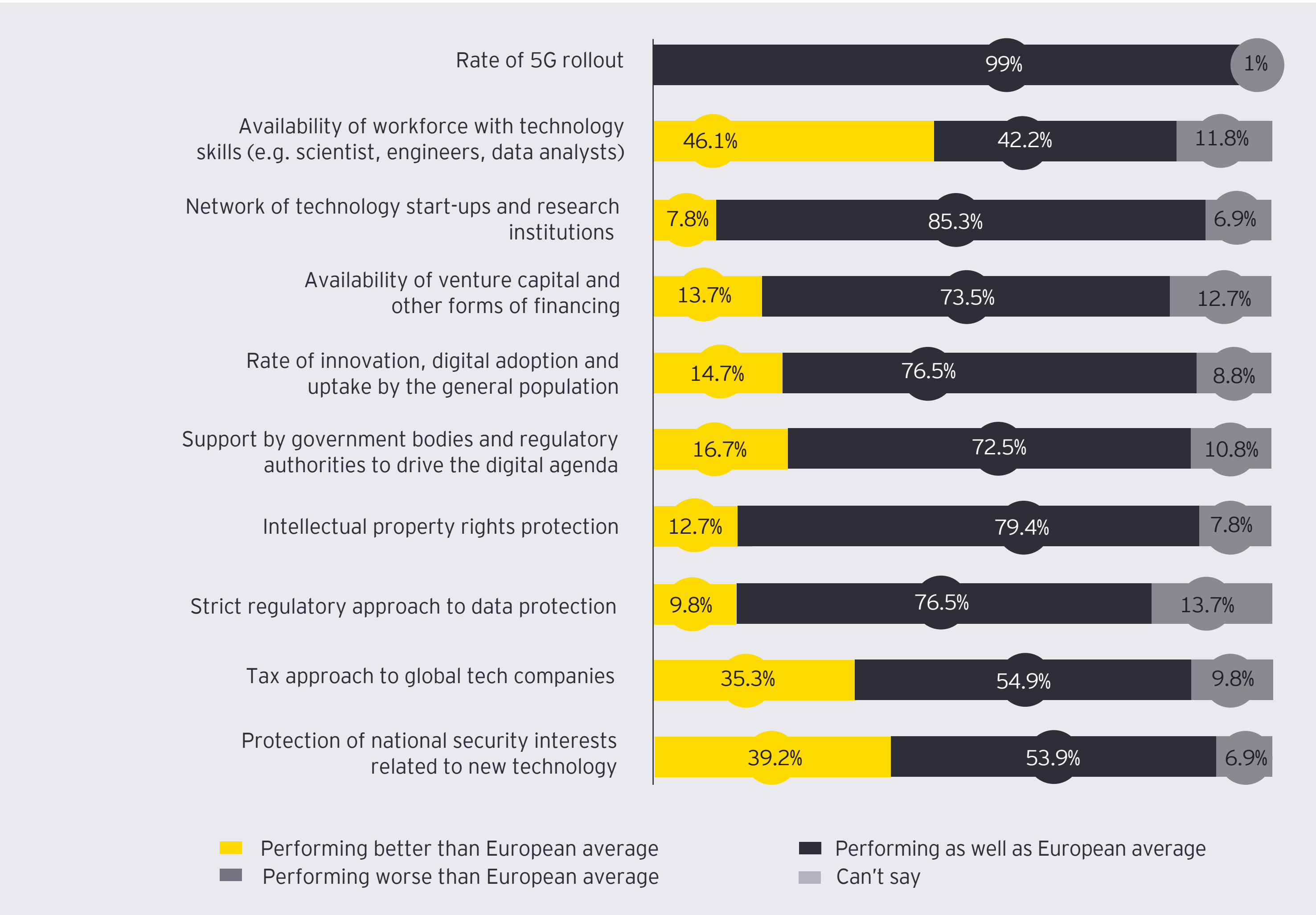
Romania is performing better than the European average in regards to the protection of national security interests related to new technologies – 39% . Moreover, according to the results, in terms of technology when it comes to tax approach to global tech companies – 35% better than European average – Romania is seen as a good destination for investing (see Figure 16).

Romania put itself on the technological map when we are referring to support by government bodies and regulatory authorities to drive the digital agenda. – around 17% think Romania performs better than the European average and 77% that it is performing as well as the European average. The 5G networks have become a reality in the recent years. Almost all the respondents (99%) stated that Romania is performing as well as the European average when it comes to the rate of 5G rollout (see Figure 16).

In terms of the rate of innovation, digital adoption and uptake by the general population, Romania is performing 76.5% as well as the European average.
Regarding the network of technology start-ups and research institutions, Romania is performing 85% as well as the European average (see Figure 16).

Romania seems to remain an important pillar in the technological sphere. The IT&C domain is the most sought-after field, and this conclusion is sustained by responses provided by the executives involved in the survey.

