

JUNE 2017

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# EMERGING EUROPE

SPECIAL REPORT: OUTLOOK ON ROMANIA 2017/2018

## WORLD BANK

Romania's  
European values  
are changing  
public misinformed opinions

## EBRD

The goal for Romania:  
the positives outweigh  
the negatives

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Robust first-quarter growth

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## FROM THE EDITOR

Time flies and, now, almost three decades after the fall of the Berlin Wall, few people remember that, unlike in the majority of Central and Eastern European countries, in Romania, the road to freedom, democracy and a market economy was more costly. Romania was the only Eastern Bloc country whose people overthrew its Communist regime violently and executed their long-time leader Nicolae Ceaușescu and his wife, Elena.

I didn't have a chance to witness that particular milestone in the country's history, but I was quite lucky to visit Romania a few weeks before another milestone, when the country was about to join the European Union. I spent just one day in the country, in November 2006, a few weeks before Romania officially joined the Bloc, and I have visited the country multiple times since then. Even though there is still room for improvement, especially outside the capital city, I can say that progress has been massive and Romania is a different country.

Today, with a 5.7 per cent year-on-year growth rate, in the first quarter of 2017, Romania, the second largest new member of the European Union, is clearly the Bloc's leader. Ten years of EU membership have resulted in a GDP per capita hike, from €4,600 in 2006 to €8,600 in 2016, despite the global economic crisis which made the economy contract by 7.1 per cent in 2009.

Romanians have proved they are able to endure hardship and that they know what they want. Recently, about half a million of them made it to the streets to protest against changes in the anti-corruption law.

Oana Bizgan, currently a member of the Romanian Parliament and formerly Chief of Staff at Invest Romania, says that the Dacia Duster is one of Romania's best-sellers all over the EU, Asia and the Americas — it is strong, competitive and very reliable. This is what Romania is like now!"

Does everyone else, especially abroad, have the same image of the country? Unfortunately not. As Romanian-born Anne-Marie Martin, Chief Executive at the Council of British Chambers of Commerce in Europe, says, the often turbulent political landscape in Romania and the frequent reports of systemic corruption have done nothing to help the cause. Despite the enormous strides Romania has taken to get its house in order, these issues rumble on to this very day.

Despite the recent protests, a lot has been achieved in the fight against corruption and the country has often set as an example for others who still face that challenge. There is still a lot to be done to continue building Brand Romania; to improve its image internationally and to close the significant gap between how people see the country, and what the actual reality is.

And what is that reality like? Well, let's explore it together. The *Emerging Europe Outlook on Romania* is here to discuss where the country has got to after almost three decades since the fall of communism and ten years after it joined the European Union, as well as what challenges it faces and what opportunities it offers.

Join the discussion!



**ANDREW  
WROBEL**

*Editor-in-chief  
Emerging Europe*

## Romania — decades after two milestones





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Written by

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# Romania in 2017

What happened in the first half of 2017 that might be important for business?

## JANUARY 2017

- On 1 January, Romania celebrated its first decade as a member of the European Union. The EU funds allocated to Romania between 2007 and 2020 exceed €51 billion. According to Eurostat, Romania's GDP per capita grew from €4,600 in 2006 to €8,600 in 2016.

- The World Bank's Doing Business 2017 ranking put Romania in 36th place, one notch lower than in 2016. The country is still ranked first in terms of trading across borders and 134th as far as getting electricity is concerned. In 2007, the country ranked 49th and in 2006, 71st.

- In January, EY's European attractiveness survey published results that clearly stated that in 2016, Romania rated fourth among European countries for the number of jobs generated by foreign direct investment (FDI). Romania created 132 investment projects in 2016, up 32 per cent year-on-year, which generated 17,545 new jobs.

- Romania ranked 55th, out of the 118 countries surveyed, regarding efficiency for attracting and retaining valuable employees, according to a survey by recruitment company Adecco.

- Bitdefender, a Romanian global security technology company, announced it had acquired the French company Profil Technology, in a move to accelerate its growth in the enterprise segment. The acquisition is the largest in the group's fifteen-year history and will strengthen its European and international positions.

## FEBRUARY 2017

- Romania's National Bank (BNR) released a study which shows that Romania exported computer and information services worth €2.5 billion in 2016, up 16 per cent compared to 2015: The sector accounted for 4.2 per cent of the total turnover of all businesses in Romania.

- February in Romania brought 27 consecutive days of protests against the current government, on a scale that is unmatched since the Revolution in 1989. Between 500,000 and 600,000 people flooded the streets of Bucharest and other large cities, after a decree was passed that could free dozens of officials who have been jailed for corruption. As a result, the Romanian government annulled



Prime Minister Mihai Tudose (source: gov.ro)

its plans to decriminalise corruption offences after days of this mass demonstration of civic spirit.

- The surplus in international trade with IT services (the difference between exports and imports) reached €1.7 billion, up 23 per cent from the previous year. It was double that of four years ago, according to official data.

## MARCH 2017

- Romania registered the biggest economic increase of all the EU member states, in the first quarter of this year, compared to the same period of last year. Romania's economy went up by 5.6 per cent while the overall EU economy saw a 2.1 per cent increase. The unemployment rate in Romania dropped to 5.3 per cent in March, down 0.1 per cent compared to the previous month.

## APRIL 2017

- Five businesses in Romania made it on the list of 1,000 fastest-growing businesses in Europe, drawn up by the Financial Times. They are Qubiz, Tremend, Qualitance, Bittnet, and Teamnet, all active in the IT sector.

