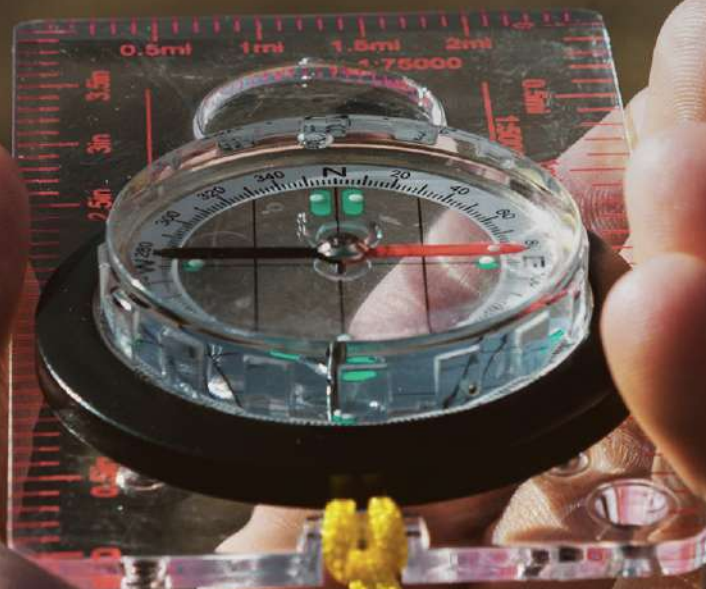


# How can we seize opportunity in times of uncertainty?

EY Attractiveness Survey  
Romania

June 2021

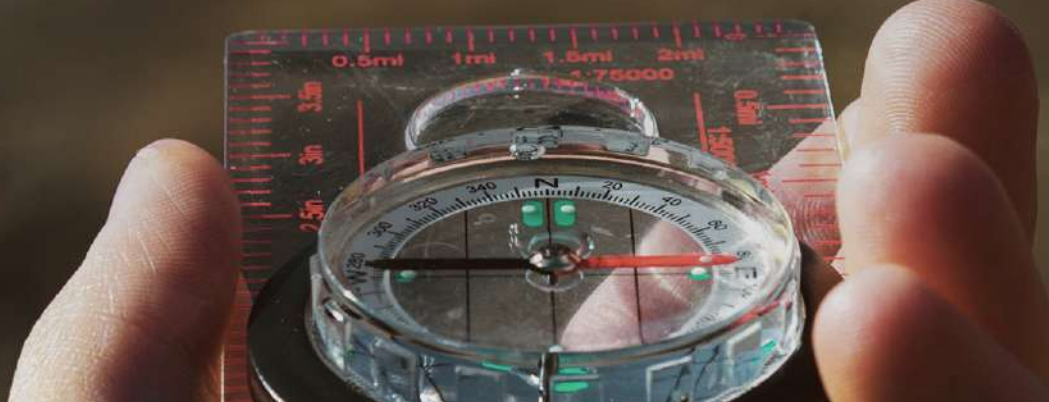


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We would like to extend our gratitude to ...

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

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The growth of a country is highly dependent of foreign investments. It represents at the same time a necessary boost of external capital, a job creation tool and a technological and knowledge exchange mechanism. In 2020, investors were faced with a strong drawback. As the global pandemic emerged, governments were unprepared for what was coming: health systems collapsing, trade tensions, unemployment rising and overall economic and social disruption.

The business sector proved resilient and innovative, accelerating digital transformation and adapting their operations to the new reality. Nevertheless, due to the uncertainty surrounding the evolution of the crisis, the drop in FDI was inevitable: Romania suffered a 27% decrease in FDI projects and a 61% drop in FDI inflow.

While dealing with a health crisis, our country searched for stability, both from a political, social and economic perspective. Even though the drop in FDI was slightly bigger than the European average (13% decrease in FDI projects number), Romania managed to mitigate the effects of the outbreak. The numbers speak for themselves: our country witnessed the highest GDP growth in the European Union in the first quarter of 2021.

But the challenge is yet to be surpassed. The pandemic has modified global economic trends, challenging the status-quo and changing the factors investors take into consideration when assessing investment destinations.

In order to make the growth of our country a sustainable and healthy one, Romania must establish itself as a stable, attractive investment destination.

Luckily, our country has access to the necessary means that can transform it into a powerful FDI actor. The Recovery and Resilience Facility focuses on pressing issues for investors, such as climate reform and the digital transition, providing record level funds for EU member states. Although national or EU recovery packages are not always a strong argument for businesses, the size and scope of this plan will improve Romania's attractiveness in the long run. Infrastructure. Safety and security measures for future crises. Technology adoption. These are the top factors investors are considering in their prospective investments in Romania. Structural changes are needed to improve our country's attractiveness, achievable through reform and a strong collaboration between experts, authorities and the business sector.

Based on the views of high-level executives and investors from 20 countries, we have come up with a set of recommendations that we hope will shed more light on the current opportunities and challenges Romania faces in its path towards sustainable economic growth. Foreign investment will be central in building a better working world. Therefore, we hope these insights will inspire policymakers and businesses and help them in their common journey of recovery and transformation.

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## **Bogdan Ion**

Country Managing Partner  
Romania & Moldova  
EY Central, Eastern and  
Southeastern Europe & Central Asia  
Chief Operating Officer



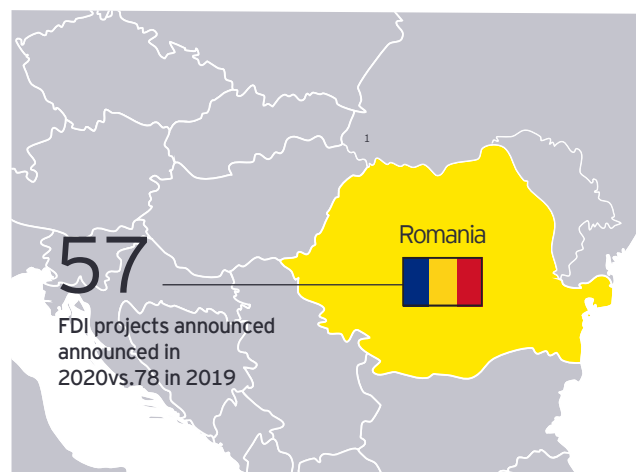


# Executive summary

1

## NOW: Romania's foreign direct investment in times of the COVID-19 pandemic

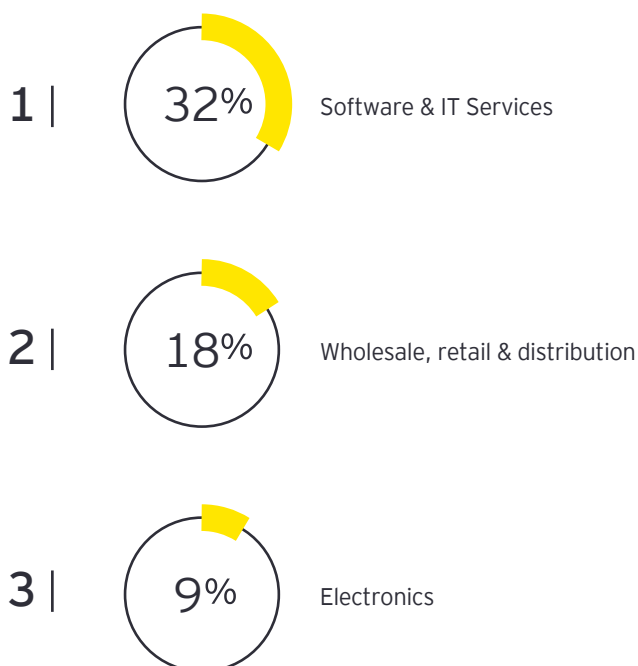
In 2020, due to economic uncertainty, Romania suffered a 27% decrease in FDI projects. At European level, FDI fell 13%.



## 2 billion EUR

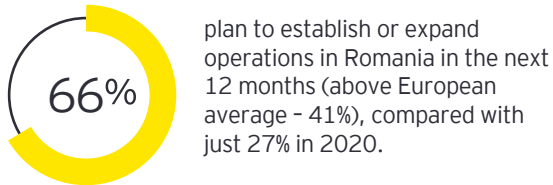
in FDI flow (61% decrease)

In line with European trends, the software and IT services sector attracted the largest number of FDI projects. Retail and electronics also held considerable market share.

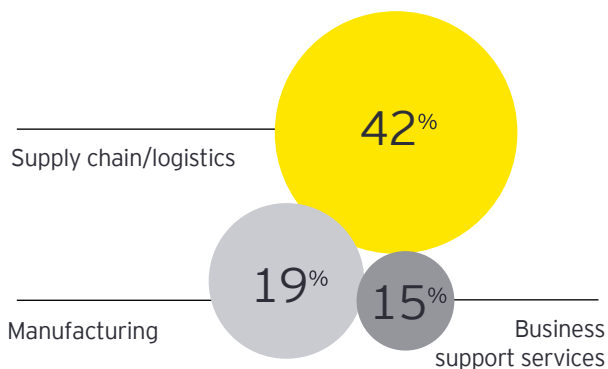


## NEXT: 2021, a fresh start for FDI?

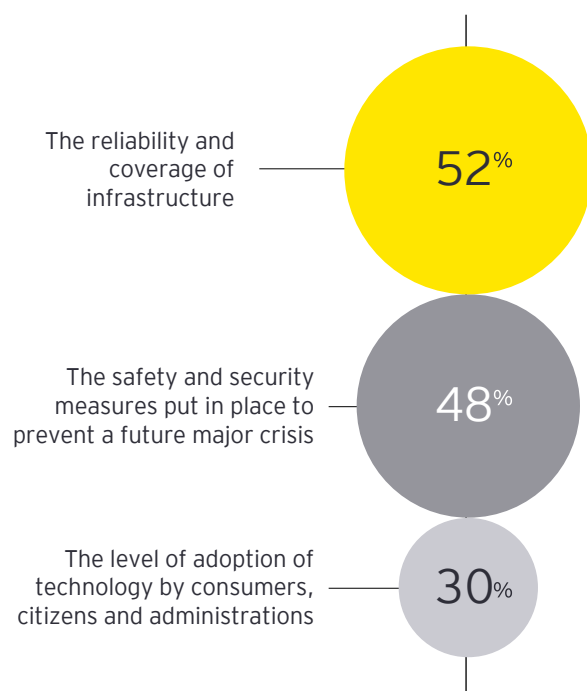
Investment plans show an increased interest in Romania:



Supply chain and manufacturing are among the most popular investment projects for business leaders, for a second year in a row

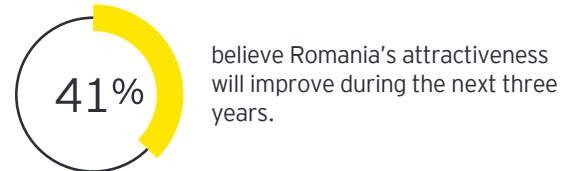


Infrastructure, crisis management strategy, as well as the overall level of technology adoption are cited as the main factors considered by investors when thinking about investments in Romania

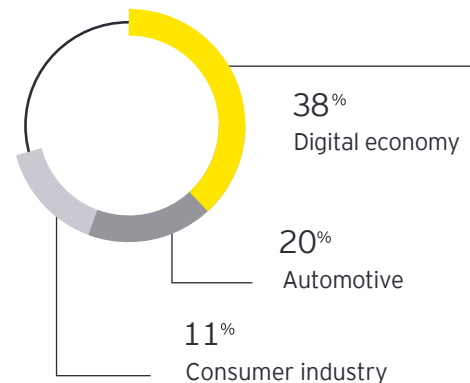


## BEYOND: How can Romania prepare for the next chapter?

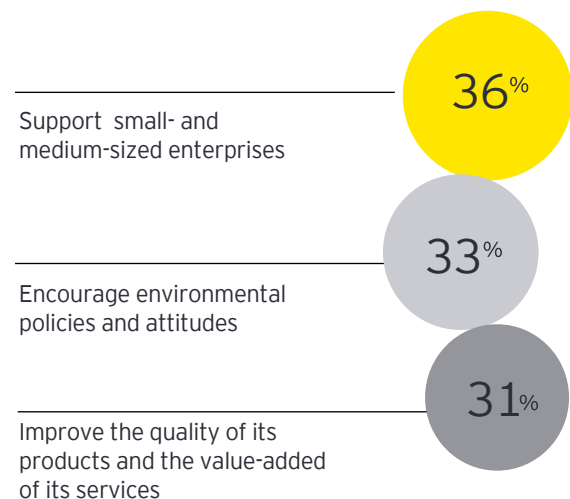
The level of optimism regarding Romania's FDI attractiveness is kept despite the pandemic:



Investors see Romania's growth potential lying in sectors such as:



Investors believe Romania should focus on:



To rebuild its attractiveness, Romania should:

- 1 | Prioritize digital transformation
- 2 | Develop the logistics and manufacturing sectors and invest in reliable infrastructure
- 3 | Support small- and medium-sized enterprises and focus on stimulus and attractive fiscal policies
- 4 | A higher focus on sustainability and environmental policies
- 5 | Support the local labor force





# Now

## Romania's foreign Direct Investment in times of the COVID-19 pandemic

---

57

FDI projects

announced in Romania  
in 2020

---

Almost

2000

jobs created

1

## Impact of the pandemic on FDI in Europe: lighter than expected?

The inevitable drop in Foreign Direct Investment projects forecasted last year across European markets due to the pandemic is confirmed by our latest analysis of FDI projects announced in 2020. 5,413 projects were announced, compared to 6,412 projects in 2019. Foreign investment fell in eight of Europe's ten largest FDI destinations.