Figure 16: Romania's performance regarding the following technological-related factors



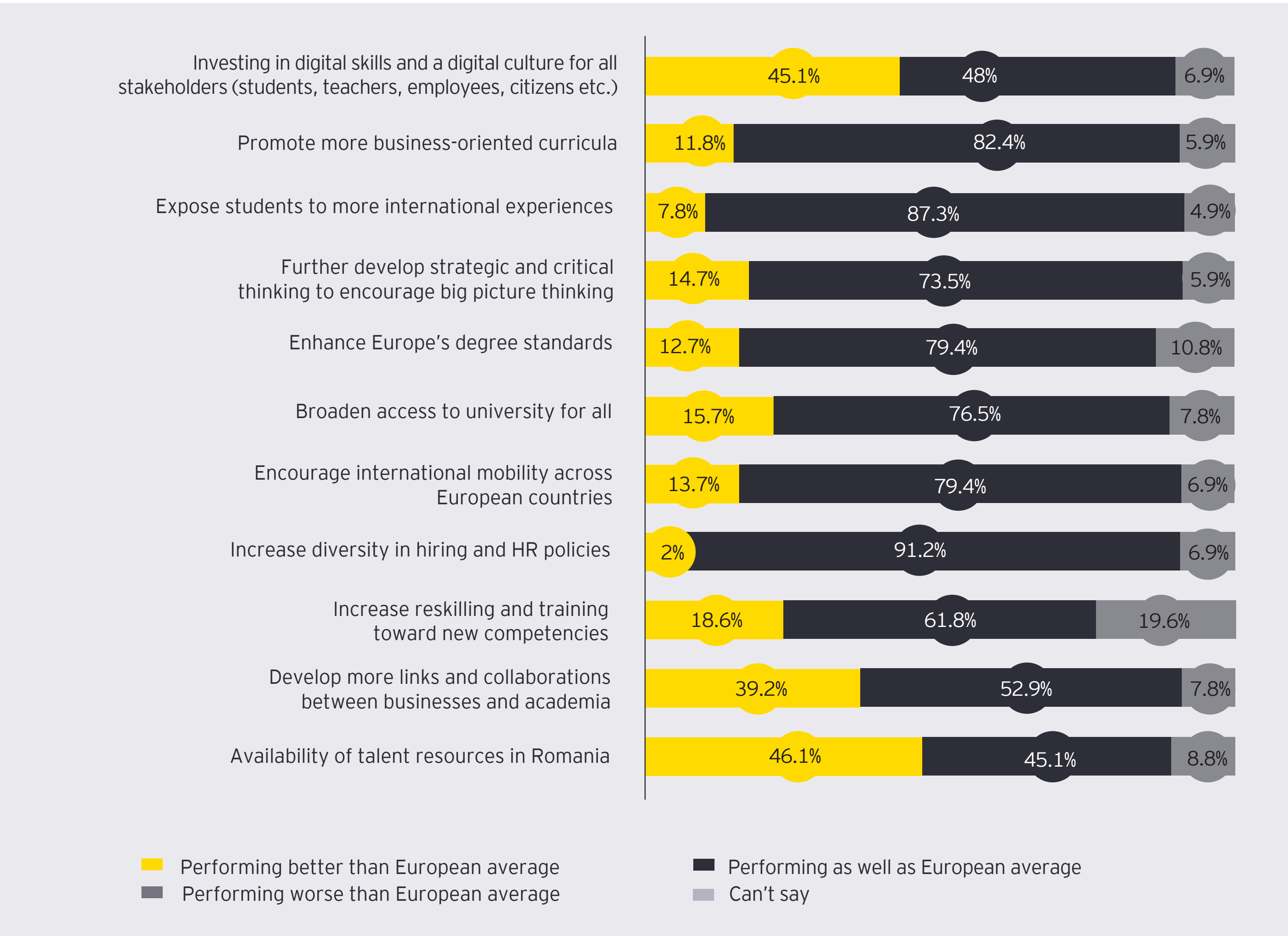
Talent – Romania's new asset

The data at the European level suggested the fact that the availability of skills in management or leadership (48%) and innovation & technology (39%) are the most sought human resources elements by foreign businesses when it comes to investing. The levels of productivity of the European workforce and its international culture, which are considered rather good, do not appear to be a deterrent. Thus, when it comes to HR-related factors, the most important three factors when choosing a country to invest in, at the European level, are the availability of management and / or leadership skills (16%), availability of innovation and / or technology skills (15%), ability to be trained and / or retrained (14%).

Investors ranked Ireland, Romania and Belgium higher than Europe's average in terms of investing in digital skills and culture. Being asked about Romania's performance, 45% believed Romania is better than the European average and 48% stated that Romania is performing as well as the European level, when it comes to digital (see Figure 17).

However, Romania is looking very solid when it comes to the availability of talent resources (46% better than the European average), developing more links between businesses and academia (39% better than the European average) and increasing reskilling and training toward new competencies (19% better than the European average).

Figure 17: Romania's performance regarding the following talent - related factors



3 **Beyond** TMT and digital transformation to reshape Romania

52%

believe Romania should focus its efforts on supporting SMEs

33%

believe Romania's attractiveness will positively evolve over the next three years

What will happen within the European sphere?

The European family was challenged during the last year and continues to face uncertain times. The Ukrainian war, the pandemic period and Brexit have reshaped European social life, its political sphere and business sector. However, the European Resilience and Recovery Fund had a massive impact, being a clear incentive to invest, especially for the larger companies. Nearly two-thirds said that RRF was a decisive factor in their decision to maintain or to expand their operations in Europe. Nevertheless, there is division between large and small companies.

But what should Europe be prepared for? Despite the war in Ukraine, investments are set to ramp up as 53% of companies want to invest in Europe over the next year. The percentage is even greater compared to the one seen last year, when only 40% wanted to invest in Europe. Moreover, looking further into the future, FDIs will likely play a massive role in the reconstruction efforts of Ukraine.

The main risk that Europe should have on the radar in order to maintain its attractivity in the view of investors is the rise of populist and protectionist feelings among politicians and citizens – 38% of investors rank this risk as their top concern. The second place is held by the evolution of the European legislative framework on digital services and markets 33,3%), on a par with high volatility in currencies, commodities and other capital markets.

The third major risk is marked by the evolution of the environmental legislation and policies (32%). Close to the sustainability-related risk is political instability in the E.U. (31%).