- Systematic A/S, the biggest privately-owned software company in Denmark, opened a development centre in Bucharest that produces communication software for NATO.

- Chinese investors expanded their business. Chinese company TP-Link, which is mainly known as a router producer, entered the local smartphone market by launching two models with five-inch and five-and-a-half-inch screens. Additionally the Chinese technology group, Huawei, launched its Enterprise Global Service Centre (EGSC) in Bucharest, following an investment of over €10 million.

## MAY 2017

- Romania registered the second-lowest annual inflation rate in the European Union, in May, namely 0.5 per cent, according to EU's statistical office Eurostat. The annual inflation rate declined to 1.4 per cent in the Euro area and 1.6 per cent in the European Union.

- Romanians set up 63,374 firms in the first five months of this year, up 23 per cent from the same period last year. The number of newly limited liability corporations (SRL) grew by 24.2 per



cent year-on-year, reaching 43,500, according to Romania's Trade Registry – ONRC.

- The local software and IT services sector is expected to exceed a turnover of €4 billion this year, according to a study by the Association of the Software and Services Industry (ANIS). The IT sector saw a turnover of €3.6 billion last year, up 11.3 per cent year-on-year. The increase was mainly due to the export of software and services, whose value rose by 18.7 per cent over 2015, reaching €2.6 billion. The share of exports will reach 79 per cent in the sector, by 2020.

- An annual study by the recruiting firm, Brainspotting, says that about 110,000 Romanians are currently working in the ICT sector. Romania has the highest number of ICT workers in Central and Eastern Europe (CEE). The cities with the highest number and the best-trained workers in this field are Bucharest, Cluj-Napoca, Iași, and Timișoara.

- International financial consultancy group, Deloitte, inaugurated their European Regional Delivery Centre in Bucharest, in May, which serves as a technology hub for local and international customers.

- Japanese producer, Yazaki Component Technology, who is active in the automotive sector, plans to hire 100 engineers for its research & development (R&D) centre in Timișoara.

- French group, ALTEN, which carries out engineering and developmental projects for major industrial and telecommunication's customers, opened its first service centre in Romania in the same month.

## JUNE 2017

- The ICT industry had the biggest contribution to Romania's 5.7 per cent annual economic increase in the first quarter of this year, surpassing the trade sector. The ICT industry brought 0.9 percentage points of the economic growth. This area only makes up 6.2 per cent of local GDP but saw a 15.3 per cent increase in the activity volume.

- The facts clearly show that Romanian entrepreneurs are above the European average in satisfaction and optimism about their

businesses, according to a Microsoft study on SMEs in Europe. Romania ranks 11th in Central and Eastern Europe (CEE) and 50th at a global level in the prosperity index (Legatum Prosperity Index). Regarding social capital, Romania ranks 97th globally, up 31 positions. The country ranks 85th for the healthcare sector, down three positions. Its best place is for the business environment, namely 41st.

- The German automotive producer, Continental, created a wireless charging technology for electric cars at its factory in Timișoara. Continental plans to hire 1,500 people in Romania this year.

- Backup software, developed in Cluj-Napoca, a city in western Romania, is being used on NASA's International Space Station starting in May of this year. NASA has purchased 20 licenses for the Backup4all software, developed by a group of programmers from Cluj-Napoca, who own the local company Softland.

- The local subsidiary of the Swedish group, Autoliv, a world leader in the production of automotive safety systems, will open an engineering centre in the mixed-use complex Palas Iași, in the centre of Iași, eastern Romania.

- More are set to come, since the "Start-up Nation" programme started. In the first eight hours after the programme was launched, on June the 15th, almost 2,500 people signed up for this state-run financing plan.

- Mihai Tudose was appointed as Prime Minister after the ruling Social Democrat Party (PSD) removed its own government following an internal power row. The party filed a motion of no confidence against Prime Minister Sorin Grindeanu in mid-June, barely six months after the party swept back to victory in elections because of "delays" in implementing reforms. Tudose, who was Minister of Economy in Grindeanu's government, was one of the ministers held responsible for the failure. ●

In association with  outsourcing portal ROMANIA



Written by

CLAUDIA  
PATRICOLOPublished on  
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## Netherland's and Romania's love-match continues

*I met well-educated people with huge mathematical knowledge and ambitious workers. People do not always expect such things from Romania*

For Frederic Beigbeder, the author of *L'amour dure trois ans*, love lasts three years but things are rather different in the case of the love that the Netherlands and Romania enjoy. Their relationship started in 1880, when the two countries began a diplomatic dialogue. Fast forward to 2017, and the Netherlands is the largest foreign investor in Romania with some 4,400 firms with Dutch capital.

"The fact that the Netherlands is the biggest foreign direct investor in Romania is well publicised," says Gerke Witteveen, president of the Board at the Netherlands Romanian Chamber of Commerce (NRCC). "Obviously, this is a relevant measurement of the level of Dutch investments in Romania and is mostly driven by a number of large corporations. However, that is only part of the story, since the large number of small and medium-sized Dutch companies and individual entrepreneurs which are active in Romania, is equally relevant. More than 1,000 companies have Dutch roots," he says.

### The pioneers

Statistics also show that 25 per cent of foreign direct investment comes from the Netherlands, which reinforces the relationship between the two countries. Compared to Romania, with its 41,500 square km, the Netherlands is almost six times smaller but its population is only 15 per cent smaller.

"It is logical that we look for countries close by where maintenance costs are lower but, at the same time, where mentality and culture is not so far from ours," says Han In 't Veld, general director at NetRom.

But the Netherlands has never been stopped by its size: it started colonising not only Europe but Asia and Africa as well, before most of the other European countries, and established the first-ever multinational corporation, the Dutch East India Company.