As per last year's survey, many projects have been delayed and some have been cancelled. Nevertheless, the 13% overall decrease in FDI projects in Europe shows that the effects of the pandemic have not been as damaging to investing plans and that economic recovery. FDI restoration within the European markets should be steady and fast after the pandemic ends. Some countries proved more resilient than others. In a year dominated by COVID-19, the countries that best weathered the pandemic and minimized economic losses also suffered the smallest declines in foreign investment.

Nevertheless, investors continue to see Europe as an attractive investment destination due to the high level of political and regulatory stability regime, the highly skilled workforce, and a comparatively robust transport, energy and telecoms infrastructure.

France attracted the most FDI projects, followed by the UK and Germany, although this three-horse race also meant a

decrease of FDI projects ranging from 18% (France) to 4% (Germany) compared to 2019. France has retained the same market share (18%), while the UK and Germany witnessed slight increases in market share. Due to the uncertainty caused by Brexit, the UK has lost FDI projects in manufacturing, but continues to dominate in service-based projects.









































Despite the pandemic, there were several countries that showed stability and succeeded in attracting FDI, with significant growth in terms of FDI project numbers: Switzerland witnessed a 25% increase, followed by Sweden (19% increase), Turkey (+13%) and Austria (+10%).

Hungary, Russia and Serbia were among the countries with the most dramatic declines in terms of FDI projects. Geopolitical dynamics, together with the evolution of the pandemic, could have played a role in the number of FDI projects announced in 2020, an overwhelming, complex and challenging year for all European countries.

In terms of sectors, manufacturing investment fell by 22% due to supply chain disruption and uncertain demand, while e-commerce logistics and R&D investment both increase. Overall, life sciences was the only sector that experienced significant growth.



## Impact of the pandemic on FDI in Europe: lighter than expected?

Country	Number of projects announced in 2020	Number of projects announced in 2019	Market share 2020	Market share (number of jobs 2019)
France	978 	18.8%	18% 	18%
United Kingdom	975 	17.4%	18% 	-12%
Germany	930 	14.7%	17% 	-4%
Spain	354 	7.6%	7% 	-27%
Turkey	199 	4.2%	4% 	13%
Netherlands	193 	4%	4% 	-24%
Poland	190 	3.1%	4% 	-5%
Belgium	180 	3%	3% 	-33%
Ireland	164 	3%	3% 	-14%
Portugal	153 	2.8%	3% 	-3%
Italy	106 	2.5%	2% 	-2%
Russia	98 	1.7%	2% 	-49%
Switzerland	91 	1.6%	2% 	25%
Finland	78 	1.6%	1% 	4%
Austria	76 	1.2%	1% 	10%
Sweden	75 	1.2%	1% 	19%
Serbia	70 	1.1%	1% 	-32%
Romania	57 	1.1%	1% 	-27%
Lithuania	53 	1%	1% 	-12%
Hungary	48 	1%	1% 	-54%



## How has the COVID-19 pandemic impacted Romania's FDI?

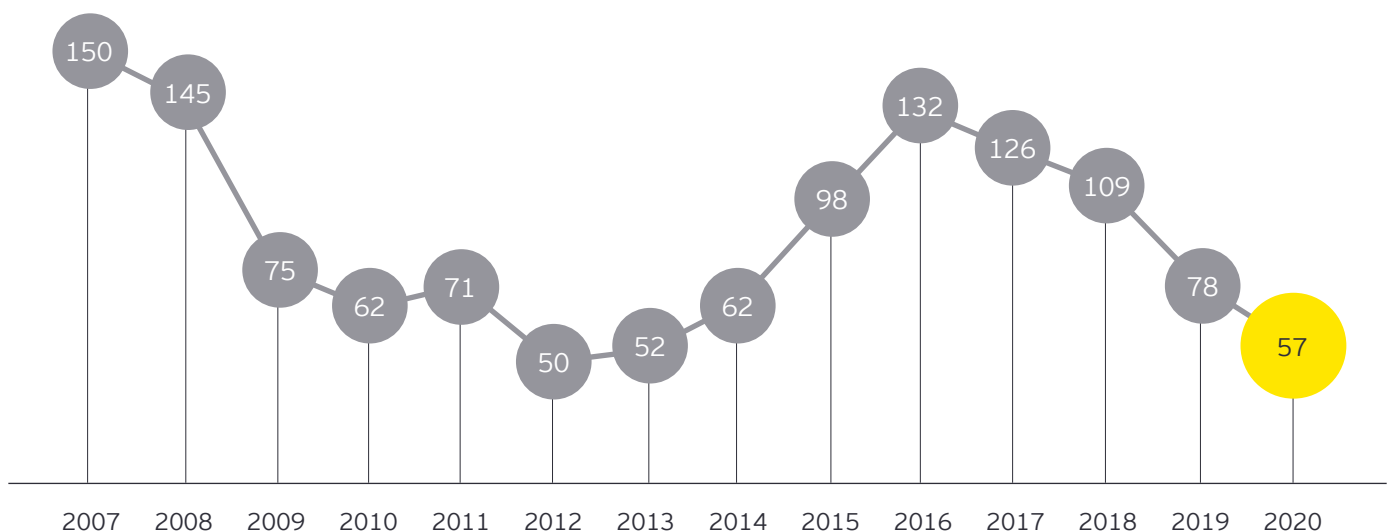
The COVID-19 pandemic has impacted Foreign Direct Investment levels across the globe. In 2020, investors were looking at the way the pandemic was handled in destination countries, apart from social and political stability, labor supply and cost-competitiveness of the country.

In Romania, the health crisis has been managed relatively well, if we take into consideration the overall number of cases. Additionally, the crisis management put in place by authorities, which also included financial aid for various economic sectors, played an important role in minimizing the effects of a possible recession.

Nevertheless, the pandemic generated a 27% decrease (see Figure 1) in Romania in FDI projects number, compared to 2019, placing our country above the European average (13% decrease in FDI projects in Europe). Although the decrease is considerable, there were other countries that suffered higher decrease such as Russia (-49%), Hungary (-54%), Belgium (-33%).

Romania's rank (18th place out of 51 European countries) can also be explained through regional dynamics. Western Europe remains the most attractive region for FDI, having a smaller decrease in investment projects announces (-13%) compared to Central and Eastern Europe (-28%).

**Figure 1:** FDI evolution in Romania (number of projects)



Source: EY European Investment Monitor (EIM) 2021.

# How has the COVID-19 pandemic impacted Romania's FDI?

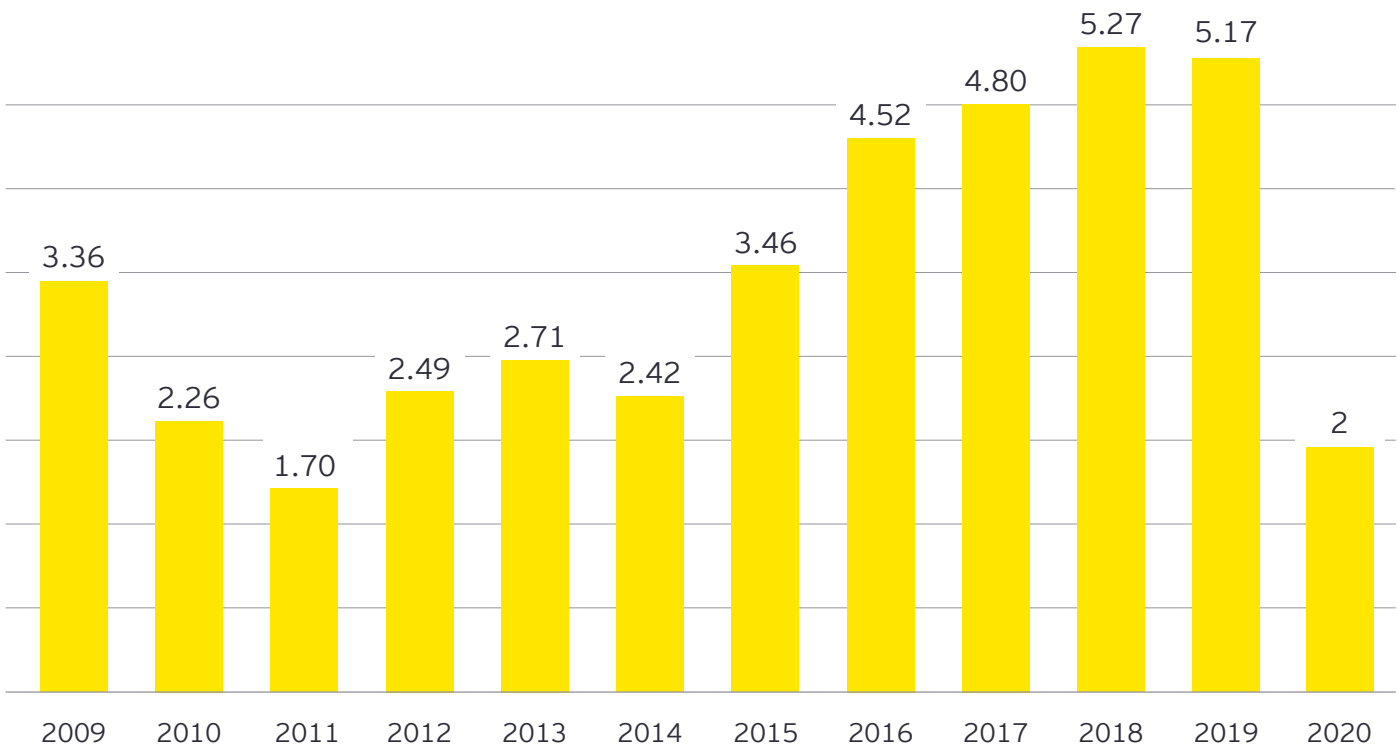
According to data provided by the National Bank of Romania (NBR), FDI flow was valued at 2 billion euro in 2020, the lowest level since 2012, suffering a 61% decrease compared to 2019.

The pandemic has generated disruptions and uncertainty on capital markets, making investors to postpone or cancel investments around the globe. Therefore, the record low for Romania's FDI flow is part of a global phenomenon.

Nevertheless, following the introduction of vaccines, a new optimism emerged among investors, reflected in numbers as well: Romania registered 1.5 billion EUR in FDI flow at the end of March, compared to a negative flow of 399 million EUR in the same period of 2020.

Equity investment (including estimated net reinvestment of earnings) and intercompany lending recorded net values of 1.371 billion euro and 164 million euro, respectively.

Figure 2: FDI flows between 2010 and 2019 (billion USD)

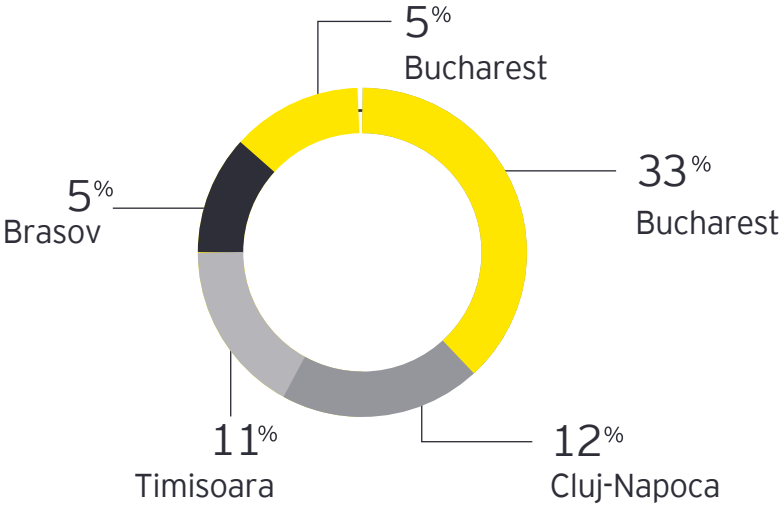


# Large cities, still the most popular FDI destination

According to the National Bank of Romania, in the last decade, most FDI projects were implemented in the Bucharest-Ilfov region (59.3% of the total in 2015).