In the future, expectations are that we will see a reversal of globalization which has already started to take shape. More companies are looking to relocate to Europe and to regionalize their supply chains. Additionally to seeking alternatives for removing components from Russia, energy prices have risen such that transporting materials and components from Asia has started to erode the region's cost competitiveness. Moreover, local sourcing could become more attractive along with regulatory and consumer pressure to decarbonize supply chains.

In the long term, investors anticipate only a slight improvement of Europe's attractivity, which seems to relate to the Ukrainian war. Two-thirds of the investors (64%) believe Europe's attractiveness will either significantly or slightly improve during the next three years, compared to 2021 when only 62% had the same feeling. However, the percentage of the companies that remained optimistic and were surveyed after the start of war (after March 15th) is around 59%, compared to 89% before the war (before March 1st).

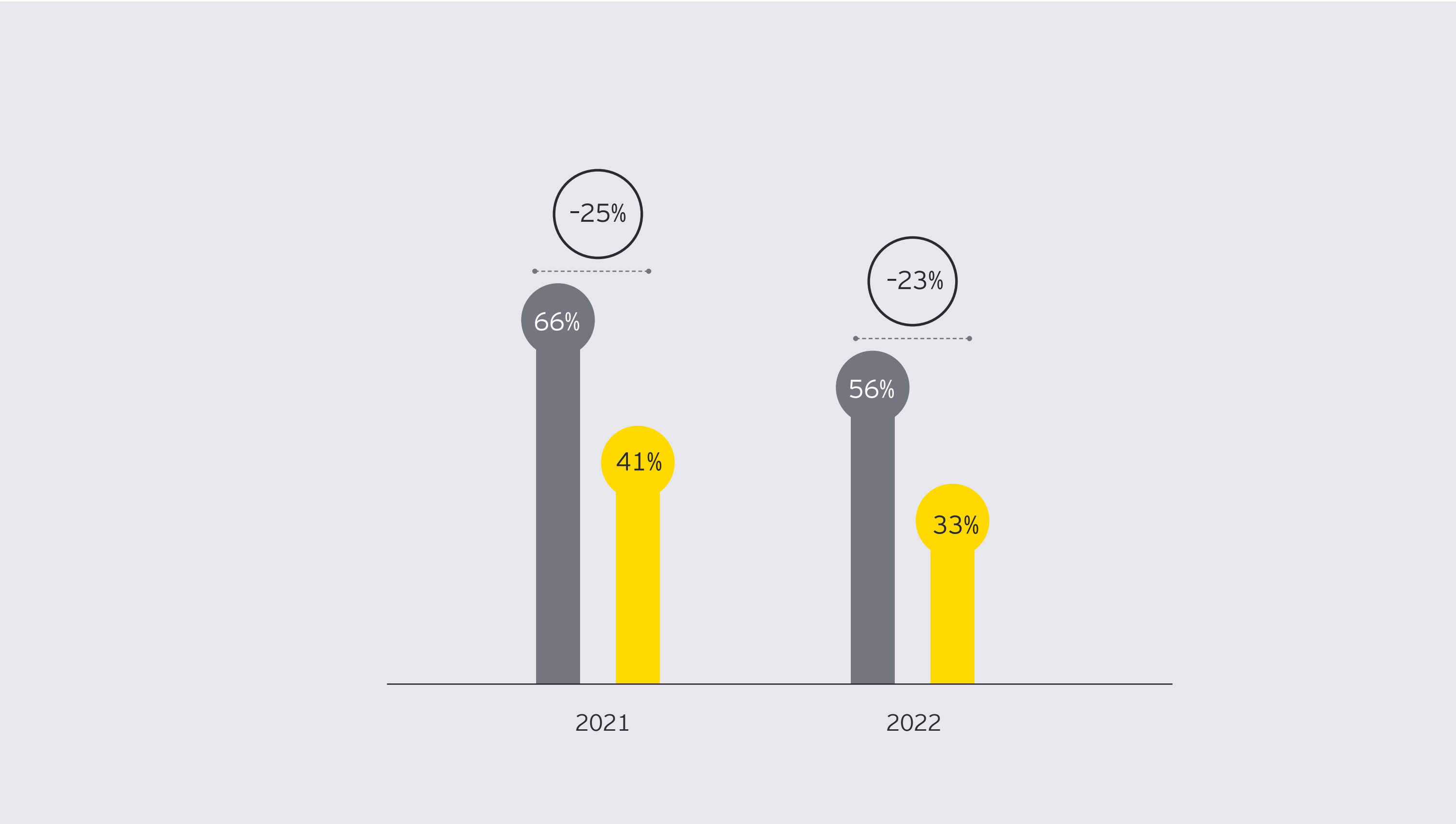
Romania's attractivity on a two-way road

After two years of pandemic and the situation in Ukraine, Romania remained a preferred location for investors in Eastern Europe. Ranking 16th (4%) out of the 32 most attractive countries to invest in in 2022, Romania overtook countries such as Hungary (2%), Czech Republic (2%), Bulgaria (0%), and it is close to Poland, whose percentage is set to 6%.

Despite the war in Ukraine, Romania remained a desirable location for investors. For 2022, 56% of the surveyed foreign businesses intend to establish or extend operations in Romania, putting the country on the 4th place with 56%, on the same spot with France, and after Portugal (62%), Lithuania (60%), UK (58%). Romania overpassed the European average, which is 53%.