"It appears that the Dutch are faster, more entrepreneurial, pioneering, and opportunistic than others nations in Western Europe," says Daniel Ionescu, managing partner of consulting company Larive, which, when initially set up in 1994, was a majority owned Dutch company. "On the other hand, most of

the Dutch businesses made and are still making good money in Romania. So why should they leave?" he asks.

"I came to Romania by coincidence. This country has a bad reputation abroad, but as soon as I arrived here I met well-educated people with huge mathematical knowledge and ambitious workers," NetRom's Mr In 't Veld tells *Emerging Europe*. Operating in Romania since 1998, NetRom is now a leading software developer. "People do not always expect such things from Romania, especially concerning the IT sector, but there are a huge number of good and various initiatives being made by people who like to work hard," he adds.

According to the NRCC, the Dutch general public's knowledge about Romania is still limited, but it is growing. Most people probably have a rather neutral view of the country, due to this lack of knowledge. However, Dutch citizens who have had the opportunity to visit Romania, either for business or privately, generally have a much more positive opinion of the country, built on their first-hand experiences: they see Romania as a welcoming, energetic and rapidly developing society.

### What's on offer?

Today, Romania is internationally acknowledged as a profitable business destination, assuring very attractive and competitive return on investment rates.

"By coming to Romania, investors get access to a creative, diverse and highly skilled workforce, at competitive prices, and with reduced cultural and language barriers," says Harry Ilan Laufer, secretary of state at the Ministry for the Business Community, Trade and Entrepreneurship and the head of Invest Romania.

"Also, we are one of the largest markets in Central and Eastern Europe, being strategically positioned at the junction of the traditional commercial and energy routes between Europe, Asia and the Balkans. It is worth mentioning that a third of the Danube River flows through Romania and it has the largest and deepest port on the Black Sea, in Constanța."

“Romania is a great partner where international banks are present. Then it has a big chemical and oil industry. All of this combined represents an opportunity for the Netherlands, to open themselves up to new possibilities,” says Patrick Arens, general manager at Rubitech, a metallurgy company, which established its Romanian branch in 2004.

### Industrial tradition

“Being a market with low entry barriers — as part of the EU — and having cost advantages compared to the Dutch home market, obviously makes Romania an attractive proposition for potential newcomers,” says the NRCC’s Mr Witteveen. “However, this is not entirely unique to Romania. Many Dutch companies mention Romania’s geographical position and the availability of skilled, English speaking labour as real differentiators compared to other countries,” he adds.

Education and high skilled workers seem to represent a key factor for many firms. Rubitech’s Mr Arens says the reason why they chose Romania lies in the high demand of such elements: lower costs compared to other European countries and the presence of a highly qualified technical labour force.

The same applies to the aerospace company, Fokker,

creation, adding up to a total amount of €1.5 billion, by the end of 2020,” says Invest Romania’s Mr Laufer.

Fokker’s Van Hese highlights the competitive market that Romania offers. “It presents a competitive price level, that is not just limited to salary, and it possesses a highly qualified and skilled workforce. It lies at the crossroads between East and West and could act as a logistical hub for both nautical and road transportation, with its access to the Black Sea and the European inland. It has a relatively stable political environment and the upcoming generation is motivated, skilled, speaks multiple languages and is closely aligned in mentality to Western Europe, more so than in the surrounding countries. It still has a lot of available and affordable land for agriculture and farming,” he explains.

“The government shows a business-friendly attitude, positioning itself as a true partner for the business community. Therefore, the Governmental Programme 2017-2020 is designed to foster growth through tax

which has been active in Romania since 2005. Fokker is currently involved in some of the biggest aircraft platforms in the world, engaging engineers in the full design process. When asked about the reasons Fokker came to Romania, director, Bas Van Hese, mentioned the EU and NATO membership, apart from the human capital, and also the two faculties of aerospace engineering in and around Bucharest, not to forget Romania’s rich history in aviation.

“We have grown steadily over the years,” Mr Van Hese tells *Emerging Europe*. “We currently employ 50 Romanian aerospace engineers, and the majority of them hold Master’s degrees. Our workforce is motivated and dedicated, which characterises Romanian workers. In Romania, we find educational institutes and research institutes that are willing to cooperate to further the development and innovation of the aerospace industry in Romania. I don’t want to speculate about the future, but we have complete confidence and dedication in our Romanian operation.”

### Incentives in place

Another factor that makes Romania an attractive destination for investment and business expansion is the very competitive tax system that it has in place.

“We have the second lowest rate of VAT and one of the lowest corporate tax rates in the European Union. In addition to that, Romania has issued generous state aid schemes for supporting investment and job

cuts, red tape reduction, public investment and an increased commitment to attract FDI,” says Laufer.

### Challenges to overcome

Investors appreciate the cultural similarities but they also see a different approach to doing business. For NetRom bureaucracy represented the biggest challenge to get through. In 1998, local bureaucracy was difficult to deal with and laws were continually changing, sometimes retroactively.

“The poor urban planning and connectivity in the cities and the lack of a solid infrastructure in the country represented a huge obstacle for us, as well as some of the bureaucracy in governmental procedures,” says Mr Van Hese.

Investors say the situation is improving and so is the country’s image as an interesting FDI destination.

“Within the Dutch business community, Romania is seen as a country of great economic potential, which is strongly oriented towards further integration into the European Union. Although people do perceive some fundamental challenges, for instance in the development of infrastructure and reduction of bureaucracy, the overall perception is of a country that is on a structural and long-term growth trajectory,” says Witteveen.