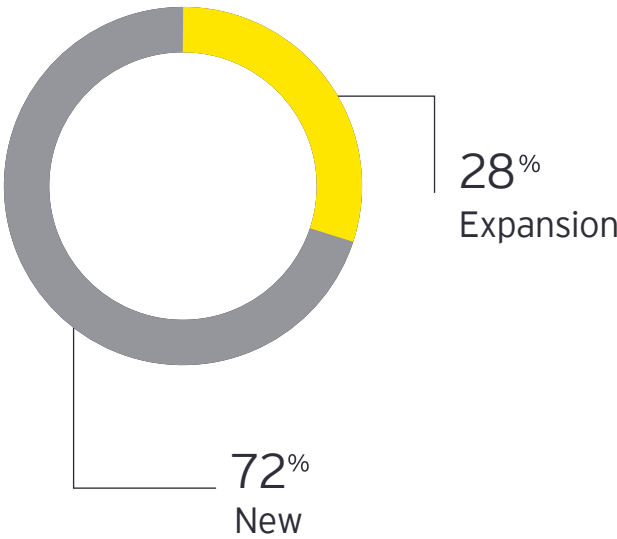
Similarly with other European markets, in Romania, foreign investment was highly concentrated in major cities in 2020. One third of the total FDI projects announced for 2021 have as destination Bucharest.

Together with Cluj-Napoca, Timisoara, Brasov, Iasi, these 5 cities represent the location of almost 70% of all FDI projects of 2021, clearly demonstrating the preference of foreign investors for large, developed destinations.



New FDI projects announced last year represented double the number of expansion projects from already established investors in Romania. The new FDI projects were mostly announced in the digital sector and wholesale, retail & distribution.

Similarly, the largest number of expansion-type projects are to be developed in the Software & IT Services sector. Overall, almost one third of the project are developed in the digital sector, while around 18% of projects are within the wholesale, retail & distribution areas.





## Logistics, a growing opportunity












In terms of types of investment projects, logistics dominated the FDI arena, with almost one third of the projects announced for 2021 focusing on this type of operations. Sales & marketing projects follow on the second place, and surprisingly, on the third place, research and development projects. The latter type of activity shows a new interest coming from foreign investors in this area, considering Romania has not attracted R&D many projects in previous years.

1. Logistics	17
2. Sales & Marketing	10
3. Research & Development	9
4. Manufacturing	7
5. Business Services	6










France holds the first place in Romania's top investing countries in terms of number of projects. Germany and United Kingdom occupy the second and third place with the same number of FDI projects announced in Romania, surpassing Netherlands and United States, on the 1st place in terms of projects planned for 2021.

Italy is the leading country in terms of job creation, with around 900 new jobs announced for this year. On the second spot, China's investors are set to bring around 500 jobs in our country, followed by France, with 250. Switzerland and United States also land important spots in our top on job creation, with a 5% market share each.

### Top 10 investors countries by projects

	2021
 France	16%
 Germany	12%
 United Kingdom	12%
 Netherlands	11%
 United States	11%
 Switzerland	7%
 Canada	4%
 Italy	4%
 Luxembourg	4%
 Japan	4%
 Spain	4%

### Top 10 investors countries by job creation

	2021
 Italy	45%
 China	25%
 France	13%
 United States	5%
 Canada	5%
 Germany	3%
 United Kingdom	2%
 Switzerland	1%
 Estonia	1%
 Austria	0.4%

Source: EY European Investment Monitor (EIM), 2020.

Source: EY European Investment Monitor (EIM), 2020.

## Software & IT Services, leader in FDI project numbers

In line with the overall European market and the previous year trends, the software & IT sector in Romania attracted the largest numbers of FDI projects, with a 32% market share.

Last year's first runner-up, business services sector, suffered a substantial decrease (-10% in market share).

However, it managed to generate a considerable number of new jobs on the market.

Wholesale, retail & distribution sector ranked second, with a 18% market share. The sector generating the largest number of jobs, occupying the third place, is set to be the electronics industry.

2020 Top sectors	Number of FDI projects	Market share	Job creation
Software & IT Services	18	32%	322
Wholesale, retail & distribution	10	18%	100
Electronics	5	9%	1000
Business Services & Professional Services	4	7%	408
Chemicals, Plastics & Rubber	3	5%	100
Transportation Manufacturers & Suppliers	3	5%	N/A
Agri-food	3	5%	N/A
Textile, clothing & leather	2	4%	N/A
Consumer Products	2	4%	N/A
Machinery & equipment	2	4%	65
Telecommunications	1	2%	N/A
Finance	1	2%	N/A
Pharmaceuticals	1	2%	N/A
Furniture, Wood, Ceramics & Glass	1	2%	N/A
Leisure, Culture & Tourism	1	2%	N/A
<b>Grand Total</b>	<b>57</b>	<b>100%</b>	<b>1995</b>

## Country economic forecast

The contribution of FDI in the economic growth and development of Romania during the last years is undeniable, through its contribution to technological development, increase in exports and know-how imports.

COVID-19 has inevitably left its mark on the country's economic performance, as seen in the evolution & forecast for key economic indicators: the GDP contracted by 3.9% in 2020, private consumption by 5.2%, while unemployment rose from 3.9% to almost 5%.

Nevertheless, positive trends can be observed in the forecast for 2021.

Thus, GDP is set to increase by 5.1% in 2021, while private consumption could rise by 4.9% and exports could increase by 9.8%. Furthermore, Romania is the champion of the EU in terms of economic growth for the first quarter of 2021, GDP being higher by 2.8% than pre-pandemic levels (Q1 2020).

The current enthusiasm represents a great opportunity for Romania and should be accompanied by reform and support for the business sector, stimulus and policy support investors in order to fulfill their long-term needs, so the economic growth can become sustainable and consistent.

		Annual percentage change (unless otherwise stated)					
		2017	2018	2019	2020	2021	2022
GDP Growth		7.1	4.4	4.1	-3.9	5.1	4.9
Private consumption		10.8	7.7	4.1	-5.2	6.1	5.9
Government consumption		4.4	3.3	6.9	2	3.5	2.4
Gross fixed capital formation		3.5	-1.1	13	6.8	5.8	7.4
Of which: equipment		-9.9	11.6	9.5	-4.2	6.7	5.9
Exports (goods and services)		7.8	5.3	4.6	-9.7	9.8	8.7
Imports (goods and services)		11.5	8.6	6.8	-5.1	11.4	10.1
Gross national income (GNI) (GDP deflator)		7.2	4	4.7	-3.7	5.3	5.2
Contribution to GDP growth:	Domestic demand	8.2	5.1	6.5	-1.3	5.8	5.9
	Inventories	0.8	1	-1.2	-0.9	0.4	0
	Net exports	-1.7	-1.6	-1.2	-1.6	-1.1	-1
Employment		2.4	0.1	0	-1.8	0.2	0.7
Unemployment (Eurostat definition)		4.9	4.2	3.9	5	5.2	4.8
Real wages per head		14.8	12.9	10.8	7.3	5.8	6.1
Real unit labor costs		4.7	1.9	-0.4	5.6	-2.2	0.8
GDP deflator		4.7	6.2	6.8	3.8	3.2	2.7
Harmonized index of consumer goods		1.1	4.1	3.9	2.3	2.9	2.7
Trade balance		-6.8	-7.5	-8	-8.8	-9.3	-9.8
Current account balance		-3.2	-4.4	-4.7	-5	-4.9	-4.6
Net borrowing (+) or lending (-)*		-1.8	-3.2	-3.3	-3.4	-3.2	-3
Debt*		35.1	34.7	35.3	47.3	49.7	52.7

Source: European Economic Forecast. Spring 2021, European Commission.

\*as a percentage of GDP.



## Country economic forecast

2020 was a challenging year for all economies, a race against a virus and the consequences of lockdowns, supply chain disruption and overall social and political anxiety.

2020 was the year Joe Biden was elected President of the United States, with promises of significant investments in green energy and rejoining the Paris Climate Agreement. Climate disruptions continued, emphasizing the need for a fundamental change of perspective for the global economy.

The United Kingdom officially withdrew from the European Union in 2020, with a trade deal obtained through tough negotiations. Trade tensions between the US and China continued to impact both economies. The COVID-19 pandemic accelerated trends such as regionalisation and protectionism, especially in strategically important sectors. In this context of global tension, especially between the two biggest economies of the world, European countries and the EU are working to define their place and role.

FDI screening, export controls and new competition laws are some of the ways governments intervene and impact foreign investment. By international standards, the EU has adopted a far less protectionist approach.

In considering its next move, the EU must strike a careful balance between promoting foreign trade and investment and managing the risks that this brings.

For Romania, last year was marked by the fight against the pandemic, considering the vulnerability of the health sector and the search for political stability. The two elections (legislative and local elections) brought some continuity from the political perspective, but FDI suffered nevertheless.

The drop in FDI was significant, but Romania's capabilities in the IT sector, logistics projects and retail development kept our country's FDI afloat.

In 2021, investors are back. Romania should get prepared for new and changing priorities from business leaders and a reconfigured business environment. As recovery is put in place, the EU's Recovery and Resilience Facility (RRF) will play an important role in attracting investors, as it touches upon critical areas such as technological transition and the green economy. The size and scope of the packages included in this facility can contribute to Romania becoming an attractive destination for foreign investment in the long-term, as long as the required reforms are successfully implemented.

2021 can be a turning point for the local economy. A long-term, strategic view to concretely stimulate FDI could lead to unprecedented economic growth. Dialogue, reform and collaboration should be embraced, as significant efforts in mitigating the effects of the pandemic towards attracting FDI are being made.



# Next

## 2021, a fresh start for foreign investments in Romania

75%

say that the pandemic has not influenced their investment plans in 2021

52%

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

2



## Investment intentions significantly increased compared to 2020

In 2020, no European country escaped recession. At EU level, the decrease in GDP growth was -6.1 %, according to Eurostat. Romania suffered a smaller decrease in GDP than the EU average. (-3.9%)

The unpredictable pace of the vaccination process, a new rise in number of cases in some European countries, including Romania, have also left a sense of uncertainty in terms of the future of FDI in the region.

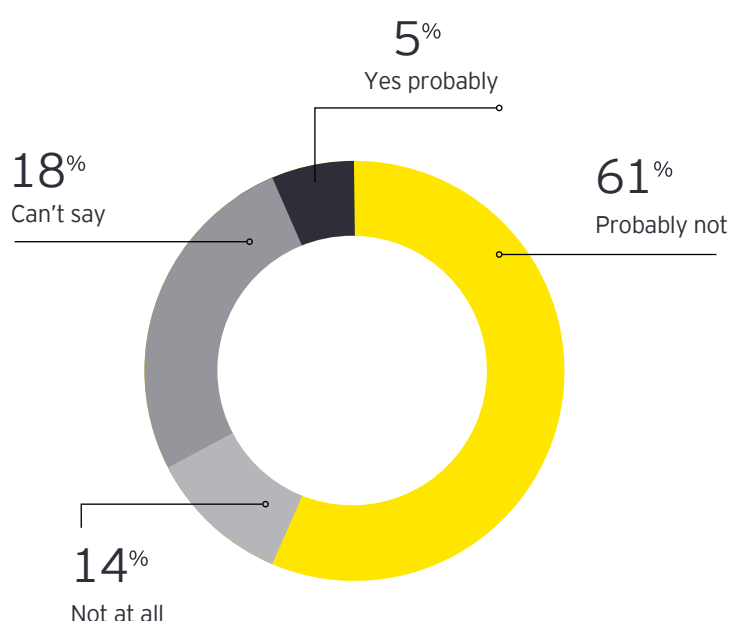
Nevertheless, following a complicated year for the global business environment, 2021 brings optimism in the European investment arena. With the emergence of COVID-19 vaccination, lockdowns and restrictive measures have been slowly relaxing in multiple countries across Europe. The measures adopted locally in every country and at EU level, rescue packages & policies have managed to reduce the effects of the pandemic in the most vulnerable.

