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The rise of nearshoring and Romania's strategic advantage

WHITEPAPER



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Romania is the place to be for nearshoring in Europe. It's showing significant promise to capitalise on the nearshoring trend, which makes it a strong candidate for global companies to establish their facilities.

Gijs Klomp,
Business Development Manager WDP Romania

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#0

Introduction

In recent years, nearshoring has gained significant traction as a replacement for traditional offshoring/outsourcing practices. Events like the global pandemic and geopolitical conflicts, caused unprecedented supply chain disruptions, forcing companies to reevaluate their operational strategies. **Nearshoring could prove to be a game changer.** Transferring business operations or processes to nearby countries or regions allows companies to capitalise on benefits of a more favourable business environment such as reduced costs and labour, enhanced supply chain efficiency, and better communication. This paper delves into the myriad of advantages of nearshoring, exploring its implications for supply chain resilience, cost savings, cultural alignment, and environmental sustainability targets.

In a future where nearshoring is likely to become the strategic decision for companies looking to optimise their operations, **Romania stands out as a beacon of opportunity**, offering an enticing combination of cost-effectiveness and competitiveness which can help companies of all sizes maximise efficiency and minimise risk while. With its economic potential, cultural heritage and strategic location at the crossroads of Central, Eastern, and Southeastern Europe, Romania is positioning itself as a prime location within the EU for companies building a nearshoring strategy.

In this paper we will examine the underlying factors driving the nearshoring trend, including the rise of friendshoring to countries regarded as political and economic allies, to help companies streamline operations in a more sustainable way.

Our balanced approach also considers the barriers that still exist in the nearshoring space and the challenges facing Romania.

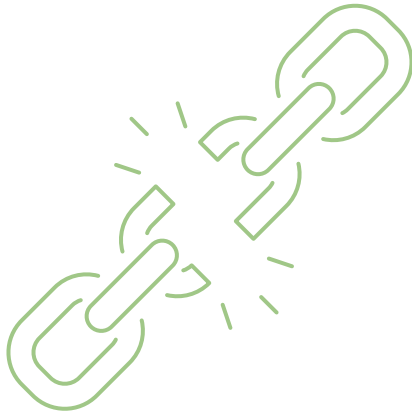
#1

Benefits of nearshoring



In today's global business landscape, nearshoring has emerged as a compelling alternative to offshoring for companies seeking to streamline their operations, ensure reliable supply chains and cut costs. Nearshoring involves moving business operations or processes to a nearby country or region, often on the same continent, to take advantage of **lower costs, proximity, similar time zones, and cultural alignment**. Additionally, there's a rising interlinked trend called friendshoring, where supply chains move to politically and economically stable or low-risk countries. This shift from offshoring (like European companies manufacturing in Asia) to nearshoring, or combining both, has the potential to be beneficial for countries in CEE in general and for Romania in particular. In this paper, we outline the benefits and pitfalls of Romania as a destination for nearshoring.

Supply chain disruptions are reshaping the scene



In the wake of unprecedented supply chain disruptions, logistics players, manufacturers, and governments worldwide are undergoing a seismic shift in their operational paradigms. The global pandemic, the Russian invasion of Ukraine, attacks on shipping in the Red Sea and geopolitical instability have highlighted the vulnerability of extended supply lines, so **companies now prefer to stock up, manufacture and produce closer to target markets and often within “friendly” countries.**

Meanwhile, consumer goods and logistics firms are racing to boost their inventories and **enlarge their warehouse capacities.** This surge is fuelling the emergence of new hubs globally, driven by the imperative to store larger inventories and diversify manufacturing origins nearer to home, to counter supply chain disruptions. The expansion of sourcing options and increased inventory holdings are creating emerging industrial markets worldwide.

“The proximity provided by nearshoring enhances supply chain resilience and reliability, helping companies to meet customer demands more consistently and efficiently.”



Supply chain reliability

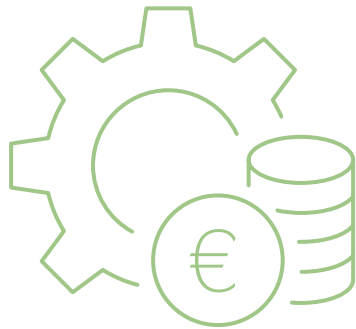
Nearshoring can significantly improve supply reliability. By moving manufacturing or sourcing closer to home, companies can **shorten transportation times** and **mitigate shipping problems.** This reduces delays like customs issues, ensuring smoother operations. Additionally, nearshoring allows for better and closer oversight and management of suppliers, leading to improved communication, quality control, and responsiveness to changes in demand or supply chain disruptions.

