

FOCUS ON ROMANIA

GENTLEMAN DRAUGHTSMAN



OPENNESS MAKES IT EASIER TO DO BUSINESS

MODERN ROMANIA'S PERFORMANCE HAS CONFOUNDED THE EXPECTATIONS OF MANY. IT HAS UNDERGONE A SEA-CHANGE TO BECOME A PROGRESSIVE ECONOMY AND THE FASTEST-GROWING COUNTRY IN THE EUROPEAN UNION

By *David Nicholson*

Taking many economic commentators by surprise—certainly those in the British tabloid press—one of the stellar European Union performers over the past 12 months has been Romania. With a fourth-quarter gross domestic product boost of 5.2% for 2013, the Eastern European country with its Black Sea coast and border with Ukraine posted an overall 3.5% rise for the year, with a further 2.3% anticipated for 2014.

"It's the fastest-growing country in the EU," says Guillermo Tolosa, the International Monetary Fund's resident representative in Romania and Bulgaria. "It reflects a manufacturing export boom—principally car manufacturing—and a very good year for agriculture. We had very good weather."

This curiously old-fashioned variable as a signal of economic strength is misleading. Romania is now a modern, progressive economy with GDP per capita above the EU average, relatively low unemployment and a small budget deficit. Major industries

including energy and telecoms are liberalizing and, across a broad range of criteria, its ranking has advanced remarkably in recent years, according to the 2014 Index of Economic Freedom. "Romania's economic freedom score has advanced about 23 points, the eighth best improvement of any country," states the Index. Structural reforms and market openness have made Romania a dramatically better country in which to do business.

CHANGE FOR BETTER

While much has changed for the better, Romania certainly felt the impact of the 2008 financial crisis, needing a €20 billion (\$27 billion) IMF and EU bailout in 2009. Since then, the country has implemented a tough austerity package, earning the reproach of protestors in the capital's central square and raising its 2008 bond yield payments to investors to 6.75%.

It is a measure of the sea-change in the Romanian economy that a similar €2 billion bond issue in January had a 3.7% yield and was five times oversubscribed. Inflation fell to 1.1% at the turn of the year and remains at historic lows, while economic

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confidence in the country is healthy and strong.

Instead of fleeing to the U.K. or other Western European nations in search of work, now that the borders are open to them Romanians are happy to stay at home. "Because of the economic position, people have more hope," says Guillermo Tolosa. "They see that the economy is increasing in the right direction, so they are less interested in emigrating. People feel that Romania has turned a page and can look forward to the future without further drag on the economy."

BANKING REFORM

The banking sector has reformed itself, bringing its loan-to-deposit ratio virtually up to par, compared to a misalignment of loans at 140% of deposits in 2008. As Mr. Tolosa says, the Romanian government gradually took the steam out of the economy, taking care not to alarm the markets, businesses or consumers. "The IMF's job now is to consolidate what has been achieved on the macro side, to maintain what we have got. The next stage is to reform the state-owned sector," he argues.

At least 10% of the Romanian economy remains state-owned, including much of the mining sector, the railways, airlines, energy and chemical industries. "The state is still all over the place," says Mr. Tolosa. "I think there's scope to improve the way the sector is performing."

He recommends more initial public offerings, which will prove profitable for investors, he believes, but will also bring much-needed transparency and scrutiny. "They will increase the pressure to perform better," he says.

Two large-scale IPOs took place in late 2013, with energy producer Romgaz raising around €425 million and Nuclearelectrica raising €64 million. Further IPOs for Hidroelectrica, Electrica and other energy assets are in prospect. "We would have preferred more ambition in terms of having majority stakes for sale—these are all minority shareholdings (except Electrica)—but earlier privatizations failed, so the government decided to offer minority shareholdings," Mr. Tolosa explains.

Romania is a resource-rich country, particularly in energy. But because it has historically kept its prices very low, this has kept it out of the export market. So, in a similar way to its approach to banking reform, the government is gradually raising prices in three monthly stages

RENAULT'S INVESTMENT DRIVES PROFITS

Like many Eastern European cars, the Dacia brand was more of a joke than a viable business in the 1980s. Founded in the 1960s, it struggled into the post-Communist era and by the 1990s had to adapt or die.

French automotive giant Renault, which had cooperated with Dacia years earlier, sprang to the rescue in 1999. Since then, the company has invested more than €1 billion in the venture (now majority owned by Renault) and turned it into a vastly profitable, much-admired brand.



Car maker Dacia is Romania's top-earning company.

With its low cost, basic design and robust performance, Dacia's Logan, along with the Sandero, the Duster and other brands, has won millions of customers across Europe, the Middle East and Central Africa. The vehicle's price, from around €5,500, has produced a phenomenal response in an era of austerity. Dacia recently announced a 45% rise in revenue for 2013 over 2012, up to €4.15 billion, making it Romania's top-earning company.

Dacia's Pitesti plant in Romania employs more than 10,000 people and produces around 350,000 cars per year. There are plans to extend this to 550,000 in the next couple of years.

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until they reach European levels and can converge with neighboring markets. This will further improve the Romanian economy and bring a new flush of employment to the country.

Both deep-sea exploration in the Black Sea, in collaboration with U.S. oil major Exxon, and exploring for shale gas on the mainland with fellow major Chevron promises to extend Romania's hydrocarbon wealth in the coming years. In the context of the ongoing economic

protests against the influence of oligarchs in the government and demands for a more "European" style of administration.

Romania, by contrast, has a government with a clear parliamentary majority, which can pass whatever measures it decides upon into law and has achieved cross-party agreements on major reform packages, to the evident surprise and happiness of the IMF resident representative. "It's a sign of political maturity," says Mr. Tolosa, who,

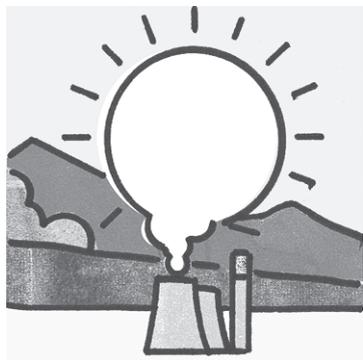
as a native of Latin America, finds such political unanimity hard to believe.

GREEN SHOOTS

The results have been equally startling, for those who can remember the ruins of the Romanian economy at the end of the Communist era, when horses and carts were still routinely seen on Romanian streets, lines for gas stretched for miles and there were bullet holes in the capital's walls.

Even in the most recent years following the 2008 crisis, Romania has barely registered on the European map of high-growth economies—until now.

"We're seeing the first green shoots," says Mr. Tolosa. "The export sector is doing very well, foreign investment is coming into the country, so there is more competition, more flexibility and lower taxes. This will give Romania an advantage, compared to other countries on the periphery of Europe."



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sanctions against Russia, Romania's resources could prove an increasingly helpful source of energy in future.

Far from creating instability, the situation in Ukraine has had a positive effect on Romania, says Mr. Tolosa. Less than 5% of the country's external trade is with Ukraine and Russia, so the potential impact of sanctions is marginal.

POLITICAL STABILITY

What Romania enjoys, in contrast to both its eastern neighbour Ukraine and its southern neighbour Bulgaria, is political stability. Bulgaria has a similar macroeconomic environment of export growth and low debt, but it is convulsed by political infighting, with mass