Although the pandemic represents the main factor for the decrease in FDI projects in Europe in 2020, the latest evolutions show that the influence of this global disruption on FDI has decreased.

75% of investors state that their 2021 investment plans are no longer influenced by the COVID-19 pandemic, while only 5% say their investments were disrupted due to the outbreak. By comparison, in 2020, 43% of investors said they had been influenced by the local response towards the pandemic.

The focus on this crisis is steadily decreasing and shifting towards the structural changes that this crisis generated, as well as allowing other factors to thrive in investment decision-making.

**Figure 3:** Have your 2021 investments plans changed because of the COVID-19 outbreak?





# Logistics & manufacturing projects, champions for a second year in a row

The pandemic has made business leaders reconsider their companies supply chains, since lockdowns have generated halts across operations. Among the most disrupted were manufacturing and supply chain & logistics companies. Interestingly, they are among the top choices for investors already planning to establish or expand their operations in Romania before the emergence of the pandemic.

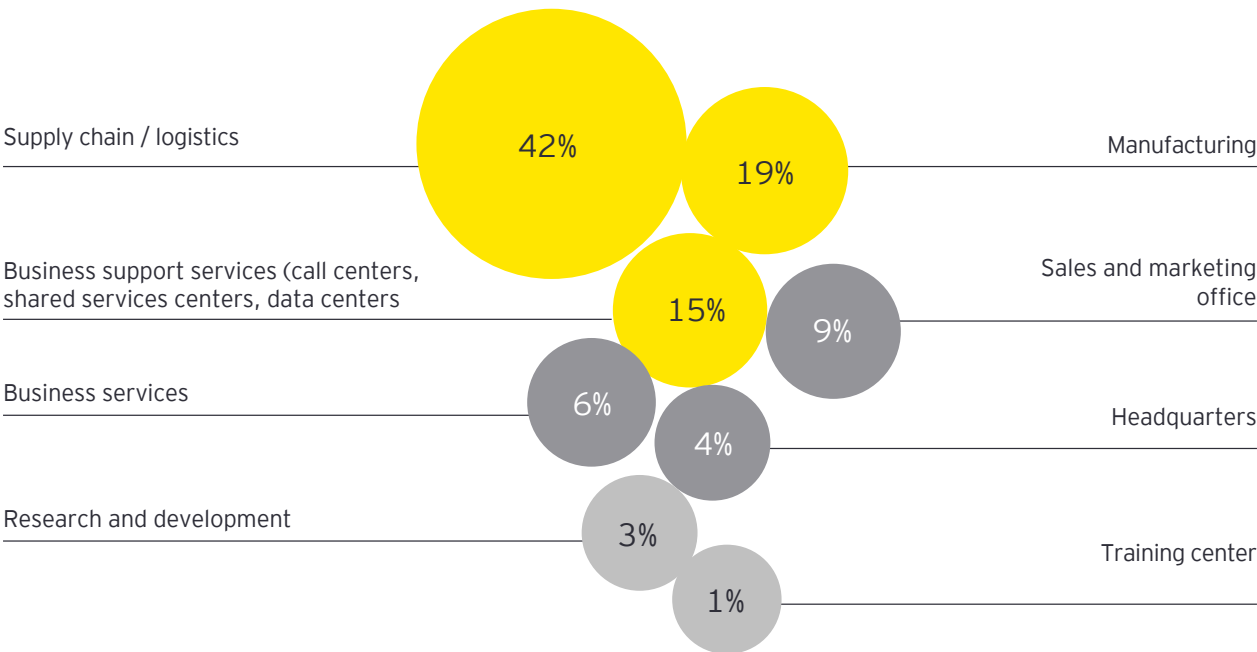
Even though foreign business leaders believe Romania should invest more in infrastructure projects, they see

potential in Romania as an European advanced manufacturing and mobility hub.

The spike in logistics investment by online retailers that were mobilizing to cater for surging demand more than compensated for a significant decline in logistics investment by transport businesses.

Manufacturing remains a popular choice among businesses wanting to invest in Romania, although suffering a decrease from 34% in 2020 to 19% in 2021.

**Figure 4:** What type of investment project does your company want to establish or expand in Romania?



## Infrastructure. Safety & Security. Technology adoption.

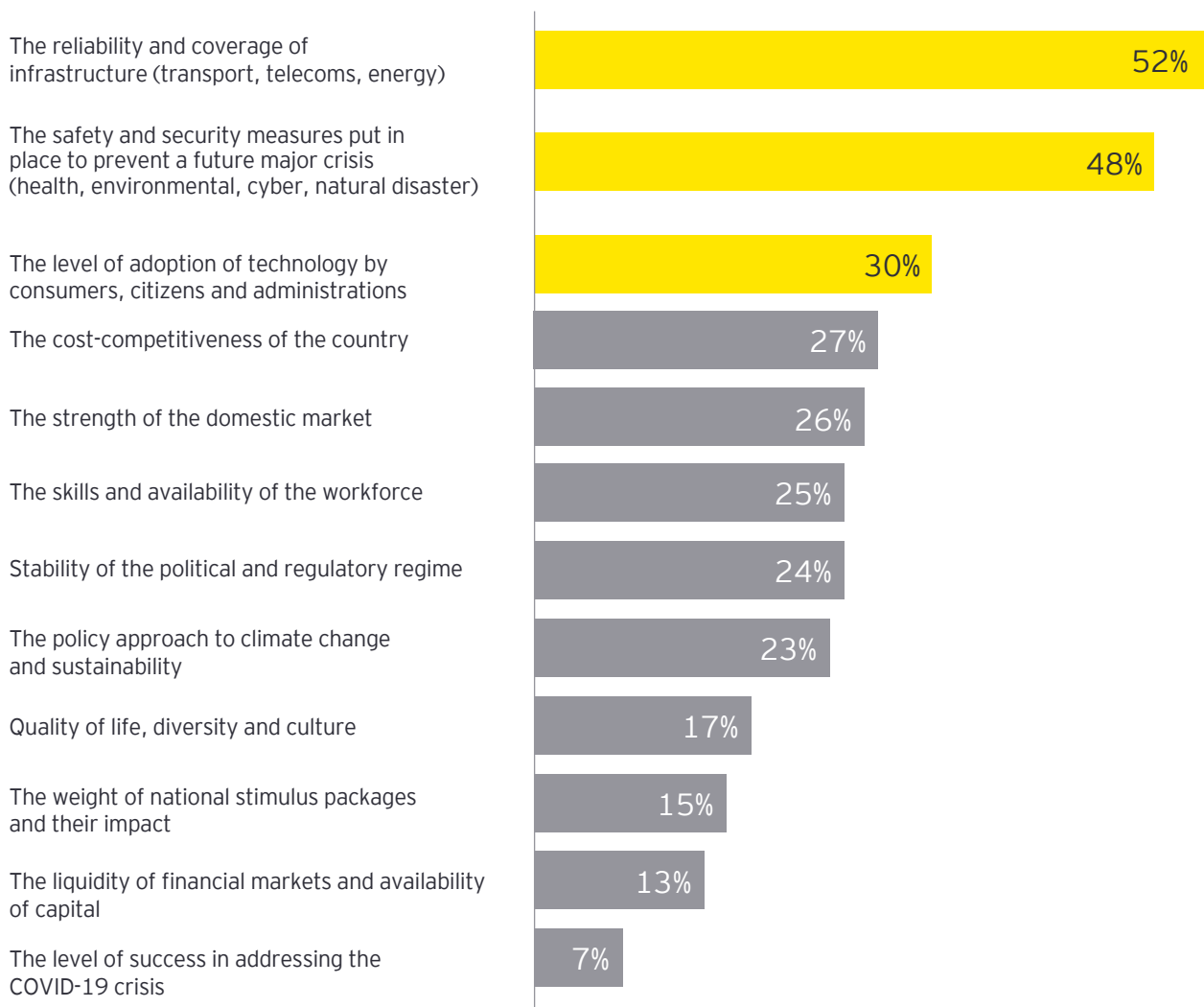
At European level, the stability of the political and regulatory regime was the number one factor in investment decision-making. For Romania, this factor, ranked the 1st in last year, is now considered relevant by 24% of investors (compared to 66% in 2020).

The attention has shifted towards more pressing topics: the reliability and coverage of infrastructure, safety and security measures and the level of technology adoption are

cited as the top factors considered by foreign companies when thinking about investing in Romania.

Crisis management measures are still in the top 3 criteria for making investments in Romania, but has witnessed decrease (48% vs. 63% in 2020). Infrastructure maintained its level of importance, while technology adoption emerged in the top 3 factors due to its defining role in business resilience and keeping everything connected during the pandemic.

**Figure 5:** What factors may influence your decision to select Romania as a future location or expansion for your company?



## How long will Bucharest remain the center of attention?

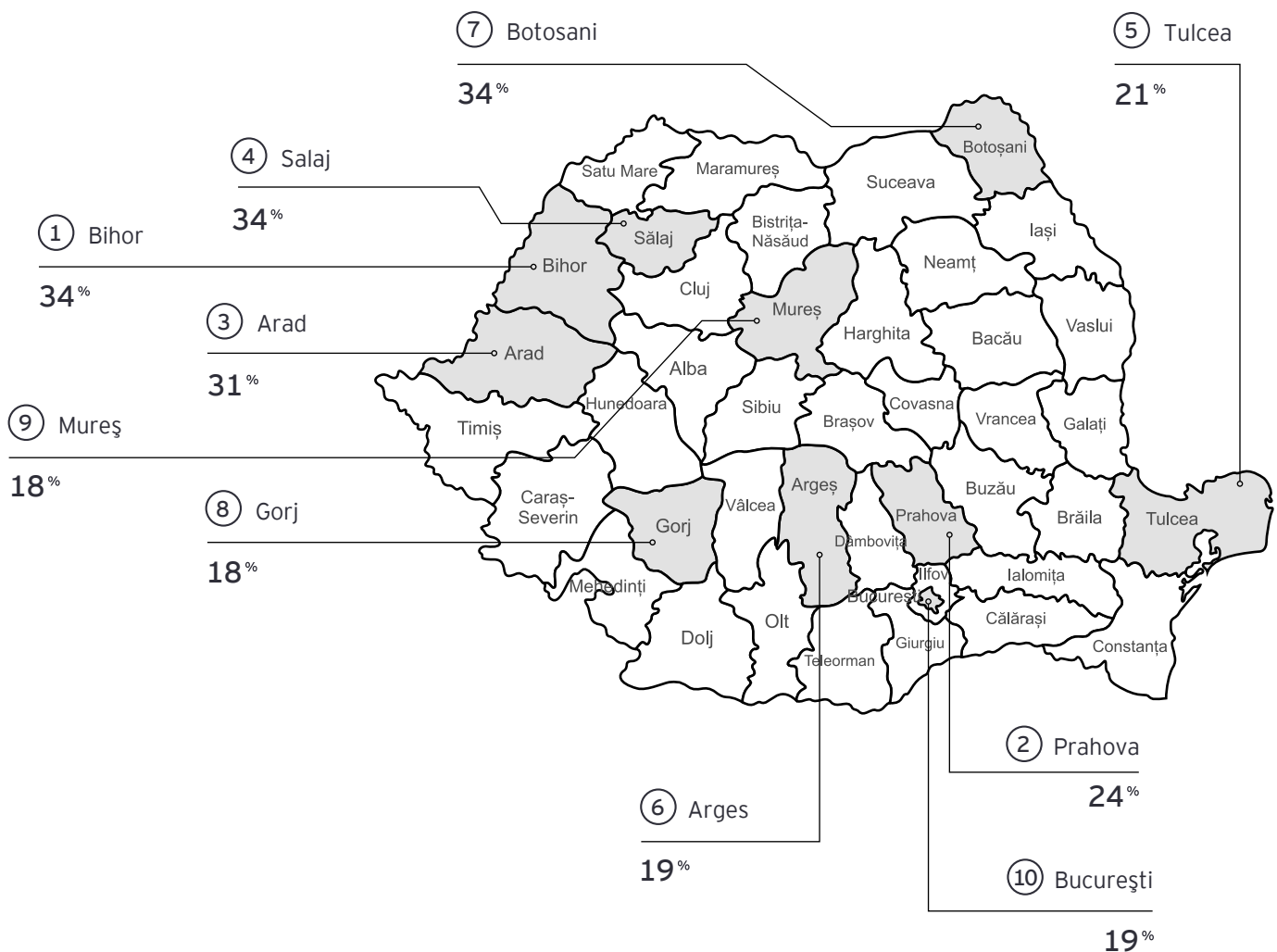
Bucharest has been the top FDI destination in Romania for more than a decade. Nevertheless, investing intentions gathered in the survey shows a new interest for other regions, particularly the Western region of Romania, as well as South-Eastern region of Muntenia.