Overall, the proximity provided by nearshoring enhances supply chain resilience and reliability, helping companies to meet customer demands more consistently and efficiently.



Reduction of transportation costs

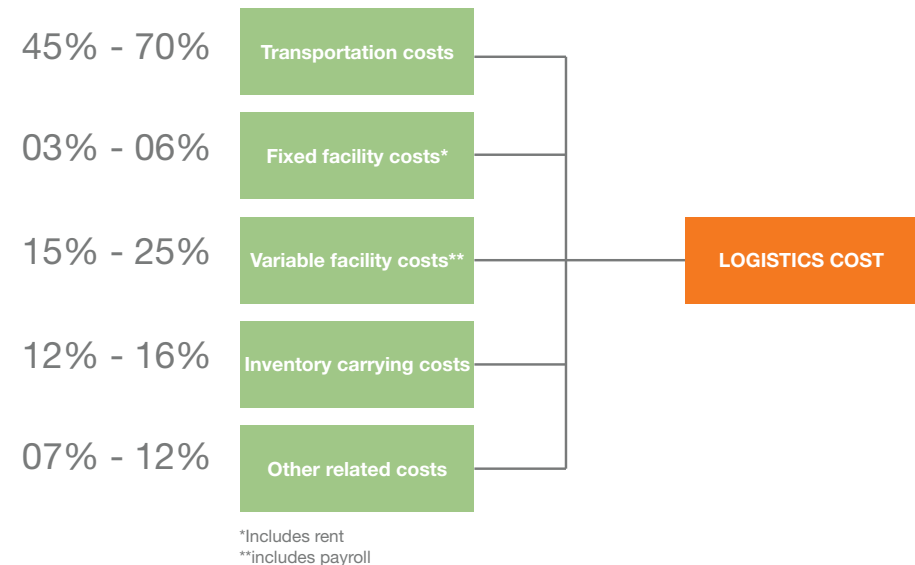
According to CBRE Supply Chain Advisory, transportation costs often represent 50% to 70% of a company's logistics spend, overshadowing fixed facility expenses which, including real estate, account for only 3% to 6%. Therefore, despite nearshoring not always matching the affordability of distant offshoring in terms of, for example, production costs, it offers potential cost savings through **reduced transportation expenses and minimised supply chain risks**, without compromising quality.



CBRE estimates that it takes roughly an 8% increase in fixed facility costs to equal the impact of just a 1% increase in transportation costs. Based on this formula, increasing inventories by adding more warehouse and production space closer to the target markets could significantly reduce costs.

“Nearshoring offers potential cost savings through reduced transportation expenses and minimised supply chain risks, without compromising quality.”

Anatomy of a company's logistics spend



Source: CBRE Supply Chain Advisory, 2021

However, it's crucial to consider the broader perspective. Transportation costs may be lower, but companies must also be mindful of other costs, for instance, labour. While employees in Central and Eastern Europe (CEE) may earn more than counterparts in countries like India and the Philippines, their wages are certainly more attractive when compared to those in Western Europe.

“Through a nearshoring strategy, companies can promote a cohesive organisational culture across all locations, which is essential for maintaining employee morale and engagement.”

Cultural alignment and time-zone compatibility



Nearshoring allows companies to maintain closer geographical and typically also cultural proximity to their outsourcing partners. Cultural alignment is crucial because it fosters effective communication, understanding, and collaboration between teams in different locations. It helps **minimise misunderstandings, increases productivity**, and **enhances overall efficiency** in the offshored operations. Through a nearshoring strategy, companies can promote a more cohesive organisational culture across all locations, which is essential for maintaining employee morale and engagement.

The time difference for a common offshoring partnership between a European company and Asia can be up to seven hours. Nearshoring to countries with similar time zones can help **reduce delays in communication and project execution**, as teams can work within comparable business hours.

Reduced Carbon Footprint



The environmental impact of transportation operations and extended supply chains has long been a concern for the logistics industry and, with growing awareness of climate change and sustainability, customers, investors, and governments increasingly expect the industry to prioritise environmental responsibility. The good news is that sustainable practices can lead to cost savings through improved efficiency, reduced fuel consumption, and minimised waste. **Nearshoring enables businesses to make a big difference for the environment** by reducing their carbon footprint due to shorter transportation routes. By relocating production or sourcing activities closer to the market, nearshoring typically involves shorter distances for raw materials, components, and finished goods. This can result in decreased fuel consumption, lower greenhouse gas emissions, and an overall reduced carbon footprint associated with logistics and transportation.

This is especially the case when nearshoring to a country with strong regional sustainability initiatives, like a European Union (EU) member state. The **European Green Deal**, approved in 2020, is a set of policy initiatives by the European Commission with the overarching aim of making the EU climate neutral in 2050. Here, nearshoring helps companies benefit from the advanced infrastructure and environmental regulations which will boost its sustainability efforts.