Nevertheless, Romania should focus its attention on the long term, when the attractiveness is anticipated to decrease from 41% in 2021 to 34% in 2022 in terms of how the attractivity will look like over the next three years (see Figure 18). However, the current situation could create a paradox, as this country has many opportunities ahead. One of them is the relocation of multinational companies from Ukraine and Russia. Romania is in pole-position at European level when it comes to executives' plans to relocate their business support services and supply chain functions into Europe (re-shore and near-shore) to minimize future disruptions.

Figure 18: Romania's attractivity over the next year/ over the next three years 2021 vs. 2022



Supply chains and logistics for the second year in a row in the preferences of investors

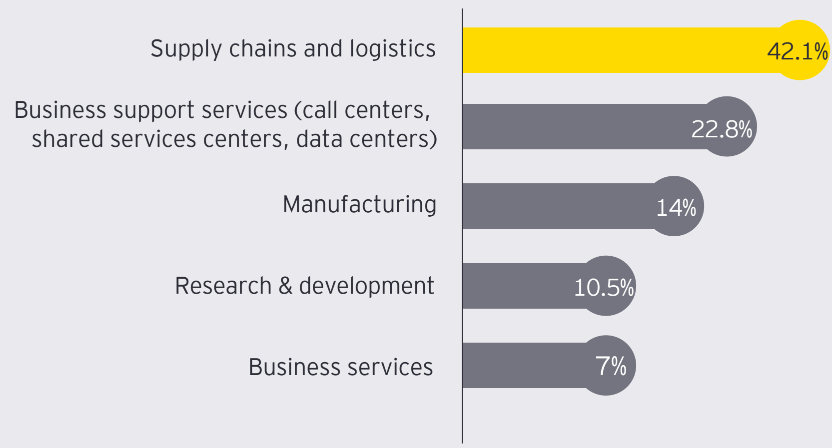
The pandemic has impacted the supply chain & logistics operations across Europe making the companies desire to relocate their activities close to their parent market and to their local customers. Compared to 2020 when 595 projects were recorded , in 2021 there were 655 projects registered in terms of logistics. In 2021, the number of industrial projects exceeded its pre-level crisis, reflecting a rebound effect and a global reorganization of the supply chains.

The "back to Europe" movement doubled in 2021: in 2020, only 20% of executives were thinking to repatriate operations to their home regions, compared to 53% in 2022. Furthermore, smaller and mid-sized companies are looking to deliver more cost-effective and faster results by transitioning to lean manufacturing. Meanwhile, larger companies are looking to reshore or nearshore closer to their operations and customers.

The prediction from the Romania Attractiveness 2021 survey imagined Romania as a growing logistics and manufacturing hub in Eastern Europe. This can attract important industrial players due to its cost-competitiveness and labor supply. This aspect has become a reality, boosted by the events in Ukraine. Currently, Romania is the most desired location for investing in 2022 in terms of supply chains and logistics.

Related to supply chains and logistics, the percentage is the same as last year's, with an unsignificant difference – 0,1%. The major difference against last year originated from the increased popularity of business support services, which overtake manufacturing. The highest jump was seen by the R&D projects, from 7th place in 2021 to 4th place in 2022 (see Figure 19).

Figure 19: What type of investment projects the investors want to establish or to expand in Romania over the next year



SMEs and environmental policies should be Romania's priorities

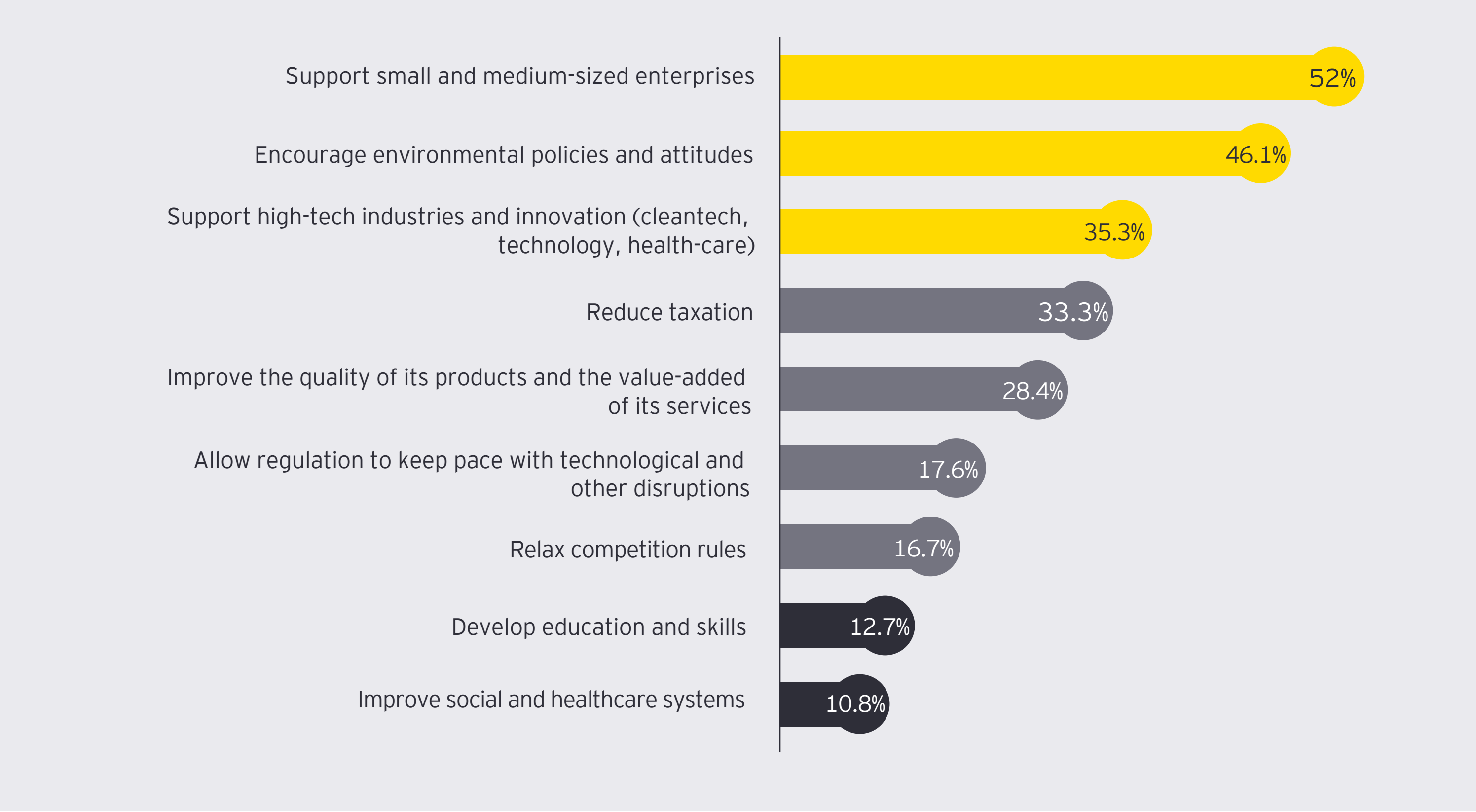
In 2021, investors considered the top 3 priorities that Romania should focus its efforts to be: support small and medium-sized enterprises, encourage environmental policies and attitudes, and improve product quality and added value.