The North Eastern part of Romania has not witnessed significant improvements in terms of FDI, mostly due to the lack of appropriate infrastructure.

Investments in infrastructure represent a way to direct investors' interest towards other areas besides large metropolitan areas, therefore the acceleration of certain infrastructure projects could put other geographical areas which are now economically isolated on the investment map.

Additionally, introducing fiscal facilities designed to stimulate investments and economic activity outside the big cities could also generate economic growth in other parts of our country.

Figure 6: Where in Romania do you plan to invest?



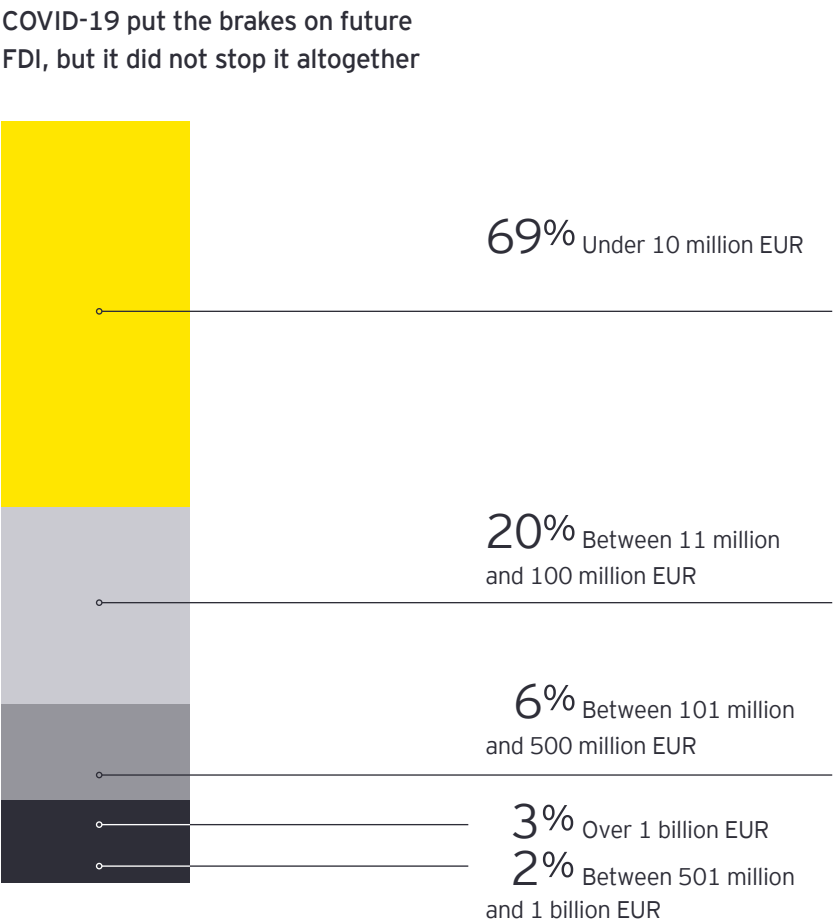
The large majority of foreign companies have investment plans that are valued at below 10 million EUR, a healthy level for a market of this size.

Additionally, 20% of interviewed investors say their investment is estimated between 11 and 100 million EUR, and 6% say they plan to invest between 101 million and 500 million EUR. Even though these high-level investments are few in number, they show a growth potential in attracting

large sums into the market.

There have significant M&A transactions announced in 2020, particularly in the energy sector. The sale of CEZ assets in Romania to Macquarie Infrastructure and Real Assets, close to 1 billion EUR, is representative for Romania’s potential to attract large transactions and create very dynamic energy market as part of its transition towards low-carbon electricity.

Figure 7: What is the approximate value of your 2021 investment plan in Romania?





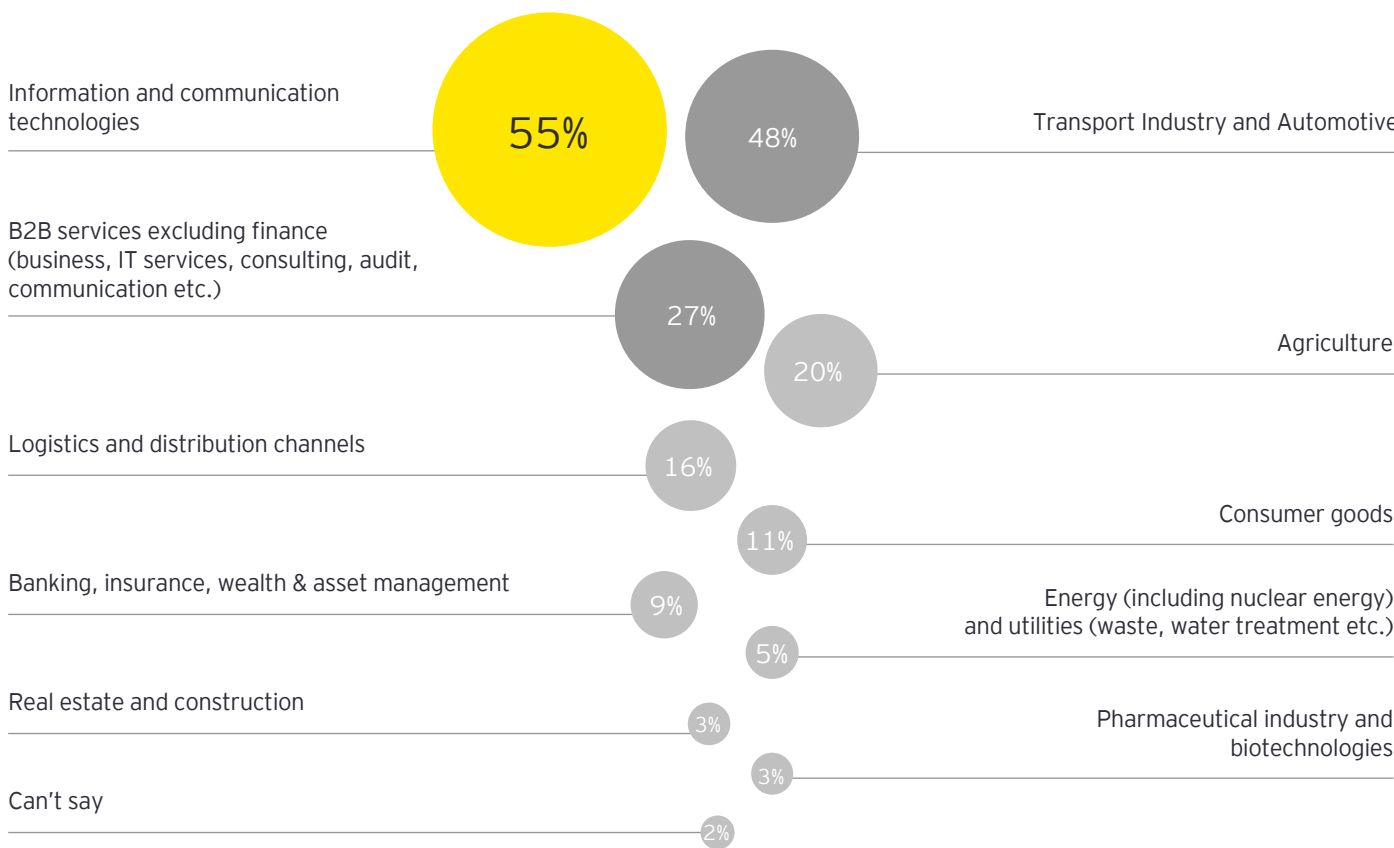
# IT sector, ahead of traditional industries in driving growth

The 2020th edition of our survey showed that agriculture was the leading sector that will driving Romania’s growth. This perception has changed among investors, IT&C become the leading sector that contributes to the economic development of our country in their view, moving up from the 2nd place. Agriculture fell on the 4th place, while the transport industry moved up from the 3rd place to 2nd place.

B2B services witnessed an impressive growth compared to last year, from 4% to 27% of investors believing this sector represents a current driver of economic growth.

Due to its supply of skilled labor force, as well as relatively lower labor costs, Romania has a competitive advantage in Europe regarding B2B operations, having at the same time lower level of protectionism compared to its regional competitors, Hungary and Poland.

**Figure 8:** In your opinion, which main business sector do you believe are driving Romania's growth at the present moment?



## External Viewpoint



**Mihai Bordeanu**

Managing Director Dacia South Eastern Europe,  
Country Head Romania, Groupe Renault



Romania is and will remain an important location for components and assemblies' manufacturers, over 73% of the total turnover of the automotive sector being generated by these companies. There is almost no vehicle manufactured in Europe that does not have at least one component manufactured in Romania. These companies develop their production capacities, invest in sustainable development, efficiency and many of them and in research and innovation.

The automotive industry is going through a period of transformations, both from an operational point of view (relocation of groups and alliances) and from the technological perspective, considering the transition towards greener vehicles, powered by LPG, CNG, hybrid or electric.

The European automotive industry is experiencing a more pronounced transformation, forced by regulations aimed at limiting vehicle emissions, but also those related to production processes.

The pandemic year generated a 15% decrease in the turnover for the Romanian automotive compared to 2019. In 2021, the automotive sector in Romania is more revitalized and, although it was affected in the first part of the year by the lack of semiconductors / electronic components, we want to reach a level in the second half of the year compared to the period before the emergence of the health crisis.

However, we should focus only on production, but also on evolving. The automotive sector in Romania must adapt to the challenges mentioned above. The transition to zero-emission production of vehicles and related components will include the use of green energy, adaptation of manufacturing flows, investments in energy efficiency and much more.

The training of the workforce both at intermediate level (dual vocational technical schools) and at university level, through close collaboration with Romania's technical universities must be a priority.

The COVID-19 crisis, together with the semiconductors / electronic components crisis showed the increased interdependence within the automotive sector, as well as the need to locate suppliers as close as possible to the manufacturing center of the final product. Companies reacted and began to initiate programs in this regard.

Romania is and will remain an important location for components and assemblies' manufacturers, over 73% of the total turnover of the automotive sector being generated by these companies. There is almost no vehicle manufactured in Europe that does not have at least one component manufactured in Romania. These companies develop their production capacities, invest in sustainable development, efficiency and many of them and in research and innovation.

Romania still has a high potential with regards to the automotive sector, and the presence of two main car manufacturers, as well as a strongly developed network of suppliers and the continuous development of their activities prove this once again.

**Mihai Bordeanu**

Managing Director Dacia South Eastern Europe,  
Country Head Romania, Groupe Renault



# BEYOND

How can Romania  
prepare for the  
next chapter?

36%

believe Romania  
should focus its  
efforts on  
supporting SMEs

52%

believe Romania's  
attractiveness will  
improve after the  
pandemic

3

## Post-pandemic supply chain dynamics

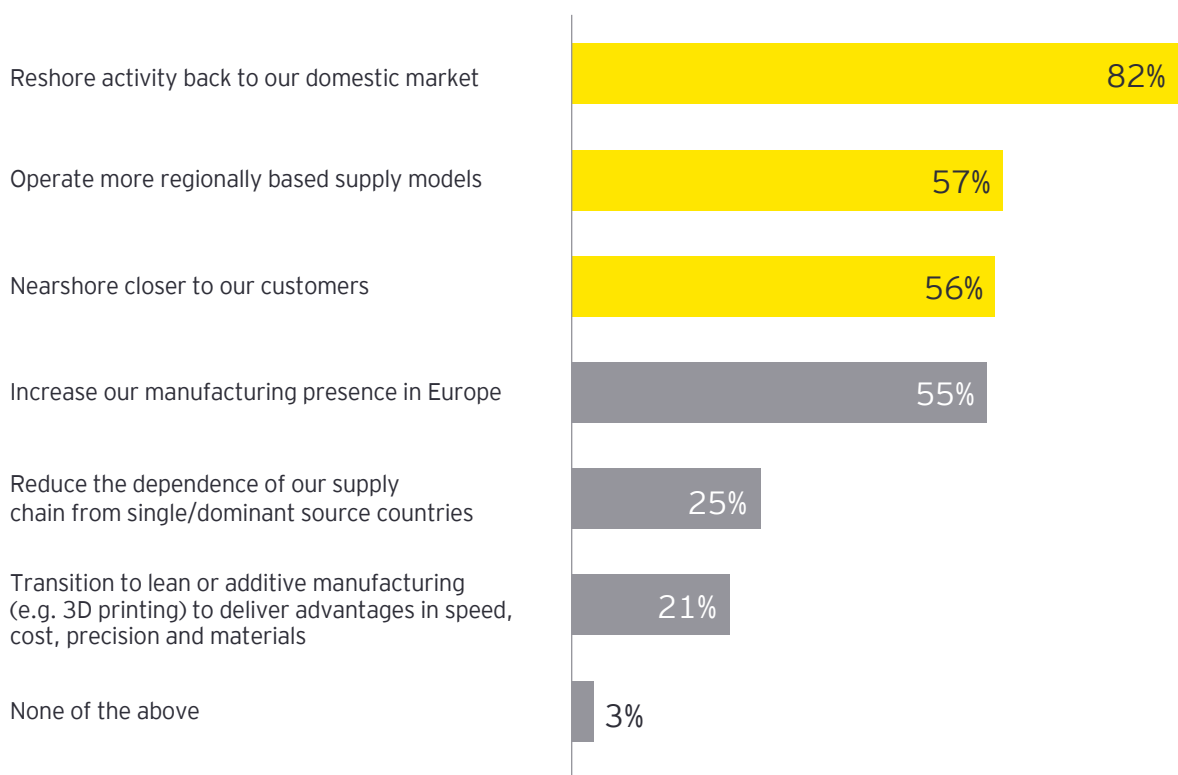
The pandemic has impacted supply chain & logistics operations across Europe due to restrictions, lockdowns and other measures put in place to prevent the spread of the COVID-19 virus.

