

## Reforms and economic development

*by Ernst & Young*

### **Type of economy**

Since early 1990, Romania has had a free market economy despite continuing government presence in the industrial sector. Successive governments have taken steps to liberalise and privatise the economy.

Romania sits on the crossroads of many historic trade routes that allow access to another 200 million consumers within a 1,000-km radius of Bucharest. The main channels of these routes are the Danube river and the port of Constanta, one of the largest ports on the Black Sea, which is linked to the North Sea by a new navigation route through the Rhine-Main-Danube Canal. Romania has a large skilled workforce experienced in areas such as engineering and manufacturing and cheaper labour costs compared to many other East European countries. Many of the country's big cities boast of a large industrial infrastructure, which along with Romania's considerable natural resources offer substantial potential for exploitation and development.

### **General economic trends**

Like many countries in Eastern Europe and the former Soviet Union, Romania had been struggling to turn its command economy into a market economy. Successive governments have found it difficult to turn the economy around because of a lack of hard currency and the inability to secure external funds due to the country's high budget deficits, much of it accrued from financing loss-making state industries. Old economic and financial structures have been slow to change just like the bureaucratic culture inherent in many old institutions. In the last five years, the overall business climate has improved and the economic indicators look healthier.

### **Leading industries**

Manufacturing and engineering are Romania's backbone industries. The country also possesses substantial energy resources and agricultural land. Most sectors of the economy remain under-exploited and offer great potential, particularly manufacturing, agriculture and tourism. The technology sector continues to play an increasingly important role in the economy due to the high level of skill among its workers and rather low wage costs. The real estate sector also offers significant growth opportunities.

Sectors that attracted foreign investment in recent years include oil and natural gas, automotives, metallurgy, banking and finance, food processing, heavy engineering, telecommunications, construction and consumer goods manufacturing. Investors have expressed interest in newly-privatised industries as well as in greenfield projects.

### **Government-owned industries and privatisation**

Romania's government has reaffirmed its commitment to privatise the remaining state-owned companies, particularly those in energy, heavy industry, pharmaceuticals and utilities. The relevant privatisation strategies are formulated, approved and executed every year by the concerned ministries in collaboration with the state privatisation authority, the Authority for the Disposal of State Assets (AVAS). Most of the companies up for privatisation are listed on the two major capital markets – Bucharest Stock Exchange and RASDAQ. Privatisation is often carried out on these markets through electronic auction, public equity offer and/or firm commitment underwriting. Moreover, in the case of big state-run companies undergoing privatisation, direct negotiations are a common practice.

Last year, foreign investors showed a special appetite for the automotives sector, electronics and household appliances, construction, pharmaceuticals and bio-diesel production. Automotives was appealing to investors because of its long tradition in Romania. Production of consumer electronics and household appliances benefits from the ample availability of skilled workforce. The construction sector flourished due to the continuing boom in the real estate market and bio-diesel production benefited from large areas put to fuel-yielding crops.

The Information Technology and Communications (IT&C) sector has also attracted foreign investment due to the availability of highly qualified IT specialists.