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#2

The untapped potential of Romania



Within CEE, Romania offers a compelling blend of affordability and competitiveness, making it an attractive hub for businesses seeking untapped potential in nearshoring. We spoke to **Gijs Klomp, Business Business Development Manager WDP Romania**, to discover more. Gijs has over 20 years of experience in the real estate industry, holding various management positions. Since January 2022, he works for WDP in Romania, which is WDP's third largest market.

What's Romania's current position in the nearshoring market?

“Romania is the place to be for nearshoring in Europe. It's showing significant promise to capitalise on the nearshoring trend, which makes it a strong candidate for global companies to establish their facilities. The main advantage of Romania is that it is an EU member state, which is still the second largest economic cluster in the world. Nearshoring has great potential because companies once focused on offshoring to Asia are now reconsidering.

In terms of products intended for the European market, particularly within the EU, Romania ranks as the second most cost-effective country after Bulgaria when considering labour costs, which has traditionally been a primary factor driving companies to choose Asia.”

What factors contribute to Romania's emergence as a prime destination for nearshoring ventures?

“Romania is currently one of the most promising countries in CEE for the industrial real estate sector, which includes both warehouses for logistics, but also light manufacturing.

It has been a NATO member since 2004 and an EU member since 2007 and is very much a politically stable country that values its relationship with the EU and the US. The recently emerging trend of friendshoring rather than offshoring makes it a very attractive destination for new warehouses and production facilities.”

“Romania is the place to be for nearshoring in Europe.”

How does the potential of Romania differ from other comparable countries in CEE like, for instance, Bulgaria?

“Size and location are key factors. Romania is the second largest country in the region (after Poland) and is located more centrally, compared to Bulgaria. Romania has a better-developed ecosystem both for manufacturing as for complementary services. The country has joined the EU's visa-free travel area (Schengen) for ports and airports since April 2024. Companies can now enjoy direct shipment to Western Europe through Hungary (whilst from Bulgaria goods would have to pass non-EU member state Serbia or would have to make, ironically, a detour through Romania).

Companies seeking to nearshore operations often find natural resource-rich locations attractive. Bulgaria has fewer natural resources than Romania, whereas Romania has its own oil and gas resources, and it is therefore less dependent on imports.”

“The emerging trend of friendshoring makes Romania a very attractive destination for new warehouses and production facilities.”

In terms of identifying any barriers to Romania becoming a more prominent nearshoring destination, how does its infrastructure development plan address current challenges?

“Romania's overall road infrastructure remains relatively underdeveloped within the EU, characterised by a limited motorway network of approximately 1,000 kilometres with numerous missing links. However, the country is currently undergoing significant developments in its road infrastructure, particularly with the acceleration of highway construction.”

What initiatives are in place to counteract Romania's demographic decline?

“Romania faces a significant demographic challenge with a steady population decline, largely driven by emigration, where a quarter of its population has migrated to Western Europe since 1989. Over 5 million Romanians have left in search of better opportunities.

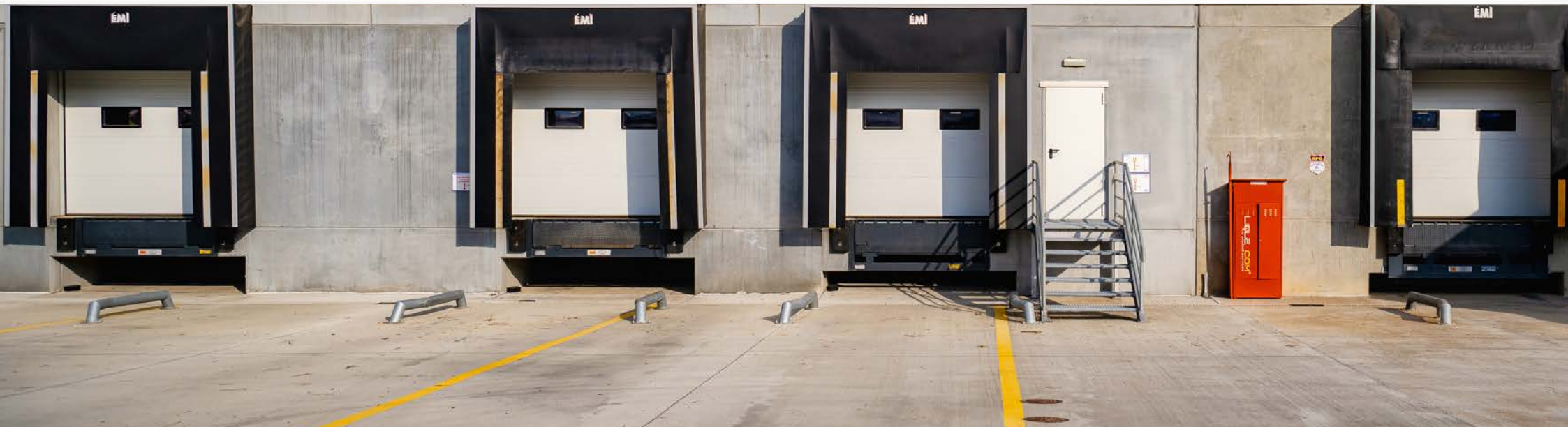
However, there's a glimmer of hope as the resident population is showing slight growth after two decades of decline. This growth is attributed to Romania's transformation into a consumer market, leading to increased affluence and potentially curbing emigration and boosting the fertility rate. While demographics remain an issue, there are signs of improvement, especially compared to other CEE countries like Bulgaria and the Baltic states.”