While countries are slowly relaxing these measures and reopening their economies, 2020 has changed supply chain models and strategies to a certain extent. Companies are looking more into reshoring their activities to their parent market, operating more regionally based supply models and being closer to their customers.

Increasing manufacturing presence in Europe is still an important option for business leaders, although this strategy has witnessed a decline in popularity compared to 2020 levels (20% vs. 26% in 2020)

Romania, a growing logistics & manufacturing hub in Eastern Europe, can attract important players from the industry due to its cost-competitiveness and labor supply. The opportunity of a closer market for investors coming from Western Europe can provide Romania with important FDI projects, as long as it can provide consistent and reliable development of local infrastructure.

**Figure 9:** How will you change your supply chain model compared to what it was before COVID-19 (in Romania)?





## How will the global economy will look like after the pandemic?

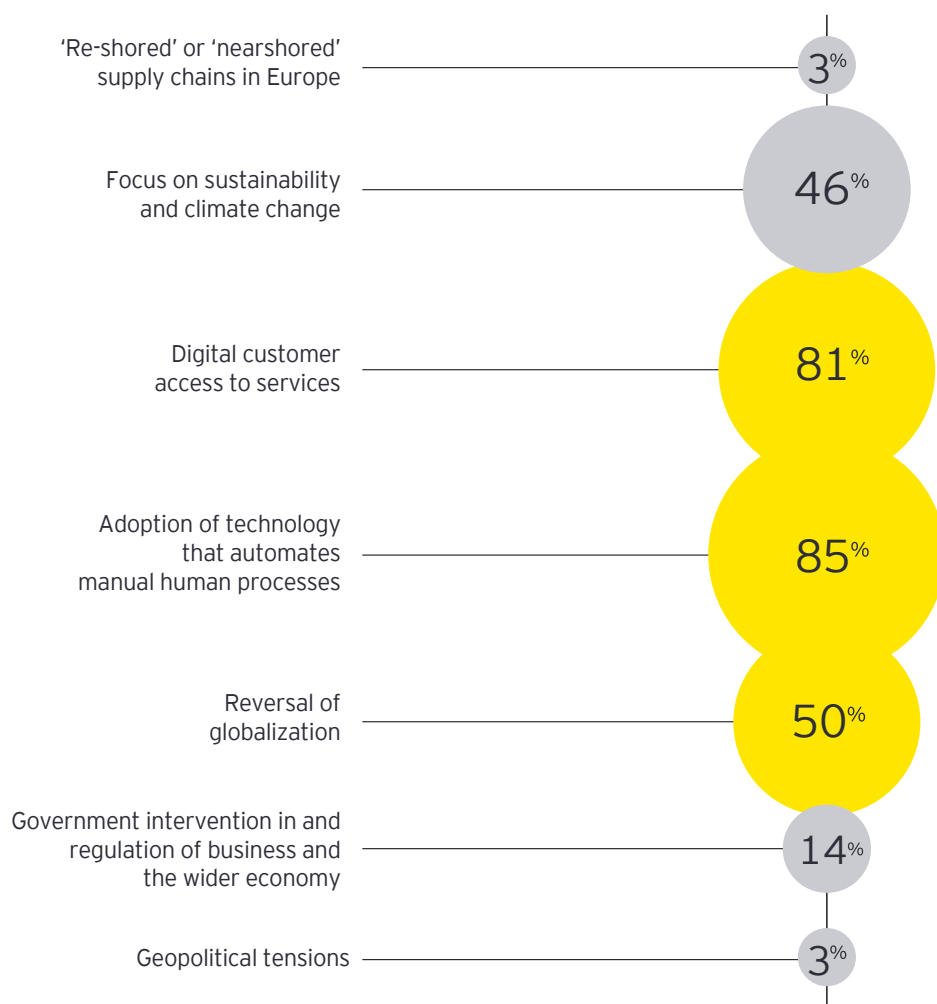
Technology represented the core of the resilience plan for multiple business sectors and it is growing at a faster pace than imagined by business leaders.

Therefore, it is not surprising that investors see the adoption of technology that will automate manual human processes as the trend that will accelerate most in the next three years. Eighty-five percent of the respondents see this trends as a defining one following the COVID-19 pandemic. Similarly, the adoption of digital customer access to various services is regarded as a growing trend by 81% of business leaders.

Considering the effects that the pandemic had on mobility, connectivity and refusal of globalization through protectionism and populism , 50% of investors believe this phenomenon will reverse due to the COVID-19 crisis. It remains to be seen what how will this perception impact supply chains and trade dynamics.

It is not new that sustainability and climate change are becoming more present concerns among investors, with 46% stating that in the next years there will be an increased focus on these two issues within business sectors.

**Figure 10:** Which of the following trends do you expect to accelerate most in the next three years as a result of COVID-19?



## A green economy for Romania

Europe is considered a global green leader by 85% of foreign investors, according to the 2021 European Attractiveness Survey. Considering EU's efforts in addressing the most important issues in terms of sustainability and climate change, this number is a reflection the collective work European countries have done in terms of environmental sustainability through frameworks, agreements and policies, including Romania.

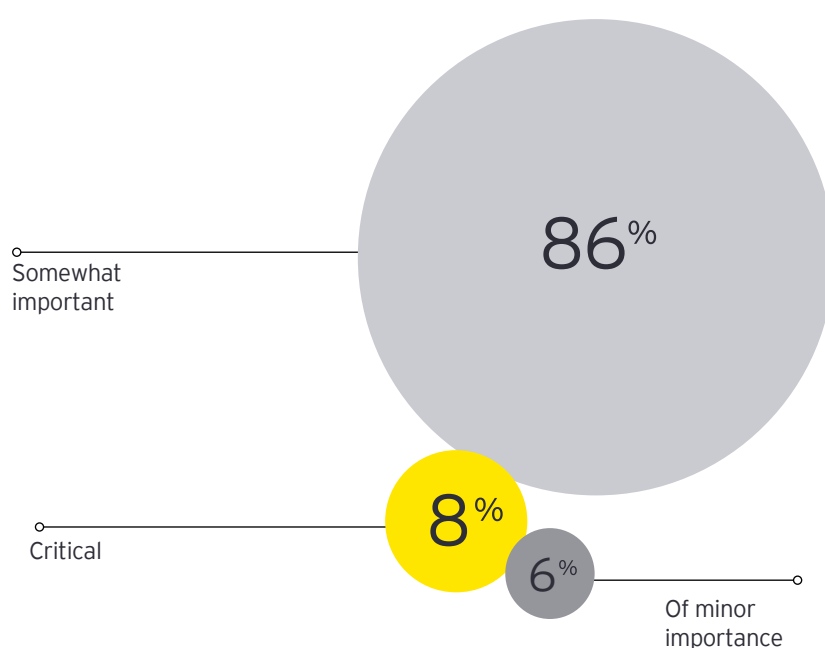
At business sector level, the importance of environmental sustainability has yet to be considered critical by a considerable percentage of foreign investors. Eighty-six percent of respondents (compared to 68% at European level) state that environmental sustainability is somewhat important, while 8% (compared to 24% at European level) say this aspect is critical to their investment strategy.

These numbers show an growing consciousness on issues related to the environment, but at the same time issues related to sustainability are yet to be considered top priority.

Romania has multiple opportunities to make considerable change towards an environmental-responsible economy through the Green Deal and the Just Transition Mechanism, as well as other funds that address the green economy: the Recovery and Resilience Facility, the Innovation Fund, the Modernisation Fund.

In order to succeed in this transition, the active involvement of the business sector is needed in these plans for a green, circular European economy.

**Figure 11:** How important is environmental sustainability to your investment strategy?



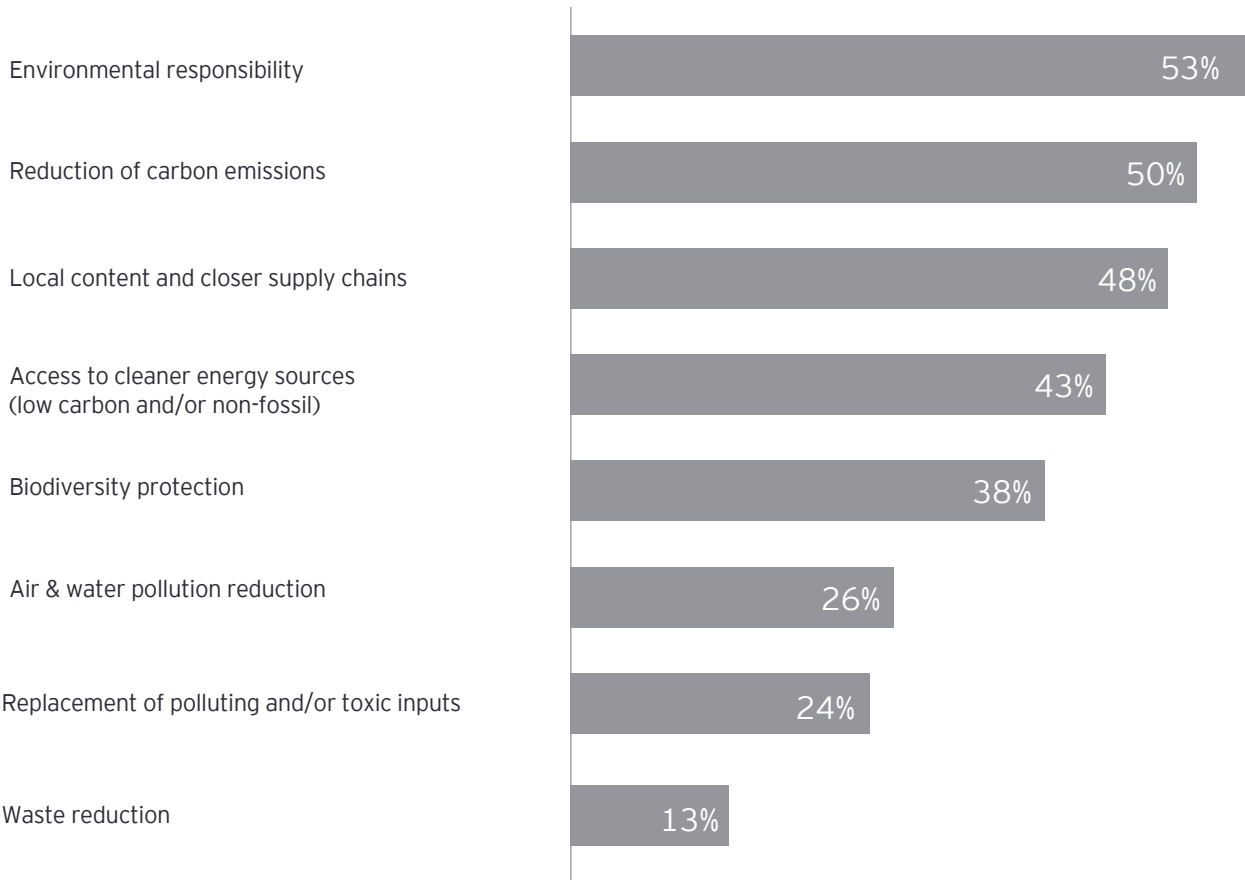
Decarbonizing and improving environmental responsibility are considered top priority by half of investors. Climate policy and regulations are being followed by investors closely, while consumers are becoming increasingly aware of the impact that companies have on the environment and their overall environmental responsibility strategy.