Does it mean that the affection between Romania and the Netherlands will last for ever? ●

Written by

**ANDREW  
WROBEL**

Published on  
May 22, 2017



Elisabetta Capannelli (source: World Bank)

## Romania's European values are changing public misinformed opinions

*What the country needs is to continue pursuing a series of reforms in different areas that would allow it to become a fully modern society in European terms.*

Romania has transformed itself tremendously in the last 25 years, overcoming enormous challenges, says **Elisabetta Capannelli, Country Manager for Romania and Hungary at the World Bank**. She spoke to Andrew Wrobel about the country's potential and challenges it is facing.

**Romania is currently the fastest growing**

**economy in the EU. What is the World Bank focused on in the country now?**

Well, the World Bank does not only play the role of a traditional investor and of a development agency, as it used to be, but today is also an important knowledge provider. There is a very unique relationship between the World Bank and the government, as well with other players such as cities, civil society and the private sector.

Generally, the World Bank choice in Romania is to focus on areas where there are no other European Union structural funds available or where we can provide synergies, including with other partners such as the EU and the EIB, and to offer a unique and comparative advantage. For example, in the justice sector, we have provided investments over many years, including to improve infrastructure, because there were not sufficient funds provided by other partners or the Government.

The World Bank's portfolio in Romania includes seven projects investment lending operations, but we also have the largest portfolio of the so-called Reimbursable Advisory Services (RAS) in our region and one of the largest in the World Bank, which

means that clients pay the World Bank, on a cost-recovery basis, to provide them technical assistance, studies and analytical work. Usually, RAS is something that we do in countries with higher incomes, but what is unique in Romania is that we have started to use this instrument only in 2010, and since then we have raised it to be one of the largest portfolio in the World Bank. We have offered more than 50 technical assistance activities for an amount of \$80 million, and we are currently working on ten more.

Romania is a fundamental partner for us in terms of our engagement with the public sector. Of course, there is also the International Finance Corporation (IFC), the private sector arm of the World Bank Group, where Romania is the fourth largest exposure among the countries in Central and Eastern Europe.

**So which sectors, specifically, is the Bank focused on right now?**

Our ongoing strategy focuses on three main areas. First of all, creating a 21st century government, which means improving public sector administration, efficiency and

service delivery, and strengthening public sector expenditure.

The second pillar has to do with the growth of the private sector and job creation. For example, we are supporting the government to reform its state-owned enterprises. Romania has the largest state-owned enterprise sector in Europe, and this stifles growth and competitiveness and requires important structural reforms and increased private sector participation.

The third fundamental pillar concerns social inclusion. For example, we have supported the government in the preparation of new strategies on poverty reduction and social inclusion. We work in the health and education sector and the integration of marginalised communities. Overall, we are supporting the government to become a well-functioning European country.

**What do you think is the biggest challenge that the country is facing right now?**

Romania has an enormous potential even if it has only been in the EU for ten years. It has transformed itself tremendously in the last 25 years and undertaken deep transformation in the years leading to accession into the EU. It has overcome enormous challenges, including after the financial crisis. Every single sector had to be transformed and more transformation is needed, both from an institutional perspective — from the way the market functions — to the way people have access to services.

What the country needs is to continue pursuing a series of reforms in different areas that would allow it to become a fully modern society in European terms. I think there are still some gaps that need to be reduced not just in terms of GDP numbers. So I can say that the biggest challenges are represented by a real economic convergence with the EU but also a social convergence. Romania also has to improve in terms of some weaknesses that exist in its institutions. But we see many positive signs here too. I am referring now to the recent anti-corruption movement, which has showed that CE societies are capable of really influencing their own government.

**Speaking of the latest anti-corruption developments, there are voices that say that the Constitutional Court has found some of the regulations in disagreement with the constitution, so the government wanted to come back to some of the issues**

**that people were demonstrating against. How do you see that?**

I cannot comment on the details of the Constitutional Court's role and decisions. However, the most important result of this movement is that it upheld that, in the last ten years Romania, has been able to establish one of the strongest anti-corruption agencies in Europe. The DNA and the related laws, regulations and institutions developed around the anti-corruption agenda have helped to expose the situation of irregularities and corruption, and it has demonstrated that the country really wants to change.

These demonstrations proved that public tolerance of the idea of back pedalling on democratic institutions is low, because they are considered an important accomplishment by Romanian citizens. I cannot say why the government took a particular decision, but what we saw certainly was a demonstration of resilience by civil society and Romanian institutions.

**The Romanian anti-corruption law is very strong but at the same time, it seems that people who work in municipalities, for example, take longer to make a decision because they are afraid they might be suspected of corruption.**

In terms of laws, more can be done, I presume, but this is true of many other EU countries as well. I think, however, there is a culture of excessive compliance and excessive control in the country. In transition economies, of course, it can happen that public servants have some fears because they do not feel protected or they feel that if they take any decision they might be prosecuted.

What is important is to continue — and that is actually a part of what the World Bank is doing — modernising the public sector administration and institutions, so that individual will be more protected, and increasing the competency level and the independence from political control of civil services. The country worked very strongly to modernise many of its institutions, look for example at the Competition Council, the Financial Supervisory Authority, many of the sector regulators. More needs to be done to spread such transformation to the entire public sector.

**If we look at the business climate in Romania, the country is ranked 36 in the World Bank's Doing Business report,**

**and the government is working now on a series of reforms. How do you see that situation improving in the country?**

Romania has made progress in recent years in terms of reducing the distance to frontier, or otherwise coming closer to a best practice on a specific Doing Business indicator. In the recent Doing Business 2017, the country ranked high in getting credit and trading across borders, but there's a need for stronger predictability of shipments at non-EU borders. To further improve the business environment, Romania could do more on such indicators as getting electricity and dealing with construction permits.