How does WDP assist companies in overcoming regulatory hurdles when establishing operations in Romania?

“Although public sector taxes in Romania are low, the corresponding public services often fall short of international standards, creating challenges in navigating the system. It's not always easy to find your way around the public sector in Romania. As indicated by the European Investment Bank, Romanian authorities are short of professionals skilled in project management. This triggers a complex decision-making process. That's why it's not always easy for companies setting foot in Romania to find their way around. At WDP we not only offer tailor made accommodation solutions for both logistics and industrial companies but also support clients with the permitting process of for instance new sites.”

What role does Romania's changing image play in attracting foreign investment and business interest?

“Romania's negative image in the past was largely due to a lack of knowledge about the country, its culture, and its people. However, as businesses increasingly explore Romania and uncover its untapped potential, the country's image is improving gradually. Word-of-mouth is proving to be a powerful force in reshaping perceptions as more often than not, companies with presence in Romania value the country and its people.”



#3

Romania 101

Romania sits at the pivotal point of Central, Eastern, and Southeastern Europe, and is a captivating blend of natural beauty, economic potential, and cultural heritage. Romantically described as resembling a fish with its tail bathing in the black sea, it shares borders with Bulgaria, Serbia, Hungary, Ukraine, and the Republic of Moldova. It is the 12th largest country in Europe and the EU's 6th largest member by population, with 19.6 million inhabitants.



Geography

Romania is blessed with stunning natural landscapes. The country has almost 10,000 km² of protected areas, covering 13 national parks and three biosphere reserves. The Carpathian Mountains dominate the central and northern regions, offering picturesque scenery and fantastic opportunities for hiking, skiing, and wildlife enthusiasts.

Romania is also home to the Danube River, a vital transportation route that forms a natural border with Serbia and Bulgaria and flows into the Black Sea. The country's climate varies from temperate continental inland to milder weather along the coast.

Romania's capital, Bucharest, blends old-world charm with modern flair. Known as the "Paris of the East" before World War II, the city boasts elegant boulevards, Belle Époque architecture, and a lively cultural scene. Visitors can explore famous landmarks like the Palace of the Parliament, or take a stroll through the historic Lipscani district, filled with cafes, shops, and art galleries.

Economy

Romania has a developing market economy, and the country has undergone significant economic reforms, privatising state-owned enterprises and liberalising markets. As an EU member and part of the World Trade Organisation (WTO), Romania has made substantial strides to facilitate trade and economic integration.

Key sectors of Romania's economy include manufacturing, agriculture, services, and tourism. The manufacturing industry particularly, encompassing automotive, electronics, machinery, and textiles, contributes significantly to exports. Agriculture plays a vital role in rural areas, and Romania is one of Europe's top producers of grains, vegetables, and fruits.

The service sector is growing, driven by information technology, telecommunications, and outsourcing. Romania has emerged as a competitive destination for IT services, benefiting from a skilled workforce and lower operating costs compared to Western Europe.

Tourism plays a vital role in Romania's economy, contributing to job creation, infrastructure development, and cultural preservation. Efforts to promote sustainable tourism and preserve natural and cultural heritage sites are underway, aiming to balance economic growth with environmental conservation and community development.



Facts & figures



Time Zone:

Eastern European Time (GMT + 2). Daylight saving time, which moves one hour ahead to UTC+03:00 is observed from the last Sunday in March to the last Sunday in October.

Currency:

Leu (even if the EUR is not adopted, the economy is de-facto EUR denominated)



Public holidays:

November 30th, Saint Andrew's Day, the patron saint of Romania and December 1st, the National Day of Romania.

