Investing in Romania: Lessons from the Financial Crisis

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Timeline

1. 1945 - 1965
2. 1965 - 1989
3. 1989 - 1996
4. 1996 - 2000
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

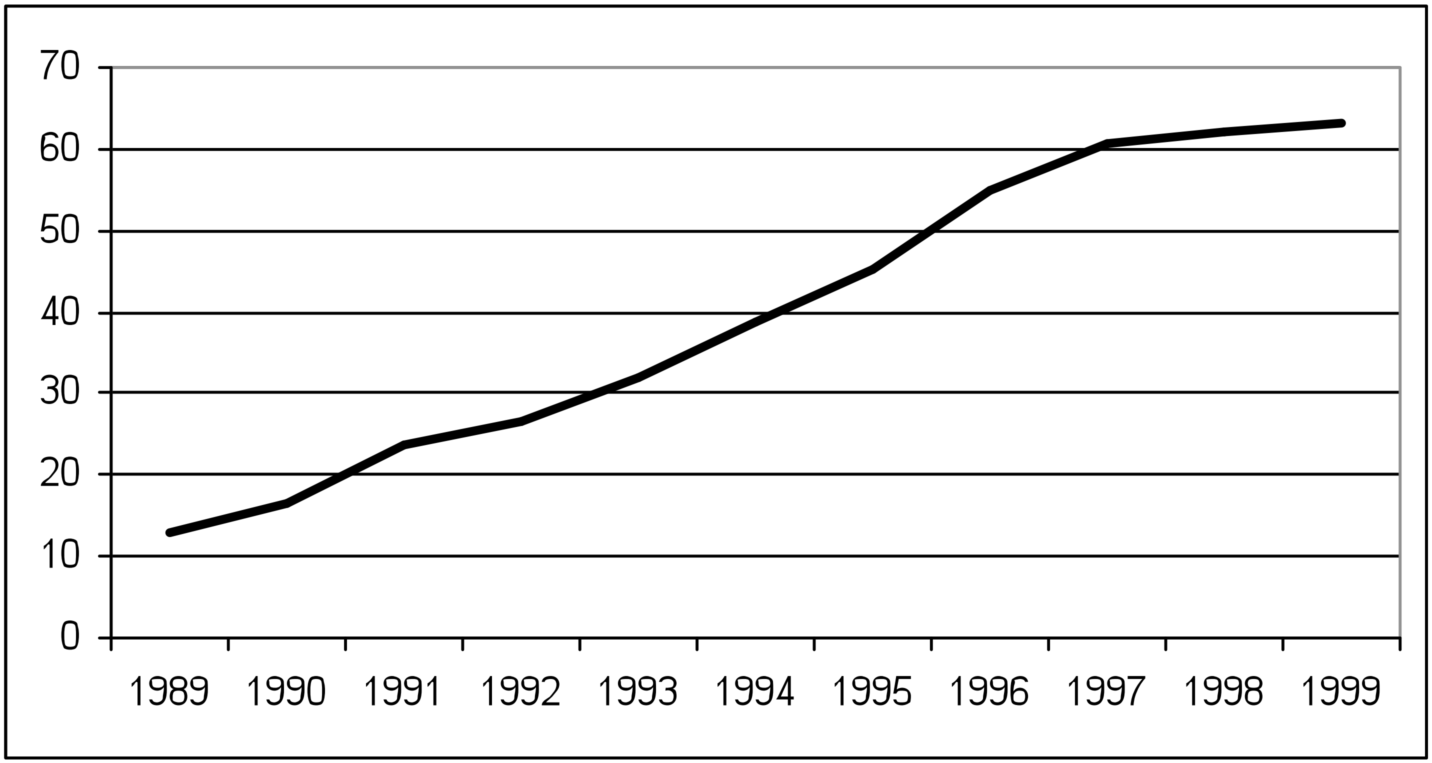
- 1990: Parliamentary and presidential elections
- 1991: Adopting a new constitution
- NSF: "Social Democrat" program – slow economic reforms