For 2022, the top two priorities remained the same and underlined a strong message for the Romanian private and public sectors, that SMEs and environment should remain the most important subjects to focus on. However, for 2022 the 3rd position is occupied by high-tech industries and innovation. It gained eight positions compared to last year (see Fig.20).

The perception and outlook of SME executives are less positive than those of managers of multinational companies. Only 26% of small companies reported that their investment plans have increased due to the pandemic, compared to 64% of large companies.

44% of SMEs intend to invest in Europe in the next year or over the next three years and 58% believe Europe's attractiveness will increase over the same timeframe. In addition to that, 83% of large businesses are planning to invest in Europe. For SMEs it is important to have the government's support. For example, all large companies stated that the Recovery and Resilience Facility had been a deciding factor in their decision to keep or to expand their activities in Europe, compared to 54% of small companies.

Figure 20: In your view, where should Romania concentrate its efforts in order to maintain its competitive position in the global economy?

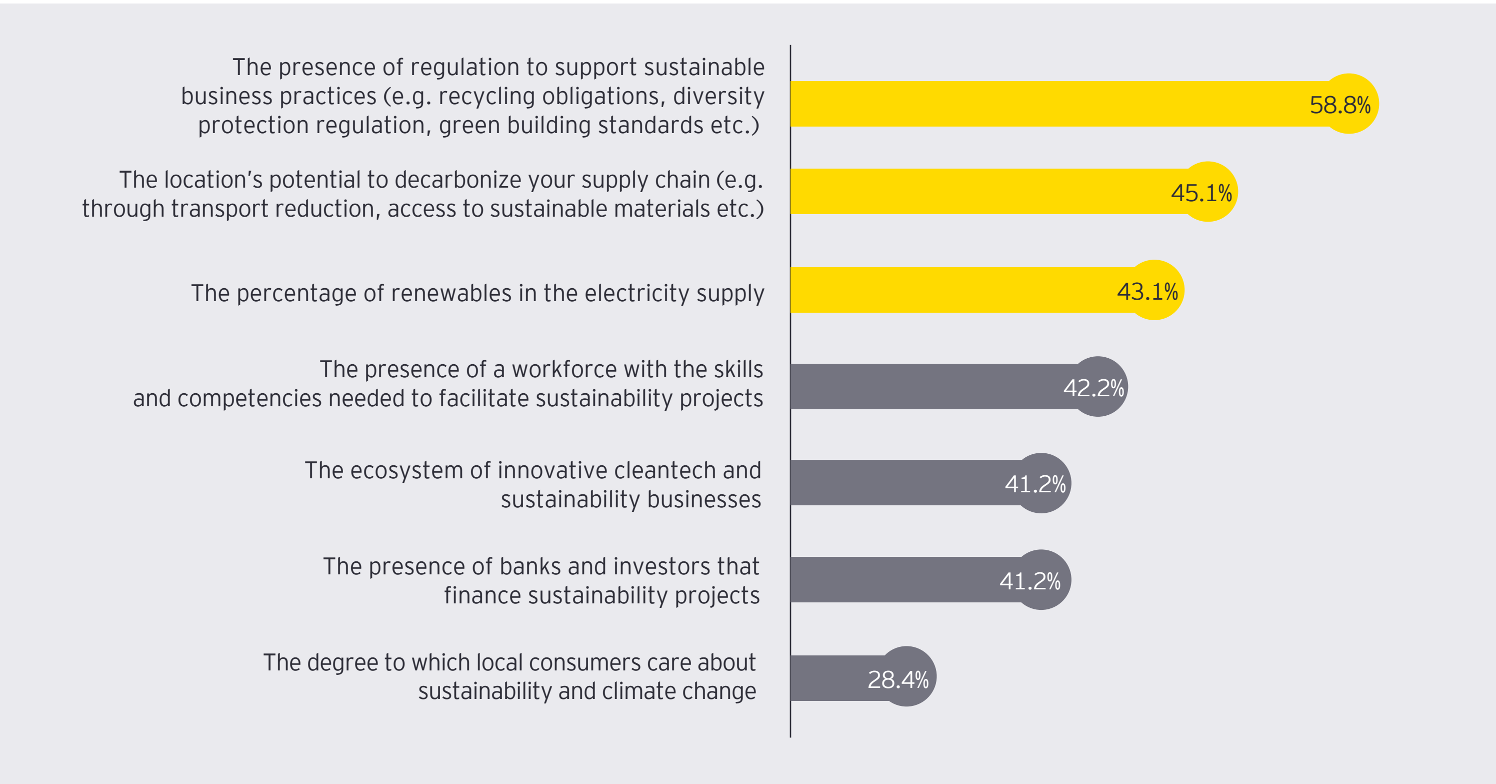


Sustainability - a primary concern for Romania

Encouraging environmental policies and attitudes was selected for the second year in a row as the 2nd main important aspect that Romania should focus on in the future in order to remain competitive within the global economies. However, being asked how Romania can remain attractive in terms of sustainability, around 59% of the executives said that there is a need for regulations to support sustainable business practices (e.g., recycling obligations, biodiversity protection regulations, green building standards). 45% of them believed that Romania should improve its location's potential to decarbonize the supply chains (e.g., through transport reduction, access to sustainable materials).