**Is Romania a country that still has an important rural-urban divide?**

True. But historically and geographically, Romania is also a country where some regions and cities are extremely dynamic,



Elisabetta Capannelli (source: World Bank)

and some other regions are catching up at a slower pace. This could be for historical reasons, like for example concentration of coal industry.

But we are seeing that places like Iasi have really transformed themselves in recent years and modernising fast by attracting investments and creating jobs in the ICT sector. So, it is hard to just use national level statistics and data as fully representative of Romania. In fact, we are now conducting a Sub-national Doing Business analysis for the whole

country, which I think is going to tell us some very important stories about the dynamics amongst some of the cities. It will also allow us to compare cities such as Cluj with Bratislava, or Iași with Budapest.

Additionally, in the last couple of

years we have also seen FDI growing again, and we expect foreign investment to continue growing. Economic growth was 4.8 per cent last year and we forecast it to be 4.6 per cent this year, mainly due to growth in domestic

consumption, due to fiscal stimulus.

**When we look at entrepreneurship in Romania, how do you see that? Is there an entrepreneurial spirit in the people of Romania?**



Actually, the Romanian market is dominated by small and medium enterprises, like elsewhere in Europe. The real issues affecting new entrants and the productivity of firms are competition and innovation policies. But despite these challenges some

sectors have done well, for example, the ICT sector has been the largest and fastest-growing sector in recent years. But all of this dynamism is mainly seen in cities such as Iași and Cluj.

One of the reasons why growth is polar-

ised in Romania, with a large concentration in Bucharest and Ilfov, is due to the lack of adequate investment in connecting infrastructure. One of the biggest problems for Romania is that there are still very poor connections, in terms of road and railways. That is one of the biggest challenges, in terms of potential growth.

#### What is the country's image like, as seen by an investor?

Romania has a historic legacy when it comes to its image. Romania needs to believe in itself and it needs to invest in its own positive vision, promoting the country as an attractive place to do business, but also as an attractive tourist destination. In urban areas, you can find a very well-educated workforce and people who speak many languages and are also very eager to change. They are hungry to prove themselves. If you also look at the diaspora, the many Romanians abroad, they are extremely hard working and professional.

This can be a very positive resource for the country. What is true, though, the country needs to realise that to cope with such out-migration, which I do not believe will be reverted for a while, it needs to invest in the people remaining. In their education and job opportunities. Improving the quality of the education system is key. While you can see the dynamism, there are still areas such as education, health and infrastructure, which are really not transformed and well-developed.

#### How do you think the country can change its image abroad?

I would like to take my home country as an example. Italy is home to over one million Romanians. They are an incredible resource for the country. They are working; they are active; they are in every single sector of society. They are the best ambassadors of Romania abroad.

So it is very difficult to define Romania just from biased snippets of information that are published in some media. There is some movement here to invest more on explaining Romania better, and to make it better known abroad. In my opinion, some of the things that have happened lately continue to promote the country as a stable country; a country that upholds European values; a country that is open for business. ●



Written by

**ANDREW  
WROBEL**

Published on

May 26, 2017

# The goal for Romania: the positives outweigh the negatives

*Perception is not as it should be.*

We want the story of Romania to be the story of a dynamic, vibrant and innovative country, says **Matteo Patrone, Director for Romania and Regional Head Romania and Bulgaria at the European Bank for Reconstruction and Development (EBRD)**. He spoke to Andrew Wrobel about the country's greatest challenges.

**Let's start with economic progress. Last year, Romania achieved the highest growth in the EU. What was behind that growth and what are the prospects for 2017 and 2018?**

Romania's economy continued growing in 2016. Domestic demand supported this growth. Private consumption emerged as the main driver of growth over this period, on the back of higher disposable incomes that were boosted by cuts in VAT, a rise in wages, improvements in the labour market and low inflation. The National Bank of Romania's policy rate cut, in May 2015, to a historically low level of 1.75 per cent saw investment rise, and improved investor confidence.

We expect GDP growth of around four per cent this year, although changes in global investor attitude and domestic political reform uncertainty may hamper the growth prospects in the near term. However, provided authorities undertake structural reforms in the areas of state-owned enterprises (SOE) restructuring, infrastructure development and local capital market deepening, we think long-term growth rates of around four per cent can be sustained.

**If you look at the areas where Romania has made great progress, which of them would you list?**

I would say the fight against corruption is certainly a very important one and it relates very closely to the improvement in the business environment. In the World Bank Doing Business 2017 report, Romania ranks 36th out of 189 countries, better than the regional average (Europe and Central Asia). But unfortunately, this is not widely enough known.

We also see substantial progress in the financial sector: thanks to the efforts by the National Bank and commercial lenders to restructure loan portfolios, non-performing loans (NPLs) continued to decline and are now close to EU average. However, more remains to be done. Similarly, we commend the efforts to develop the local capital market, but we would like to see more progress and stand ready to offer EBRD support, finance as well as expertise.

In the corporate sector, the emergence of high value added sectors, such as ICT, automotive and aerospace is a testament of Romania's potential as regional industrial powerhouse.

**So in which areas do you see the challenges that the country is facing now?**

Romania's potential and the attractive propositions it can offer to investors are not visible enough. Perception is not as it should be. Romania is a country endowed with natural resources, a strong

industrial heritage, fertile soil and huge potential in tourism, all of which are underpinned by a very strong human capital base. However, this is not always recognised abroad and perception is vital.