Population



19.6 million

Area:

238,4 km²



Official Language:

Romanian (Latin language close to French, Italian and Spanish)

Capital:

Bucharest (București)



Food and Culture

Romanian cuisine is a hearty blend of flavours influenced by Turkish, Hungarian, and Balkan traditions. Romania's gastronomy reflects its multiculturalism while striving to innovate, and a slew of restaurants in Bucharest and beyond are leading the way, redefining and refining the country's cuisine. For example, the first chef awarded a Michelin star in Romania, Bogdan Dănilă, has recently opened a restaurant, Pastel, in Cluj-Napoca.

Romania is a religious country, most of its inhabitants are Romanian Orthodox but in the Hungarian parts of the country the inhabitants are mostly Catholic or Protestant. Romania's culture reflects its diverse history, influenced by Roman, Ottoman, Hungarian, and Slavic traditions. The country's cultural heritage encompasses art, literature, music and dance, blending indigenous elements with external influences. Romania's cultural landscape is also shaped by its architectural heritage, with medieval castles, Orthodox churches, and vibrant urban centres showcasing a blend of architectural styles. Bran Castle, immortalised by Bram Stoker's Dracula, the painted monasteries of Bucovina and the ancient ruins of Sarmizegetusa Regia are among the country's most iconic landmarks.

Getting to and around Romania

Most international flights arrive at Bucharest's Henri Coandă International Airport. Several other cities like Timisoara, Cluj-Napoca and Iasi have international airports. The port of Constanta is the largest port in the Black Sea and a major transshipment hub.

Most international trains access the country via Budapest and onward to Braşov and Bucharest. Once inside Romania, an extensive bus and train network links major cities and towns.

#4

What to know about nearshoring in Romania

A recent survey by Ernst & Young showed more than half of participating 101 foreign companies planned to set up or expand operations in Romania, primarily in supply chains and logistics, ranking it fourth in Europe by intention to invest. For many years one of Europe's poorest countries, Romania has quietly closed in on its peers to become eastern Europe's second-largest economy after Poland. One of the drivers has been foreign direct investment by foreign companies.

So, what elements have helped Romania in its drive to become a top nearshoring location?

Infrastructure

A well-developed infrastructure is essential for a country to become a preferred nearshoring destination by providing the necessary support for seamless business operations and growth.

Robust infrastructure, including reliable transportation networks, modern communication systems, and efficient utilities, reduces logistical barriers and facilitates smooth business operations. It's crucial for nearshoring because it directly impacts operational efficiency and accessibility. Furthermore, quality infrastructure contributes to a favourable business environment, attracting investment and skills. In recent years, the Romanian government has rolled out a series of substantial programmes of infrastructure improvements.

CONSTANTA PORT

Constanta is the largest seaport in the Black Sea area and is positioned at a strategic geographical location at the crossroads between east and west:

many Asian countries ship their goods through this port and the Rhine, Europe's most productive river in terms of logistics and industrial activity, is connected to Constanta through the Rhine-Main-Danube Canal.

In March 2024, the Romanian government gave its approval for an important infrastructure project aimed at expanding the southern sector of Constanta Port as a response to surging traffic demands and the ongoing regional turmoil caused by the war in Ukraine. The project is estimated to cost a total of around €1.12 billion and will include new terminals, access roads, and utilities in the region. The goal is to enable the port to handle larger-capacity ships at 17 newly created berths, which would drastically increase the port's cargo capacity. This project comes on top of another recently launched significant investment aimed at improving the transport infrastructure in the existing port.



ENERGY

Romania takes great pride in its diversified energy mix and low import dependency in the energy sector. This has resulted in high energy resilience and security in the aftermath of the war in Ukraine.

Romania's electricity mix is one of the most balanced in the EU, with coal, hydropower, fossil gas, nuclear energy and wind power having comparable shares of capacity and power generation. Unlike many Western European countries, the electricity grid still has generally good capacity availability.

This year the government approved €418.2 million in grants to the country's regional power distribution system operators for grid expansion and modernisation projects worth €645.7 million in total.

REPowerEU is an EU plan aimed at reducing Europe's dependence on fossil-fuel and speeding up the transition to green energy. Romania's REPowerEU chapter consists of two new reforms and seven investments, focussing on accelerating green energy production, promoting energy efficiency of buildings, and re- and up-skilling the workforce in the field of green energy production. The Romanian government has secured €28.5 billion in funds and grants to help finance the initiative.



INTERNET

Over the past decade, and somewhat surprisingly, Romania has constantly matched the best performers in the world when it comes to internet speed (260.97 Mbps). According to Eurostat, Romania's internet penetration rate is also amongst the highest in Europe, with a 92% level of internet access in December 2023, beating some of the richest countries in Europe including France, Belgium, Finland, and Austria.