Almost the same percentage of managers (43%), stated that it is important to increase the numbers of renewables in the electricity supply and 42% of them mentioned that Romania should ensure a presence of workforce skills and competencies needed to facilitate sustainability projects (see Fig.21).

Figure 21: Which three are the most important for Romania to develop in order to increase its sustainability attractiveness?



Technology, media, telecoms and Consumer – the greatest growth potential in the coming years

The TMT industry is the number one sector that will drive Romania's growth – 55% of investors believe the TMT sector has the potential to dominate the Romanian business environment. The consumer sector is placed 2nd and is set to play an important role in Romania's future economic growth (50%), along with the automotive and mobility industry (36.3%).

These three sectors, TMT, Consumer and Automotive, are forecasted for the second year in a row as the ones with the highest potential of growth over the years in Romania. However, an important aspect resulted from the survey is that there are new sectors that increased significantly compared to the last year, and are still growing, namely, Manufacturing (19.6%), clean tech and renewables (14.7%). See Fig.22 and 23.

At European level, digital economy, clean techs and life sciences will drive Europe's future growth. There is not much change compared to 2021. When the executives were asked which sectors will drive Europe's growth in the coming years, the digital sector was frequently selected. Indeed, this year the percentage decreased from 51% in 2021 to 46% in 2022.

Alongside digital economy, clean tech and renewables, healthcare continues to draw the attention of businesses. Clean tech/renewables and healthcare are also based on advanced technology. This is a clear message that Europe has two main goals for the next years – to reach a green and digital economy.

Figure 22: Which three are the most important for Romania to develop in order to increase its sustainability attractiveness?

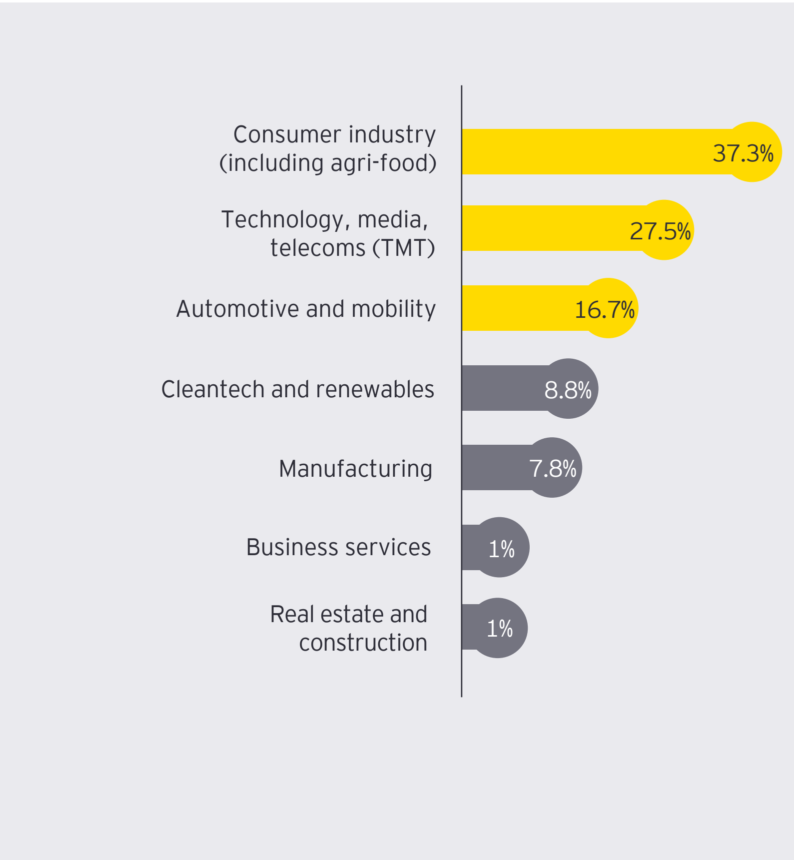
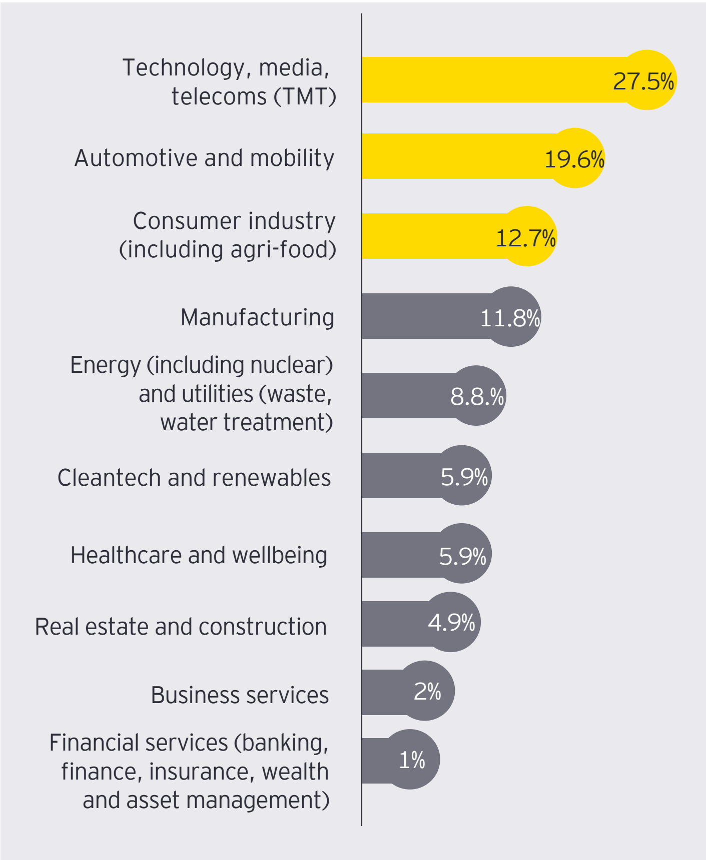