Besides this, there are also factors which represent remaining challenges: the persisting low efficiency of public administration and the complexity of procedures and corruption hamper investment in large public-sector projects, such as infrastructure. Red tape, legal uncertainty and judicial inefficiency are holding companies and the economy back.

The infrastructure gap, in particular in the transport sector, remains massive and represents both a hindering factor for further economic development and a cause for regional inequality. Despite liberalisation, the energy sector remains dominated by state-owned enterprises.

Let us be clear. These are serious challenges, but you will also find in many of them many other countries. The goal for Romania must be that the positives outweigh the negatives, and that this is also visible and well-recognised. We want the story of Romania to be a story of a dynamic, vibrant, innovative country.

**If we look at the capital, Bucharest seems to be a very developed city. What about the other regions of the country?**

Yes, undoubtedly regional disparities exist, and not only in Romania. The EBRD has always been acutely aware of this and in Romania especially, we have been at the forefront of regional development. For instance, we have financed urban transport in cities like Constanța, Iași, Arad, Sibiu, Brasov, Galați, Pitești. These cities are great examples of what can be achieved with a combination of finance and reforms.

We have also joined forces with the EU to finance 23 regional water companies across Romania as municipalities have sought to upgrade infrastructure and connect more people to services. Such investments, which are supported by EBRD financing and grants from the EU, in roads, public transport and water and wastewater networks have boosted economic growth and helped the transformation of certain cities into regional hubs.

Providing both basic infrastructure and modern public services is a pre-requisite for mobility, growth and jobs and helps reduce regional disparities across the country. Our goal is certainly to continue supporting other regions of Romania while building on existing experience.

**These activities prove that the EBRD has been very active in Romania. What are the areas that you see your activities in the next couple of years?**

Our current strategy builds on a strong history of investment in Romania and sets out three areas which we believe are priorities for country's sustainable economic development: broadening access to finance by inducing lending and developing capital markets;





reducing regional disparities and boosting inclusion through commercialised infrastructure and enhancing competitiveness in the private sector through targeted investment.

To date, we have invested almost €7.5 billion in almost 400 projects. This reflects the size and needs of the country, but also its potential and the EBRD's commitment. We are mostly working in the private sector — the relevant share in Romania stands at three quarters, but we are also keen to finance large, much-needed infrastructure projects, possibly in cooperation with other IFIs and EU funds. For this we need a strong and willing partner in the public administration.

**During the EBRD Emerging Europe Outlook on Romania, we are going to focus on the capital market and ICT. How do you see the development of the Romanian capital market? Does it stand a chance of ceasing to be a frontier market and becoming an emerging one?**

Romania has been placed on the watch list for an upgrade to emerging market status by FTSE Russell. An upgrade is not automatic but there is some reason to be optimistic and if it happens we could expect an increase in investment flows to Romania.

Meanwhile, we need to continue with the unified approach, to further develop Romania's capital market. Secondary market liquidity is still low and the market capitalisation of the Bucharest Stock Exchange is still at the lower end of emerging market

qualification. So the reform work must continue since the final amount of inward investment will depend on investor perception of how efficient the market is.

**What makes Romania stand out as far as ICT is concerned?**

The sector is very dynamic in Romania with high quality services and strong competition. The mobile telephony market has been growing as the demand for, and sales of, smartphones and tablets increases. Web-based TV is becoming more popular as higher-speed internet connections become more common. Internet access has experienced the highest growth of all the services as Romania boasts some of the fastest speeds in the region.

This is partly fuelled by, and had partly led to, the development of a vibrant generation of Romanian software engineers, IT technicians, code writers, you name it. Now, the challenge is obviously to allow them to deploy their talent, not on Silicon Roundabout in East London but in an edgy, trendy district of Bucharest. According to industry sources, in the last year alone, IT start-ups in Romania closed more deals and raised more funding than in Serbia, Hungary, Ukraine, Bulgaria and Moldova put together.

*The Financial Times* included five Romanian companies in its 1000 Europe's Fastest Growing Companies list and all of them are in the IT sector. So the potential is undoubtedly there and with it come great opportunities. We at the EBRD try to help to create the market for the next wave of Romania's success. ●

# Robust first-quarter growth in Romania



**GABOR  
HUNYA**

Senior economist  
wiiw, Austria

Published on  
June 29, 2017

*Demand for labour has grown rapidly, therefore the unemployment rate fell to 5.3 per cent in May, below the lowest pre-crisis level of 2007.*

The Socialist-led government, in office since the beginning of the year, has started implementing its popular election programme by further cutting the VAT rate and increasing minimum wages, as well as public sector salaries. This has given a boost to consumption which accelerated real GDP growth in the first quarter of 2017, to an unexpectedly high 5.7 per cent, year on year.

But not everything is rosy: gross fixed capital formation was lower than in the first quarter of the previous year, whereas inventories expanded. Investment outlays declined by 3.1 per cent, mainly in equipment, while construction investments expanded, mainly in residential buildings.

Manufacturing sector growth accelerated, growing by 7.9 per cent in real terms as compared to the first quarter of the previous year. The highest increases were registered in the manufacturing of electrical equipment (34.9 per cent) and motor vehicles (20.9 per cent), destined mainly for exports within the corporate value chains of foreign investors. The Romanian economy's shift from low- to medium-high-skill sectors continued, a

move which has contributed to a decreasing vitality in the economy.

