Investing in Romania: Lessons from the Financial Crisis

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Timeline

1. 1945 - 1965
2. 1965 - 1989
3. 1989 - 1996
5. 2000 - 2008
6. 2008 - ?
Embracing Communism: 1945 - 1965

1945 - Land Reform
1947 - Monetary Law
1948 - National ownership of the capital means of production
1949 - Foreign Trade
Loosening ties with the USSR: 1965 - 1989

Erratic progression:

- State-owned Economy
- Political Factors
- Demographic Policy
- Investments
- Foreign Debt
- Self-sustainable economic system
1979 – 1989: Reaganism / Thatcherism
Post 1989 Events: The Transition Period

• 1990: Parliamentary and presidential elections
• 1991: Adopting a new constitution
• NSF: "Social Democrat" program – slow economic reforms
1997 - 2000: Starting to rebuild?

- Market-oriented economy
- Privatization
- Restructuring of large industries and public utilities
- Radical reforms
- Full liberalization of prices
- Partial liberalization of the exchange regime
1997 - 2000: Starting to rebuild?

Weight of private sector in GDP
1997 - 2000: Self-impaled

- Unemployment surged from 6.6% in '96 to 11.8% in '99
- Contracting economy
- Inflation over 40%
- 60% of bank loans were non-performing
1997 - 2000: Self-impaled

Evolution of GDP (1990 = 100)
2000 - 2008: A dim green light

- EU / NATO membership
- Strong reformist government
- Privatization of banks (e.g., BCR)
- Significant growth (5-7% per year)
- Large deficits (more than 10% of the GDP)
2000 - 2008: “Putting Romania on the Map”

- Advantage of size and demography (big countries matter more to foreign investors)
- Population:
  - Around 22M
  - Population growth: -0.2%
- Romanians are more individualistic
- Team work?
Factors that Impact Investments

- Market Size
- Wage Costs
- Natural Resources
- Geographic Distance from Markets
- Privatization
- Economic Policy and Business Environment
Taxation

• Tax reform (2005)

• A flat tax of 16% for both personal income (ranged from 18% to 40%) and corporate profits (taxed at 25%)

• VAT: 19%
Investments

- Investments in Eastern Europe peaked in 2006: 112B$
- The 2\textsuperscript{nd} most important emerging markets region
- Romania ranked 3\textsuperscript{rd} in the region and 10\textsuperscript{th} world-wide: 11.4B$
- Large-scale privatization
- Growth in reinvested earnings
- Real-estate boom
Investments

• The Software Industry (Microsoft, HP, Alcatel-Lucent):
  – Cheap, multilingual programmers
  – Multiculturalism and Western-oriented mentality
  – Proximity to Western Europe

• Mobile phone manufacturer Nokia moved its manufacturing operations from Germany to Romania (late 2008)

• Renault – Logan (through Dacia)

• Plaza Centers (Centre Ville, Hotel Radisson)
2007: Warning signs

Worrying about a crash at the peak of the hill?
Holding Back

- RomReal (Norway)
- Cooper Beech (UK)
- Fabian Property (UK)
- GTC Romania (Israel)
- Plaza Centers (Israel)
Over the hill

- Increase in wages (20% per year to over 400 Euros)
- Foreign investments covered current-account deficits
- Inflation under control
- Unemployment: relatively low
- Market economy
The Numbers…

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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</thead>
<tbody>
<tr>
<td>GDP growth:</td>
<td>6.5%</td>
<td>7.1%</td>
<td>-1.8%</td>
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<tr>
<td>Current account deficit:</td>
<td>11.4%</td>
<td>12.4%</td>
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<tr>
<td></td>
<td>10.5%</td>
<td></td>
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<tr>
<td>Inflation:</td>
<td>4.8%</td>
<td>7.8%</td>
<td>6.2%</td>
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</tbody>
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Facing stormy weather

- Slowing growth
- Rising unemployment
- Declining per capita income
- A marked fall in imports
- Inability to muster the financial firepower like Western governments
- The coalition government will most likely remain unstable:
  - Economic policy
  - Disagreements over reforms
  - Presidential elections
- The European Commission report (February 2009)
- Talks with the IMF and the EU on a loan package
What can we do?

• Lifeline from outside (IMF / ECB)
• Increase spending?
• Minimize dependency on exports to other slowing economies
• Monitor the deficit
• Avoid provoking a resurgence of inflation
• Adopt the Euro?
• Improve productivity (i.e. - modernize education)
Why do we need to import oil and gas?

• Investment in infrastructure
Thank you