Figure 23: In your opinion, which second business sector will drive Romania's growth in the coming years?



External Viewpoint

Cedric Foray

Europe West Regional TMT Leader

The EY Attractiveness Survey underlines the importance of the digital economy to Romania, with more than half of investors citing it as the leading source of growth in years to come. Telecommunications infrastructure has a vital role to play in unlocking digital growth, with fiber and 5G mobile networks well-positioned to act as long-term enablers of resilient connectivity and digital inclusion.

For this to happen, policymakers should focus on encouraging more investment in the latest network technologies. Evaluating the right incentives to support innovation and stimulate R&D will be critical. As part of this, policymakers should ensure that they pursue a holistic approach. The formation of collaborative ecosystems can help all participants in the digital economy – including start-ups, telecoms operators and industry vertical customers – to take advantage of new 5G business-to-business (B2B) use cases, for example.

Specific support for tech entrepreneurs should also be a priority, particularly given that almost half of investors believe that the availability of digital skills in Romania outperforms the European average.

Meanwhile, the war in Ukraine presents ongoing challenges, with businesses experiencing rising energy and commodities costs, alongside other socio-economic uncertainties. However, efforts to transition to renewable energy sources and secure energy independence continue to grow. Within this context, it is important for policymakers to ensure that sustainability strategies meet long-term goals as well as short-term needs, recognizing that digital has an important role to play here too. While the COVID-19 pandemic signalled unprecedented disruption, it also acted as a catalyst for further technology adoption by consumers and businesses. Supporting the digital economy – and ensuring it attracts foreign investment – has never been more important.

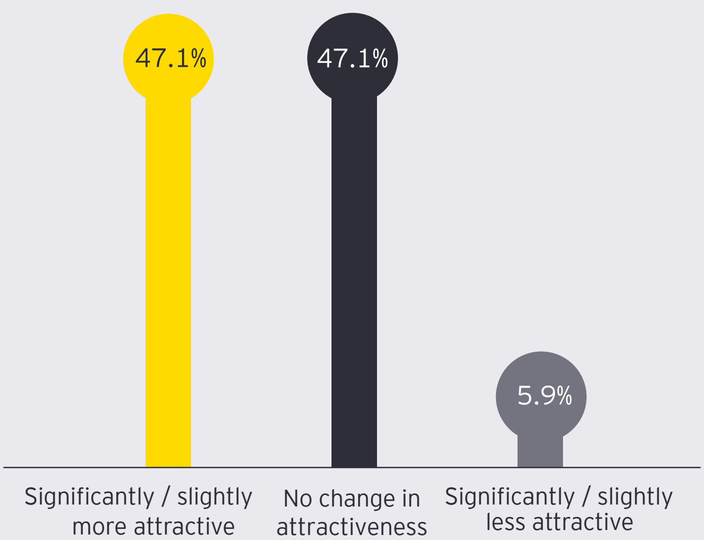
Have tax policies improved Romania's Attractiveness?

The survey uncovered that the degree of digitalization of tax authority systems is the most important tax-related factor that determines where businesses locate their operations (18%). This is considered even more important than the absolute rate of corporate tax. Companies ranked the scope and rate of environmental taxes (14%) as the second most important tax-related factor that attracts investments is. On the 3rd postion executives selected the availability of R&D tax credits (13%) mostly.

The percentage of those who believe that the current or planned tax policies made Romania more attractive for businesses is the same as the ones who think there is no change in attractivity level (47.1%, see Fig. 24).

Romania took significant steps towards digitization of fiscality. SAF-T (Standard Audit File for Tax) registered important evolutions in the implementation process. The large taxpayers started to file their first SAF-T documents in 2022. For medium taxpayers, plus banks and other financial institutions, the reporting obligation will start on January 1, 2023, while small taxpayers will be included in the SAF-T reporting system from January 1, 2025.

Figure 24: To what extent has Romania become more attractive as a location destination in Europe as a result of its current or planned tax policies?



Recommendations

1 Prioritize the digital transformation

Based on the current trends, digital transformation is becoming more and more relevant, especially now as the last two years and last two crises have shown us that business operations are moving at an accelerated pace to a virtual level. At European level, 56% of investors considered that Europe is more attractive than other regions in terms of technology-related factors.