This widespread connectivity is largely attributed to the proliferation of small neighbourhood Internet service providers that have offered affordable and localised internet access. These local providers have been instrumental in laying the foundation for Romania's digital landscape, demonstrating the significant impact of grassroots initiatives on national internet coverage.

The National Strategy for Romanian Digital Agenda 2020 outlines Romania's approach to broadband and digital infrastructure development, aligned with broader European Union goals for a Gigabit Society. It focuses on various fields of action, prioritising broadband, and digital services infrastructure. A central aspect is the development of Next Generation Network infrastructure, emphasising extending fibre networks close to end-users for robust high-speed internet access essential for both individuals and businesses.

In 2019, Romania adopted the National Strategy for the Implementation of 5G, a significant move to enhance its telecommunications infrastructure. This strategy provides the framework for rolling out 5G networks, expected to enable a new generation of digital services and applications.



TRANSPORT INFRASTRUCTURE

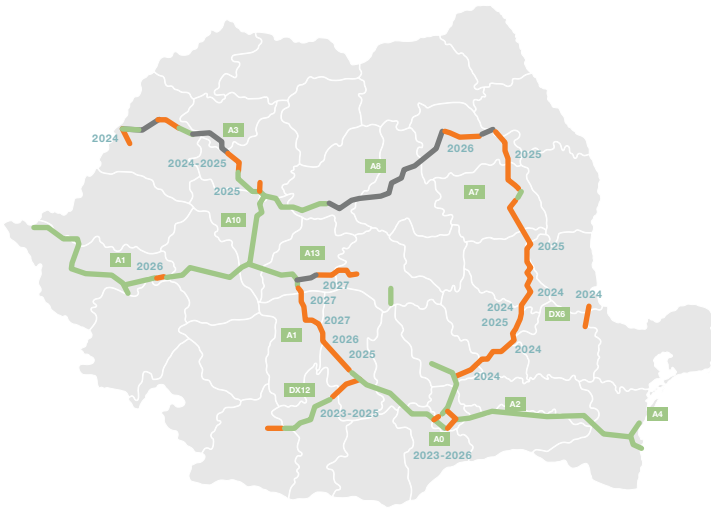
While Romania's transport infrastructure still ranks among the least developed in the European Union, with one of the shortest motorway networks, the country is implementing a massive programme of transport infrastructure improvements, including the construction of 1,700 kms of motorways and express roads.

One major strategic initiative, the A7 project, was financed by the post-Covid-19 European recovery plan and launched before the start of the Russian invasion of Ukraine. However, the work has speeded up since the beginning of the war and is due to be completed in 2026. The 319 km A7 highway will eventually link Bucharest with the currently underdeveloped Romanian region of Moldova and the Ukrainian border and create the 500 km North-South axis that Romania has dreamed of for years.

To put it in perspective: the highway infrastructure of Romania doubled in the past five years, and it will double again the next five years, creating a corridor from East to West, as well as from North to South.

The rail infrastructure is also being overhauled. Earlier this year, Romania's Ministry of Transport signed a groundbreaking deal for 62 state-of-the-art electric trains from Polish manufacturer PESA, marking a major advancement in Romania's rail modernisation efforts. With a €600 million price tag, funded by the European Modernisation Fund, the acquisition will transform rail travel across Romania, linking fifteen cities through an extensive network.

Several main railway corridors are in the process of being overhauled, which will help to address the persistent issue of the very low average speed of railway traffic in Romania.



- Open (1,074 km)
- Under construction (777 km)
- Planned
- 2026** Estimated opening date





Logistics & real estate

Interview with **Mihai Patrulescu, Head of Investment Properties at CBRE Romania**

With more than 115,000 professionals in over 100 countries, CBRE is the global leader in commercial real estate services and investment. Mihai Patrulescu leads the Investment Properties department at CBRE Romania. Before joining CBRE Romania, Mihai Patrulescu held key positions as Senior Investment Associate and Head of Strategic Analysis in another real estate company, being involved in complex portfolio deals.



How do you evaluate the potential of nearshoring for Romania?

“Recent events like the pandemic and war in Ukraine have intensified discussions about nearshoring, with friendshoring becoming a growing trend. While these trends take time to solidify (around five years), I believe nearshoring and friendshoring will be key for Romania in the coming years.”

When you look at the past five years, have you already noticed an evolution in leasing activity?

“Yes. Before 2020 and even in 2021 and 2022, the leasing activity in Romania was driven by storage and logistics. Over the years, this has changed and in 2023, for the first time, we saw an increase in leasing not only for storage and logistics but also for production from 7% in 2022 to 18% in 2023.”

How does production differ from a nearshoring perspective?