Europe’s ambitious plans to be carbon neutral by 2050 and to reduce greenhouse gas emissions by 55% by 2030

creates a huge amount of foreign investment opportunities such as new renewable energy (wind and solar), industrial green hydrogen and electric vehicles manufacturing.

In line with the regionalization trend triggered by the pandemic, 48% of investors also believe local content and closer supply chains will represent priorities for their future investments.

**Figure 12:** Which of the following topics will represent priorities in your future investment projects?



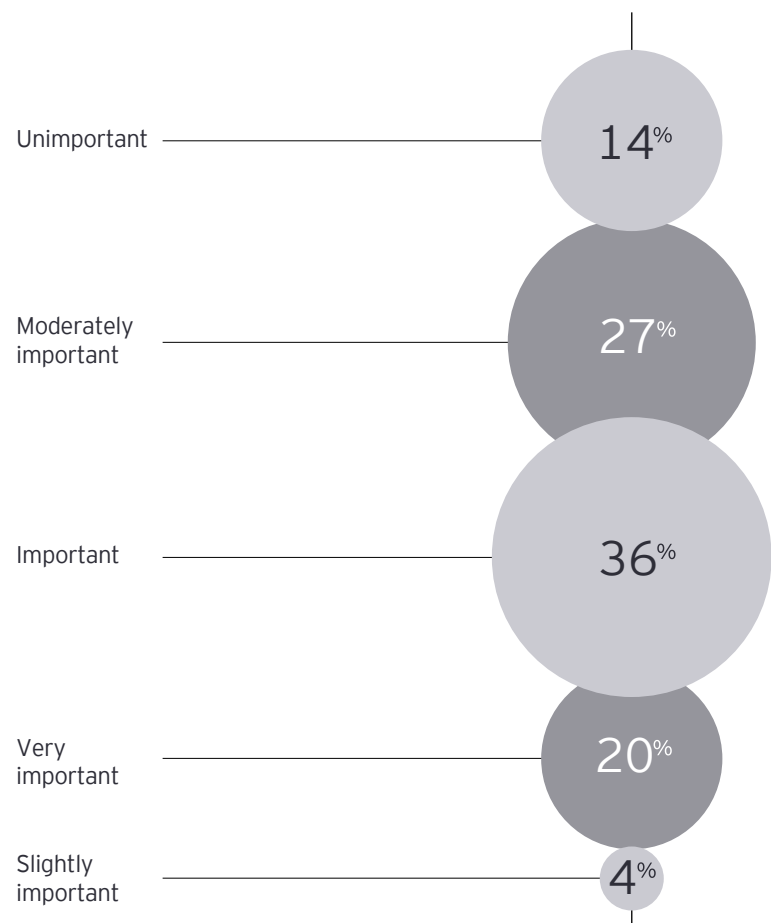
The European Green Deal clearly states the need to reshape economic activities and investment strategies in the following decades. The deal represents an important opportunity for EU countries and could make Europe increasingly attractive for cleantech business.

Appropriate regulations and governmental support should be the basis of the transition towards increased environmental sustainability. 83% of foreign investor consider strong sustainable cleantech policies as an important factor in their future investment plans in Romania. While Romania is making progress in terms of cleantech policies, particularly in the renewables sector, it is imperative our country takes advantage of the financial support offered

through the Green Deal framework, as well as the Recovery and Resilience facility. The RRF stipulates a minimum of 37% of expenditure to be directed towards climate investments and reforms.

Having plenty of leverage for this transformation, Romania could grow its cleantech industries and follow models from Western Europe. According to the European Attractiveness Survey, cleantech and renewables are seen as the sector which will drive Europe's growth in the coming years. Therefore, as an EU member, Romania has all the opportunities to attract investors through appropriate policies and get in line with the big cleantech FDI destinations.

**Figure 13:** When your company makes decisions on foreign investment, how important are strong sustainable cleantech policies in determining whether you invest in Romania?



In 2020, investors considered the top 3 priorities that Romania should focus its efforts to be: education and skill development, support for high technology and innovation industries and infrastructure investments.

A year after the pandemic emerged, foreign investors see things differently. In order to maintain its competitive position in the global economy, most of investors believe Romania should support small and medium sized enterprises, encourage environmental policies and attitudes and improve the quality of its products and services.

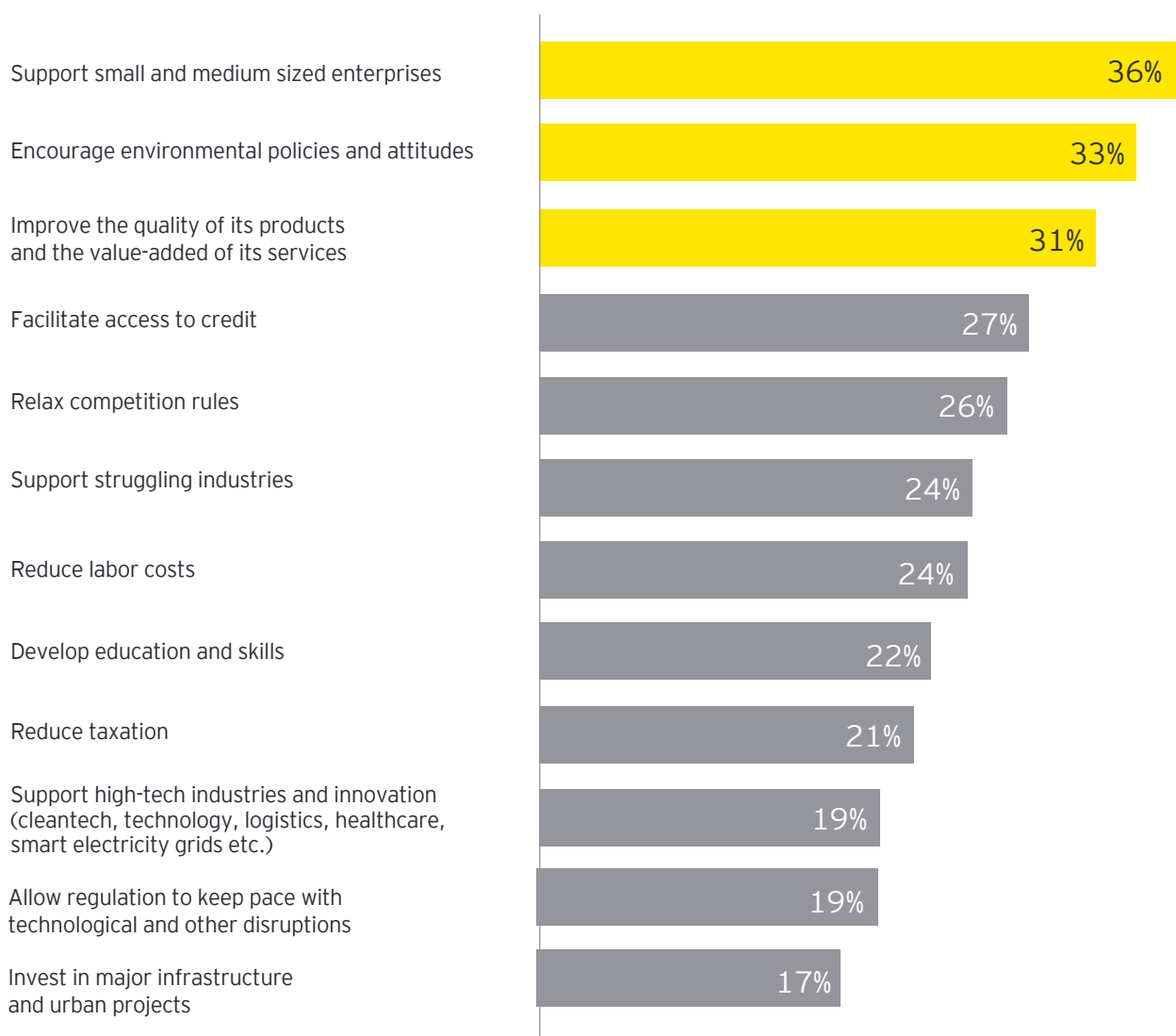
The pandemic has been particularly rough on small and medium sized business, which were more vulnerable to supply chain disruptions and restrictive measures. Therefore, support for SMEs could be for Romania a necessary

recovery mechanism and, at the same time, a way to become more competitive on the global market. EU recovery programs will boost long-term attractiveness, but national shorter-term stimulus is also required, as long as it does not represent a burden for the economy.

The need for stronger environmental policies and attitudes represents an alignment with sustainability global trends, which Romania should follow in order remain attractive.

Access to credit, relaxation of competition rules are also some of the measure ranked high by investors, who are looking for strong fiscal systems to support their investments.

**Figure 14:** In your opinion, where should Romania focus its efforts in order to maintain its competitive position in the global economy?





## Viewpoints

Ey viewpoint



**Alex Milcev**  
Tax & Law Services Leader

“

Capital infusion cannot be achieved in the absence of extremely important factors, such as the stability and predictability of the fiscal environment. So far, the government has resisted any temptation to change taxes, giving the business environment the confidence and comfort it needed.

# Stop. Reset. Rebound

## The "Spectacular growth" of the Romanian economy, reported these days by the local and

international media, generated all the good news coming from the economy which "exceeded all expectations": 2.8% for the first quarter of 2021, a serious advance over the last quarter of 2020, in which the budget recorded the best revenues in the pandemic year. Moreover, the European Commission spring forecasts anticipates an increase of 5.1% in 2021 and 4.9% in 2022.

So here we are, a year after the freezing of all investments, engaged in a much faster recovery of the economy than we would have anticipated, much more optimistic than we could have hoped.

What about the experience until here? A difficult road, if you look at the figures - budgetary deficit of almost 10% by the end of 2020, decrease in tax revenues by 3.3% - minus 7% of VAT only (mainly due to the early repayments), 2.4% of excise duties, 9, 8% of the profit tax. The only increase in the area of tax revenues came from the collection of income taxes - 0.2%.

It is obvious how much the business environment expected the Government's reaction of support, but the authorities acted quickly, providing fiscal facilities - staggering obligations or canceling interest and penalties, or by other incentives.

Thus, the state has given an important signal to investors, to the business environment in general, that they have a partner in the Government. An important message, especially in times of hardship. And the companies responded in return - payments to the state budget were sustained even in the midst of the pandemic.

In addition, as we saw in the EY Attractiveness Survey Romania 2020, more than half of the foreign investors did not make any changes in their planned investment projects and only 46% canceled, diminished or interrupted their investments .

This year, we have high hopes: according to the 2021 survey, 66% of investors plan to establish or expand operations in Romania in the next 12 months (above European average - 41%), compared with just 27% in 2020.

This is a signal that proves that the economy is working, that it is connected to other European economies. That it hasn't got the "flu". The "one-minute" snapshot looks good. And the news is even better because, unlike neighboring countries, Romania has not invested significant amounts in the rescue programs.

What to expect? Always for the best: we would like to see the partnership state-company bear fruit, working for both sides -businesses and economy. Entry of new investments is highly needed and desirable- either foreign or domestic, as well as the development of existing ones. The infusion of capital is essential in the economic recovery and the rebound in the coming years.

However, this capital infusion cannot be achieved in the absence of extremely important factors, such as the stability and predictability of the fiscal environment. So far, the government has resisted any temptation to change taxes, giving the business environment the confidence and comfort it needed.

Instead, the government relied on strengthening the collection of taxes, a process that was accelerated by the events triggered by the pandemic. Connecting the cash registers to the servers of the Ministry of Finance and starting the project of SAF-T are steps that, together with the e-invoice, will enable the achievements of the objectives announced by the tax administration - increasing the share of tax revenues collected in GDP by 2.5% and reducing the VAT gap by up to 10% by 2024.

Although, in the short term, the reforms initiated by the authorities may mean additional time and resources for the business environment, in the long term it will bring the sanitation of the business environment - more equity and real competition.

### Alex Milcev

Tax & Law Services Leader

The digital economy is the number one sector that will drive Romania’s growth - 63% of investors believe the digital sector has the potential to dominate the Romanian business environment. The consumer industry also is placed 2nd and is set to play an important role in Romania’s future economic growth, along with the automotive and mobility industry.