In terms of workforce, Romania is very well regarded – 46% mentioned that it performs better than the European average, and this is not a surprise taking into consideration that Romania has over 200,000 IT specialists. One focus should be towards maintaining this workforce in Romania and encourage future talent to choose this area of expertise.

Romania should concentrate its attention on 5G technology roll-out implementation, as our local survey's results illustrate that 99% of respondents believe the current level is in line with the European average. Efforts in this direction would make Romania stand out.

In the last few years, some of the most important contributions in terms of products and innovative services were made by start-ups, which played decisive role in this direction. Our survey's results underlined that the respondents view start-ups as a vital key element that should be encouraged and supported for the technology sector to further evolve – 85% stated that Romania had an average performance when it came to the network of technology start-ups.

2 Provide a good spot for supply chains to relocate while ensuring reliable infrastructure

The last two years have shown us how fragile the supply chains are, with many businesses being forced to reshore their operation chains closer to the western markets – 53% of the executives are considering reshoring to Europe. The longer the supply chains the more prone to disruption they are, and distance from key markets now becomes an imperative issue. Romania as part of the European Union and in proximity of Western Europe, with an important and skilled workforce is a major target for such operations.

However, when asked about the main factors that determine their potential investment in Romania, the most selected category was the reliability and coverage of infrastructure – 77.5%. In this regard, Romania needs considerably more investments in infrastructure networks, whether in terms of transportation, fast internet networks or energy coverage at national or local level.

3 Support small- and medium-sized companies – again ranking first in terms of maintaining attractiveness

In terms of perception of where Romania should focus its efforts to maintain its competitiveness, 52% said it should support small and medium-sized businesses, an upward trend from last year at 36%.
The SMEs represent the core of any economy, as these type of organizations at European level summed up 99% of all businesses in the EU and are offering jobs to more than 100 million people. Moreover, almost 50% of the European GDP is generated by the small and medium-sized enterprises. On the other side, in Romania, these companies are responsible for more than 65% of the total number of jobs. Romania can follow the German model (Europe's no.1 economy) when it comes to SMEs – its good practices in government support and taxation.

4 Sustainability and environmental policies as a means toward energy independence

Securing Europe's competitive edge in sustainability ranks as the second key area in the views of the investors at European level and policy approach to climate change and sustainability has been selected the second most important factor then it comes to investing.

Romania authorities and private sector realized that COVID-19 crisis has raised the expectations of consumers, investors and regulators and their own staff to tackle climate change and other societal issues.

The respondents within our survey highlighted their strong message and put sustainability policies for the second year in a row on the second place when it comes to where Romania should concentrate its efforts to remain competitive at a global level – 46% decided that encouraging environmental policies and attitudes should be a priority.

Sustainability started to influence the location decisions and the direction of the investments. Romania has the chance to become a more sustainable country and through this to attract more FDIs in the close future more FDIs.

Methodology

Our evaluation of the reality of FDI in Romania is based on the EY European Investment Monitor (EIM), the EY proprietary database produced in collaboration with OCO. This database tracks the FDI projects that have resulted in the creation of new facilities and jobs. By excluding portfolio investments and mergers and acquisitions (M&A), it shows the reality of investment in manufacturing and services by foreign companies across the continent. Data on FDI is widely available.

An investment in a company is normally included in FDI data if the foreign investor acquires more than 10% of the company's equity and takes a role in its management. FDI includes equity capital, reinvested earnings and intracompany loans.

To confirm the accuracy of the data collected, the research teams aims to directly contact more than 70% of the companies undertaking these investments. The following categories of investment projects are excluded from the EY EIM:

- M&A and joint ventures (unless these result in new facilities or new jobs being created)
- License agreements
- Retail and leisure facilities, hotels and real estate*
- Utilities (including telecommunications networks, airports, ports and other fixed infrastructure)*
- Extraction activities (ores, minerals and fuels)*
- Portfolio investments (pensions, insurance and financial funds)
- Factory and other production replacement investments (e.g., replacing old machinery without creating new employment)
- Nonprofit organizations (charitable foundations, trade associations and government bodies)

*Investment projects by companies in these categories are included in certain instances:
e.g., details of a specific new hotel investment or retail outlet would not be recorded, but if the hotel or retail company were to establish a headquarters facility or a distribution center, this project would qualify for inclusion in the database.

However, our figures also include investments in physical assets, such as plant and equipment. And this data provides valuable insights into:

- How FDI projects are undertaken
- What activities are invested in
- Where projects are located
- Who is carrying out these projects

The EY EIM database focuses on investment announcements, the number of new jobs created and, where identifiable, the associated capital investment. Projects are identified through the daily monitoring of more than 10,000 news sources.

The perceived attractiveness of Romania

We define the attractiveness of a location as a combination of image, investors' confidence and the perception of a countries or area's ability to provide the most competitive benefits for FDI.

For the Romania Attractiveness Survey, the field research was conducted by Euromoney from 11 February to 09 March through online interviews with 101 relevant international business leaders, 50% located in Romania, while 50% located outside the country.

About the EY Attractiveness program

EY Attractiveness Surveys are widely recognized by clients, media, governments and major public stakeholders as a key source of insight into FDI. Examining the attractiveness of a particular region or country as an investment destination, the surveys are designed to help businesses make investment decisions and governments remove barriers to growth. A two-step methodology analyzes both the reality and perception of FDI in the country or region.

Findings are based on the views of representative panels of international and local opinion leaders and decision-makers.

The program has a 20-year legacy and has produced in-depth studies for Europe, a large number of European countries, Africa, the Mediterranean region, India, Japan, South America, Turkey and Kazakhstan.

For more information, please visit:
ey.com/attractiveness #EYAttract

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