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

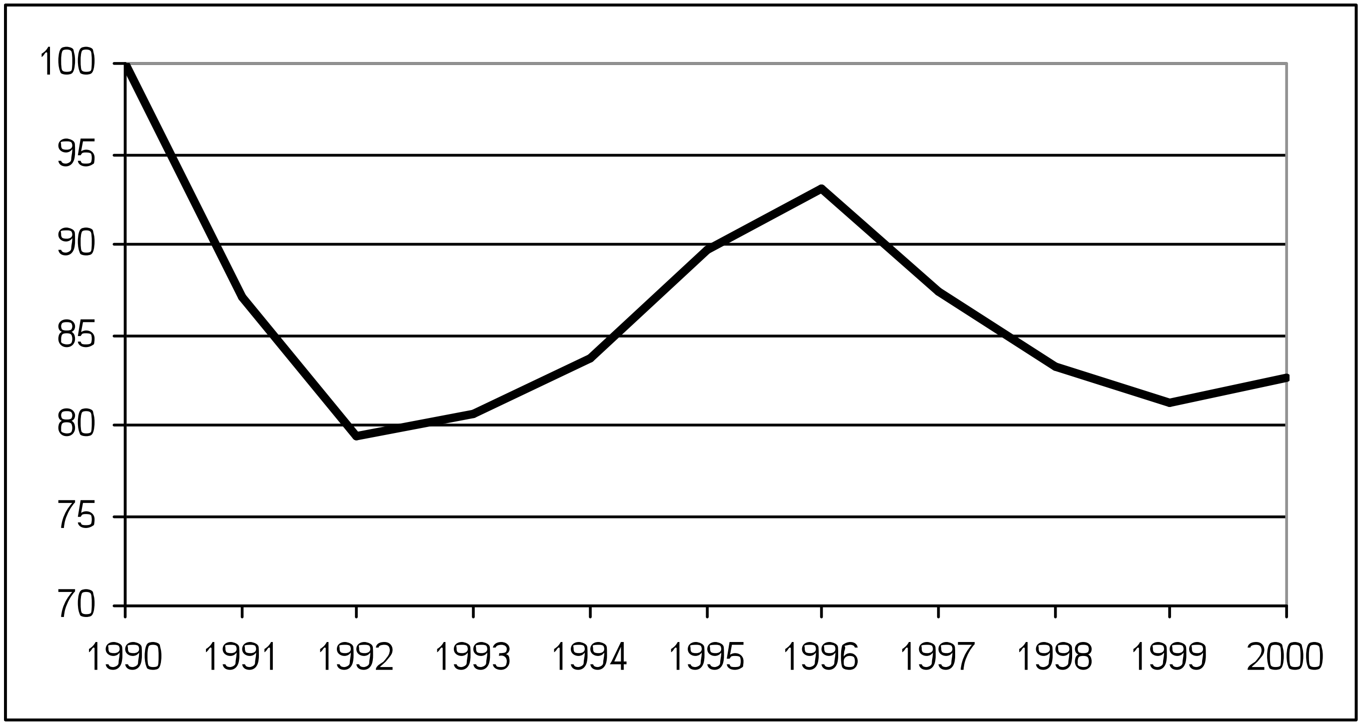


1997 - 2000: Self-impaled

- 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 2nd most important emerging markets region
- Romania ranked 3rd in the region and 10th 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

a peak

Foreign Inve

e hill?

Worrying ab

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…

2007 2008 2009

- GDP growth: 6.5% 7.1% -1.8%
- Current account deficit: 11.4% 12.4% 10.5%
- Inflation: 4.8% 7.8% 6.2%

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)

“Back to Our Roots”

- Petroleum
- Timber
- Natural Gas
- Coal
- Iron ore
- Salt
- Arable land

  Why do we need to import oil and gas?

- Investment in infrastructure

Thank you