Exports were supported by the expansion of European markets and an acceleration of production in the manufacturing sector. However, imports (of goods and services) expanded more rapidly than exports (7.1 vs. 6.6 per cent). The current account deficit doubled to €690 million, in the first quarter compared to the previous year, which was also because of expanding FDI income. Foreign companies benefitted from an improved domestic demand and further growth is expected in FDI. The most important FDI projects, in the first quarter of 2017, were made in the export-oriented services sector (Deloitte, Fitbit and Huawei).



Demand for labour has grown rapidly, therefore the unemployment rate fell to 5.3 per cent in May, below the lowest pre-crisis level of 2007. However, mounting labour shortages may become an obstacle to growth, although emigration may decline and the country could attract workers from neighbouring Moldova and Ukraine.

Fiscal expansion continued, although the GDP-proportional three per cent deficit target may not be in danger in 2017. Following disputes with the National Bank and the Fiscal Council, the government scaled down the scope of fiscal loosening measures for the rest of the year.

Most importantly, wage increases for employees in the public sector were post-

poned, from July 2017 to January and March 2018. All public employees will see a 25 per cent wage growth, whereas doctors and education personnel will get additional salary increases. The planned total increases over the next four years have also been scaled down from 'doubling' to 46 per cent on average. On the revenue side, the government plans to reduce social security contributions to 35 per cent of the gross wage, in 2018, from the current 39.25 per cent. While revenues from unemployment insurance are not spent, under the current labour market situation, there would be a need for more spending on healthcare.

In view of the robust first-quarter growth, we have revised the GDP forecast upwards,

to 4.8 per cent in 2017, and to 4.3 per cent in the following two years. Our expectations are still below those of Romania's government. We see downward risks mounting, in the coming years, due to sluggish investment activity, labour shortages and increasing inflation. The recent slight downscaling of fiscal expansion may not be enough to avoid being placed under the EU's excessive deficit procedure in 2018. The National Bank may start hiking the policy rate, towards the end of the current year, when inflation approaches the 2.5 per cent target.

Access to EU funds, under the 2014-2020 financing period, is just at its inception and may accelerate slowly in the coming years, because of a lack in co-financing capacity, as public funds have been shifted from investments to wages. ●



Written by

**ANDREW WROBEL**

Published on

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# Romania is working to solidify the highest growth rate in Europe

Alexandru Petrescu (source gov.ro)



Seeing that Romania was going in the right direction, economically and socially, made me want to come back to the country after almost two decades of living and working in the UK, says Alexandru Petrescu, former Romanian Minister for Business Environment, Commerce and Entrepreneurship. He spoke to Andrew Wrobel about the prospects for the economy and the changes the government is implementing.

**Romania has been quite a star, hasn't it, with the highest growth in the European Union.**

Well, yes but although the growth was around 4.8 per cent in Q4 of 2016, and although we expect another 5.2 per cent in 2017, there's still a long way to get to where we would like to be. This is because, despite these generous growth rates, the impact on the average Romanian has not yet met our expectations. So, we have to think of strategies that will have an immediate impact on each individual who is working and living in Romania.

My thoughts for the future are that if we manage to keep this momentum; if we manage to share out the work among the government, ministers and the cabinet, the same as we did at the start, I think the future is bright.

At the end of March we launched a new law for which the business community has been waiting a long time. It brings an element of flexibility and normality between the business





environment and the controlled establishments belonging to state structures. We have also introduced an element of information and education, along with some reasonability in the existing controls. We believe that we'll be able to bring a level of mediation that will benefit both the state and the businesses, using this legislation, and it is another step towards making the business environment friendlier and more attractive to investors.

**I understand that this should have an immediate impact on the ease of doing business in Romania. Right now, Romania ranks 36th in the World Bank's Doing Business. What are some other challenges when it comes to doing business in Romania?**

Well, one of the challenges was the unpredictability of state authorities' audit, and here I am speaking on behalf of small and medium businesses. If you don't really know the outcome despite the fact that you, as an entrepreneur, think you are prepared for audit, then the outcome isn't predictable or clear. With the new law we have not only clarified that but we've also created a unique portal where people can find every single piece of information they need; it is an ABC for entrepreneurs.

As far as setting up a company in Romania, that can be done today within three working days. We are now working on an improved model and the aim is to bring the time of setting up of company down to one day only.

We also have a number of projects that offer support for entrepreneurs, especially new entrepreneurs. Our Start-Up Nation programme offers around €45,000 that is non-refundable with real understandable accessible for everybody. We also have programmes that encourage exports or internationalisation, with grants of up to €10,000, to create brand awareness or a website and to identify the best international fairs, exhibitions, and conferences where they can show their products or services. Finally, we have programmes that support the traditional craftsmanship entrepreneurs, especially if they come from the rural areas; that's a business that we want to keep alive.

I recently spoke to Larisa Manastirli, Director for Bulgaria at the European Bank for Reconstruction and Development (EBRD), who said that Bulgarians could draw comparisons from the Romanian experience. At the same time, Nicholas Hammond, a British lawyer who's been working in Romania for the last 25 years, wrote in an editorial that the government's efforts to deal with corruption and organised crime are making doing business easier, but that the downside is that government officials sometimes delay making decisions, so as not to be thought of as corrupt.

I think if we assess the public feeling today, there is a level of reluctance to commit to projects

because the broad scale of interpretation you find in the current legislation concerning corruption. Because there are no best practices concerning possible interpretations and because it is all so vague, it causes a certain degree of reluctance throughout the administration. Until there is clarification of where it stands and some lines are drawn between the guilty and the innocent, this state of events will remain and will continue to deeply affect the functionality of the state. This is a reality.