“In contrast to storage and logistics, production you don’t just move because it offers benefits in the short run. Companies that are choosing to nearshore production to Romania, believe Romania is the best strategic choice – today and in the future. This shows that chances are high that nearshoring to Romania will only keep on gaining importance.”

Will this benefit the entire country or are some regions more prosperous than others?

“When it comes to nearshoring, you need demand, but at the same time, you need the potential to absorb it, and that’s where Romania has really evolved. Until 2021, Bucharest was the main driver with a total leasing activity of around 82%. In second place you had the Western and North-Western regions of Romania with around 20%. Why? Because infrastructure in Romania used to be quite poor due to the proximity to Hungary, that didn’t impact the West of the country. As you can imagine, that also means there is quite some untapped potential in other regions of Romania.”

How will infrastructure improvements impact nearshoring potential?

“Over the past five years, Romania’s infrastructure has undergone a significant transformation. Highway kilometres have doubled, and projections suggest another doubling in the next five years. These new highways are already opening up previously underdeveloped regions, creating new employment opportunities (data point on job growth, if available). This improved infrastructure will likely lead to a more balanced distribution of economic activity across Romania, with a rise in leasing activity in these previously untapped regions.”

Is it possible to evaluate the potential of the different regions of Romania?

“The evaluation of the potential of different regions in Romania reveals distinct advantages and opportunities for developers and investors. The West/North-West region stands out for its skilled labour force and strategic position as a gateway to Western Europe, making it highly sought after. In the Southern region, limited competition, affordable labour costs, and excellent transportation access present opportunities that have been underutilised. The Central Region boasts a highly skilled workforce, coupled with plans for a highway connecting Brasov and Bucharest, making it an attractive investment destination. Meanwhile, in the East/North-East region, factors like limited competition, cost-effective labour, and advantageous locations such as Iasi and Galati offer promising prospects for development and investment.”

Labour

Romania boasts a qualitative labour pool shaped by its industrial history and linguistic proficiency. With a Latin heritage, language skills in Romanian extend beyond English to include French, Spanish, and Italian, contrasting with Bulgaria's less developed linguistic abilities as a Slavic country.



LABOUR COSTS

Romania offers **lower labour costs** compared to Western Europe, with the second lowest hourly labour rate in the EU, standing at €11, significantly lower than countries like France and Germany, where hourly labour costs exceed €40.

LOW COST OF LIVING

Romania has **one of the lower costs of living in the EU**, even in Bucharest. In the Mercer Cost of Living Ranking 2023, Bucharest ranked 142nd among 227 cities in the world. The capital of Romania is more accessible than Budapest and Prague, but more expensive than Sofia (Bulgaria) and Belgrade (Serbia). Excluding rent, the average cost of living in Romania per month is 2,300 RON (€462).

PURCHASING POWER

According to the **GfK Purchasing Power Europe 2023 report**, Romania's average annual purchasing power per capita in 2023 stood at €7,738, representing a 56% negative deviation from the European average. Disparities in purchasing power between regions in Romania are widening, with Bucharest leading significantly with a per capita purchasing power of €15,314—nearly 100% higher than the national average and 3.8 times greater than that of Vaslui County, which has the lowest purchasing power at just €4,010. Among the top ten counties, all have above-average per capita purchasing power. Prahova County, ranked tenth, closely approaches the national average with a net disposable income of €7,836 per capita, exceeding it by almost 1.3 percent. However, the majority of counties, comprising over three-quarters of all counties, fall below the national average.



Tax & state aid

Romania is a semi-presidential republic with a head of government - the prime minister - and a head of state - the president. Executive functions are held by both government and the president.

The country is divided into 41 counties and the municipality of Bucharest. Each county is administered by a county council, responsible for local affairs, and a prefect responsible for administering national affairs at county level. The Romanian permitting process is relatively straightforward and the relevant timelines are typically much shorter than in Western Europe or even than in many CEE countries.

19%

**The Romanian standard
VAT rate**

AN OVERVIEW OF THE FISCAL INCENTIVES IN ROMANIA

The Romanian standard VAT rate is 19%. It has been reduced twice during the 2010-2021 period, from 24% to 20% in 2016 and then to 19% in 2017, remaining constant over the last 5 years. A reduced rate of 9% applies to food, water supply and sewerage, water for irrigation in agriculture, fertilizers and pesticides used in agriculture, seeds and other agricultural products for sowing or planting, medicines for human and veterinary use, medical equipment for disabled persons, etc.

An extra-reduced rate of 5% applies to accommodation, restaurant and catering services, newspapers, magazines, admission fees to castles, museums, zoos and botanical gardens, theatres, fairs, exhibitions and cultural events, transport of persons for tourism purposes etc.