According to the European Attractiveness Survey, the digital economy is viewed as the number one sector in Europe as well by 51% of foreign investors. The pandemic accelerated digitalization, helping sectors such as IT, telecoms and media sector to grow and influence other sectors. But how can the growth of the digital industry transpose itself into overall growth?

The Recovery and Resilience Facility states that each EU member state must include in its RRF plan at least 20% of expenditure to foster the digital transition. The importance of the digitalized economy is thus emphasized as part of the pandemic recovery process. Digitalization of public administration and public services is key to easing the path of foreign investment onto our country.

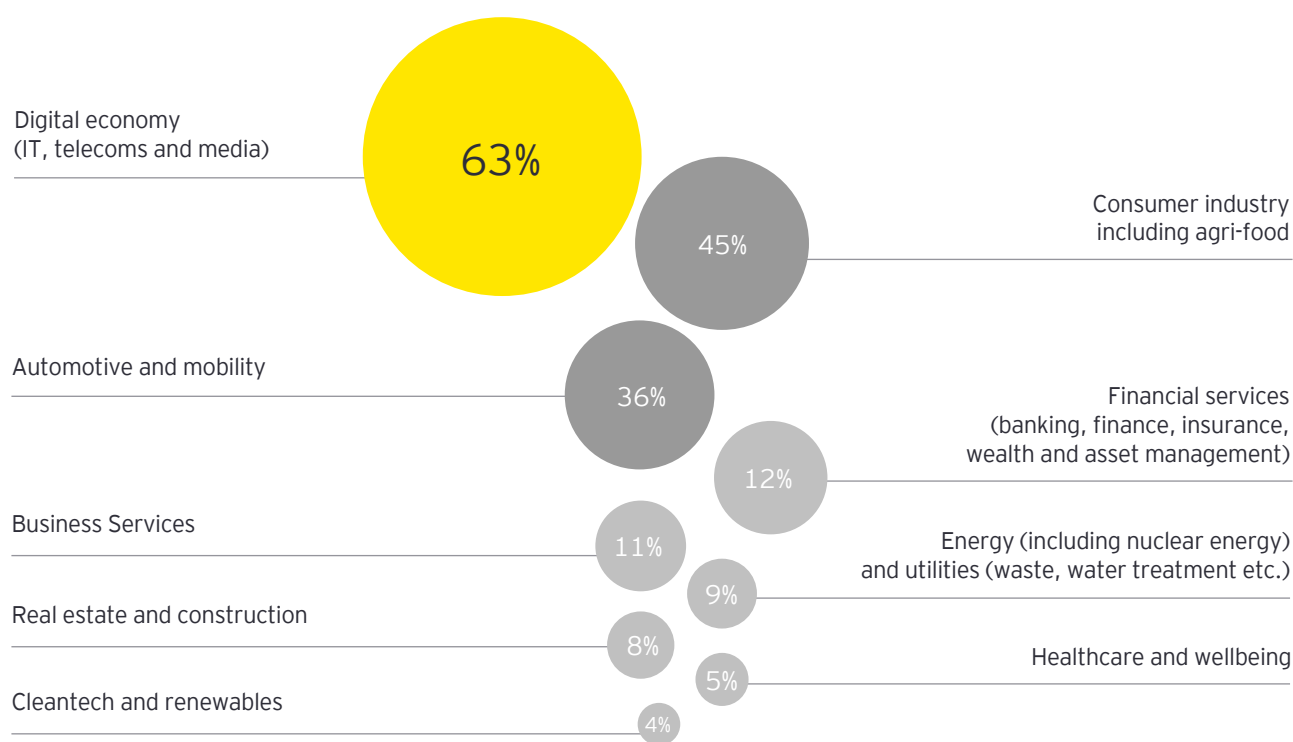
Digital infrastructure stands as basis for the development of multiple industries. This is why businesses and investors are looking at destinations that have the necessary digital infrastructure and resources.

According to the European Attractiveness Survey, 89% of investors believe availability of workforce with technology skills is critical in determining their investment destinations. Digital adoption by population and protection of intellectual property rights are also important factors considered by business leaders.

Romania is competitive in terms of technology- skilled human capital and digital infrastructure. This can allow digital economy to drive growth in the coming years, as long as attractive public policies and financing remain essential pieces of the puzzle.

The recognized potential of Romania in the consumer and the automotive industry is yet again a confirmation of its attractiveness in terms of manufacturing projects and its capabilities.

Figure 15: In your opinion, which business sectors will drive Romania’s growth in the coming years?



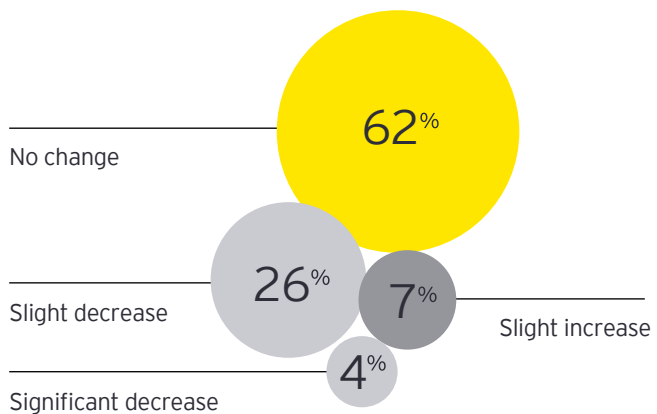
# Turning attractiveness into real figures

Current FDI optimism within the Romanian economy is not viewed as a direct generator of investment expansion. After a severe downfall in 2020, 62% of investors believe there will be

no change in FDI in our country after a period of recovery from the pandemic. Only 7% of business leaders believe Romania will actually attract more FDI after the pandemic.

Figure 16:

Do you foresee an increase or decrease in foreign direct investment in Romania following a period of recovery from the COVID-19 pandemic?



Current FDI optimism within the Romanian economy is not viewed as a direct generator of investment expansion. After a severe downfall in 2020, 62% of investors believe there will be

no change in FDI in our country after a period of recovery from the pandemic. Only 7% of business leaders believe Romania will actually attract more FDI after the pandemic.

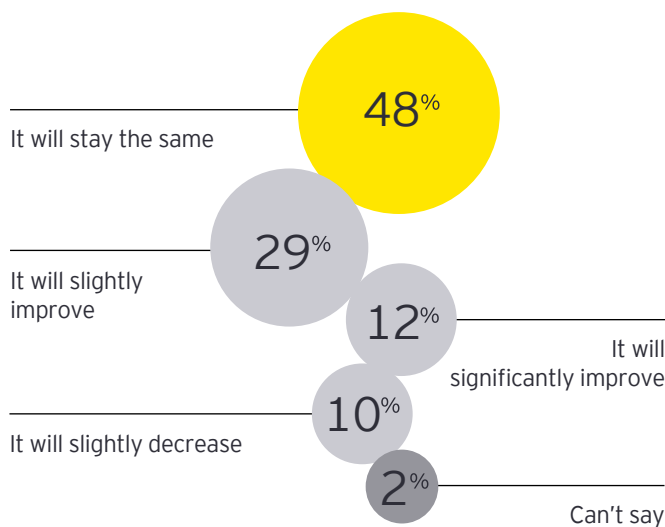


Figure 17:

To what degree do you think Romania's attractiveness will evolve over the next three years?





# Recommendations

## 1

### Prioritize digital transformation

The digital transformation seems to be a common and pressing topic for investors around the world. Technology-related resources have influenced for some time now the destinations where investors choose to expand or establish operations, but never have these factors been so powerful for businesses and consumers. The pandemic accelerated the need for digital skills and digital infrastructure & services.

According to the European Attractiveness Survey, 92% of international investors say that the availability of a workforce with technology skills is an important factor that determines where they invest. Our survey shows that the two most prominent upcoming trends are also related to technology: 85% of investors believe adoption of technology that automates human processes will accelerate in the next three years, while 81% believe digital access will become more dominant in customer services.

20% of the financial aid allocated to Romania from the Recovery and Resilience Facility must be used to foster digital transformation through the digitalization of the public administration, cloud capabilities, rapid broadband services and digital upskilling. It is safe to say we are entering a new digital era, a period where innovation, education and digital adoption could provide Romania with a competitive advantage in the region.

## 2

### Develop the logistics & manufacturing sectors and invest in reliable infrastructure

The logistics and manufacturing sectors have become key driving forces for the Romanian economy: for a second year in a row, logistics and manufacturing FDI projects are the most popular choices for investors for 2021. This underlines the Romania's potential to become a manufacturing and logistics hub in the region. But for this to happen, labor resources must be complemented by technological innovation, supply chain resilience and foremost, by strong and reliable infrastructure.

54% of investors are considering reshoring activities to their domestic market, in order to avoid potential disruptions as in 2020.

52% of investors would consider investing in Romania if the infrastructure proved reliable and had a good coverage. In order to attract investors currently hesitant to expand operations in other countries, investments in infrastructure may prove crucial. Luckily, Romania will access considerable aid through the Recovery and Resilience Facility, with almost 30% being destined for transport infrastructure, a much awaited and needed investment.



# 3

## Support small- and medium-sized enterprises and focus on stimulus and attractive fiscal policies

Small- and medium-sized enterprises were the most affected by the pandemic, due their weaker supply chain capabilities, financial fragility, smaller cash buffers, as well as limited resources to adopt digital tools for business resilience.

Most investors in our survey position support for SMEs as the top issue Romania should focus on in order to become more competitive in the global economy. Stimulus and rescue packages can play an important role in this matter, as long as they do not represent a burden for the economy. Moreover, public policies directed towards the stimulation of entrepreneurship can drive Romania's economic growth and at the same time make it more attractive for investors looking for a strong business sector.

# 4

## A higher focus on sustainability and environmental policies

Sustainability has resurfaced as an element of economic and social recovery, as the pandemic made businesses and consumers rethink their impact and reconsider the actions. We believe building a better working world, a world of environmental sustainability must involve governments, scientists, businesses and the society.

The business sector has been pressured to act sustainable in the past decade, due to regulatory requirements and stakeholders' expectations. Many businesses have taken notice and now consider environmental sustainability when evaluating key business decisions, including where they locate their operations. Nevertheless, in an uncertain climate context, it has not become the no. 1 priority: 86% of investors believe environmental sustainability is somewhat important for their investment strategies. Europe's ambitious plans to be carbon neutral by 2050 and to reduce

greenhouse gas emissions by 55% by 2030 could create a lot of foreign investment opportunities.

Locally, there is however a need for "green leadership": a third of investors believe Romania should focus its efforts to encourage environmental policies and attitudes in order to maintain its position in the global economy.

Building a stronger Romanian economy that can attract large foreign investments could also mean building a green, circular economy.

Policymakers, businesses and citizens should play an active role in the acceleration of this transition, though environmental-responsible behavior and appropriate public policies. In this regard, Romania has the appropriate financial support to make this transition more easily: a minimum of 37% of expenditure from the Recovery and Resilient Facility will be directed towards climate investments and reforms. This is a huge opportunity to attract green investments in the region and develop clean technology and renewable energy, energy-efficient buildings and sustainable transport.

# 5

## Support the labor force and skills development

Talent is often considered one of the most important factors for investors when evaluating a country as potential FDI destination. Supporting the local labor force is an imperative for any country targeting economic growth, since a skilled working population is a key factor for any foreign investors.

For the past decades, workplaces and economic activities have been in a continuous transformation. The pandemic accelerated this trend through fast-forward digital adoption. Even though remote working has become the dominant modus operandi, many businesses want workers to be present in the office for at least some time in order to foster a collaborative working culture. Therefore, skills still play a part in FDI dynamics.

Considering the employment loss and the shifting in labor dynamics generated by the outbreak, decision-makers, the academia and businesses should collaborate to support and ensure that the local labor force is equipped with the skills that businesses will need in the future. Reskilling and upskilling are central elements in acquiring much-needed digital skills.

# Methodology

## The real attractiveness of Romania for foreign investors

Our evaluation of the reality of FDI in Europe 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.

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### *Additional sources:*

EY European Investment Monitor (EIM) 2020, EY European Attractiveness Survey 2021.

National Bank of Romania, Annual Reports on Foreign Direct Investment in Romania (2010-2019), [bnr.ro](http://bnr.ro)

European Economic Forecast. Spring 2021, European Commission, [ec.europa.eu](http://ec.europa.eu)

National Statistics Institute, National Bank of Romania



## The perceived attractiveness of Romania

We define the attractiveness of a location as a combination of image, investors' confidence and the perception of a country's 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 2 March to 31 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](https://ey.com/attractiveness) #EYAttract

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