Amongst fiscal incentives in Romania, the Fiscal Code includes, for example, a 16% corporate tax relief for profit reinvested in new technological equipment used for business purposes and a personal income tax exemption for salary income for employees in IT or those part of teams that carry out research & development and innovation projects.



Interview with **Alexandru Reff**,
Country Managing Partner at Deloitte Romania and Moldova

Alexandru Reff is the Managing Partner of Deloitte Romania and Moldova. He is an attorney at law with more than 20 years of experience in business law, with a focus on M&A and real estate, taxation and assistance of multinationals and local entrepreneurs with investments, acquisitions and exits.

When it comes to nearshoring, what does Deloitte offer its clients?

“We offer our clients site selection and strategy projects, accompanying them to consider whether they should relocate in the 1st place and then if so, what jurisdiction they should select. We guide them through everything they have to consider with their implementation, including talking to the government and securing funding, which is highly technical and multidisciplinary. We have a diverse set of competencies, including legal assistance, which is imperative when you create your presence and need to put all your compliance processes in place with employees, contracts, suppliers and customers.”

Aside from the legal issues, what else do companies need to consider when nearshoring?

“We also advise on tax issues, which are of primary consideration both from a strategic perspective concerning assessing implications and also in terms of the best way to structure a company that is nearshoring.”

In terms of state aid, how does Romania support companies that are interested in nearshoring?

“Given the competition regulations in Europe, the government cannot just throw money around as it pleases, so there are certain pre-approved schemes. In general, most of these schemes provide that you need to return the same amount in taxes and Social Security contributions over

a certain period, typically, seven years, and that creates some limitation to what you can attract. Furthermore, there are the so-called individual state aid schemes, which are designed for a very specific and very strategic purpose, and they are very few and far between.”

Are there any barriers to the help available?

“Although the government is very welcoming of foreign investment, it is running a very large budget deficit and it can be difficult to allocate resources. It would be unfair to create an expectation that this is the place where you can get the highest percentage of your investment subsidised by the state, but you can still obtain some meaningful contributions.”

Are there specific sectors that offer the most promise regarding state aid?

“The most generous funding is around the energy transition. We are having some significant success procuring state aid for hydrogen, biofuel or other clean energy projects. This is also extending to energy storage like batteries and the production of solar panels.”

What action is the Romanian government taking to stay attractive for foreign investments?

“Along with better governance, transparency and efficiency, we also need better collection of taxes, because a critical weakness is the tax deficit. While our overall public debt is relatively small, around 50%, it’s nothing compared to some other states in the region that are far more indebted.”

“Businesses are bracing for possible higher taxation as a result of needing to address that deficit. Of course, ideally, it should be higher collection rather than higher taxation, but that doesn’t change overnight. [After the election] the personal income tax rate might go back to 16%, which will be quite reasonable if there’s some form of progressive taxation but it will be complex to reintroduce, so it will probably not apply until 2026 or beyond.”

Do you see any other big advantages as to why companies should potentially think about nearshoring to Romania?

“The general environment in Romania has been remarkably stable from a political, economic and currency perspective, all aiding an economy that has been growing at some of the highest paces in Europe. Even the contraction in 2020 was one of the smallest in Europe and the recovery, in terms of GDP at least, has been quite strong.”

“Digital transformation will still take a few years to bring results, but it’s happening, such as online reporting of VAT. Funds are available under the next Gen EU scheme with €6 billion or so available for digital transformation of the public sector.”

“Many companies are coming for the labour, which is not unionised, because, put simply, Romanians are willing to work harder.”

How does the job market help to increase Romania’s competitiveness?

“There’s a 20 million-strong market of consumers with increased purchase power and a strong appetite to spend, albeit with a big discrepancy between the big cities and the countryside in terms of purchase power. Romanians have a strong work ethic, especially in the urban and younger population. They also have good skills in terms of various competencies, for instance, foreign languages. We have a good engineering, maths and technology education environment. Many companies are coming for the labour, which is not unionised, because, put simply, Romanians are willing to work harder.”

#5

Conclusion

In conclusion, nearshoring presents a multifaceted solution to the evolving challenges of global business operations. By embracing nearshoring strategies, companies can achieve a delicate balance between cost efficiency, supply chain resilience, and environmental sustainability.

Romania serves as a compelling testament to the transformative power of a stable political and economic environment, competitive labour costs, a strategic location and robust infrastructure investments in catalysing nearshoring success.

As businesses traverse the complexities of today's interconnected world, nearshoring emerges as not merely a tactical response to supply chain disruptions, but also as a strategic imperative for sustainable growth and competitive advantage. By embracing the principles of nearshoring, companies can chart a course towards operational excellence, resilience, and long-term success in an increasingly volatile and uncertain business landscape. Within the EU, Romania might very well be the place to start.



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