**Also, there were massive demonstrations that took place in February.**

Actually what happened, at the beginning of 2017, was an attempt to align the decision of the constitutional court. The government is obliged to take the recommendations of the constitutional court into consideration and then translate them into legislation.

**Do you think that the situation, related to those demonstrations, is somehow detrimental to the country's image?**

Well, we all need clarification whether we are in the street or in our offices. The government has to comply with the recommendations of the constitutional court so the sooner it is done the better.

**How do you think foreign investors view Romania now?**

Well, Romania, as you said at the beginning, is now enjoying the highest increase in growth rate in Europe. We have a fiscal framework that's extremely encouraging; in fact probably one of the most encouraging in Europe, and the evolution of this fiscal framework are making it even more attractive for investors. It's auspicious. Romania has a highly educated workforce. I believe we have a government that's very pro-business, and we have plenty of success stories from other investors, who are proving Romania is the place to invest.

**Which sectors could be most rewarding for investors?**

Generally all the sectors are open for investments. Of course, depending on the type of workforce and on the industry traditions, some could be more developed than others. As we stand today, we have seen very good growth in the automotive industry, and there are over 600 companies supplying the automotive industry in Romania. So let's say the automotive sector, logistics, high technology, agriculture, energy, etc. These are the sectors that investors find attractive in Romania.

From the government's perspective, we have a strategy and throughout this strategy there is one word that pops up all the time — reindustrialisation. By that we mean a transition from exporting raw materials to exporting value-added products. We want to retain more of the production chain in the country, than we've been doing so far. I'll give you a few examples and they're real ones: We export tomatoes to Bulgaria, but we import tomato juice or we export wooden logs but we import wooden furniture or slightly more value-added wooden products.

**In 2015, according to the World Investment Report, Romania attracted FDI worth almost \$4.4 billion. How do you see 2016 and 2017?**

FDI inflow needs to reflect the increased growth rate of Romania. As I said, we are looking at a 5.2 per cent growth rate and we seem to be well on the way to getting there. If we continue

to stay focused on translating the fiscal framework amendments into reality, we will succeed. We have cut the VAT rate from 24 per cent to 20 per cent and we are planning another decrease of one per cent. The dividend tax rate will go down from 16 per cent to five per cent.

**In 2007, Romania joined the EU. How do you see the changes over the decade?**

Well, we are probably one of the most pro-Transatlantic and pro-EU countries in Europe. Romania's joining the EU was also a common goal across the political spectrum and one of those situations when all the parties rallied behind a single goal. I see that after ten years of being in the EU, Romania is a blossoming and flourishing country.

Of course, I still believe we have to work hard, but there's the prospect of further improvement. We have to improve the way we absorb EU funds. We are still lagging behind with infrastructure. We are simplifying the public procurement legislation.

**Do you think that Romania was ready for EU accession in 2007?**

I believe there are two elements to being ready and compliant. Of course, there's the economic one that can be accelerated by joining the EU. I understand those who say maybe we were not ready but by joining the EU, we have become compliant faster, and we have introduced more reforms, so it had proved to be beneficial for the country, and for the EU. We now have a better economy in Romania.

Then from the people's perspective as concerns the feeling of being European and in the EU, if we had not joined EU at the moment that we did, it would have impacted negatively on the amount of European feeling that we had.

**How about the labour force? We know Romanians are well-educated but quite a few of them have emigrated; for example, to the UK. Is there a way of attracting them back to the country?**

Yes, it is a challenge because some of the most valuable Romanians are now living abroad; some of the most determined, creative, adaptable and willing to take their lives into their own hands. When they say 'abroad I can do better and faster than here in Romania' they show that determination. We would love to have all those qualities here.

I, myself, studied and worked in the UK for almost two decades and I that made me a prime-target of politicians' diaspora-orientated programmes, however, I don't believe in these programmes because they didn't work for me. While I was out of the country, there was one thing that could have attracted me back and that was the feeling that the country is going the right direction, economically: that it is fighting corruption and removing the red tape. That was the best way to make me come back to Romania.

**And then you did come back, in 2012.**

Yes, between 1995 and 2012 I worked in financial services and I was involved with Romania quite a lot in my professional capacity – I had an important portfolio of contacts throughout the private and state sectors. I have had two life-changing opportunities. The first was when I left Romania for England, and the second was when I left England to return to Romania. I don't regret either of them. ●

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Written by

**EVA  
KELLER**

Published on  
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*Private consumption will continue to be the main driver of growth but is expected to be weighed down by higher inflation. Rising regional tensions and an incendiary domestic political climate pose the main downside risks to growth.*

## Romania's economic outlook is bright

In 2016, Romania's economy achieved a GDP growth of 4.8 per cent, which was the fastest pace since 2007, and the highest mark in the EU.

"The economy accelerated at the close of 2016, propelled by strong domestic demand. In the fourth quarter, the economy expanded by 4.7 per cent over the same period in 2016, according to a preliminary estimate released on 14 February. The figure marked an acceleration of Q3's 4.3 per cent expansion and met

market expectations. On a quarter-on-quarter basis, GDP growth, adjusted for seasonal effects, accelerated to 1.3 per cent in Q4, up from Q3's reading of 0.5 per cent," says Christopher Mc Innis, an economist with Barcelona-based consultancy, FocusEconomics.

In 2017, GDP is expected to grow solidly, albeit at a softer pace. In March, FocusEconomics' panellists predicted an expansion of 3.8 per cent in 2017, which is up 0.1 percentage point from February's forecast, with growth of 3.3 per cent pencilled in for 2018.



“Private consumption will continue to be the main driver of growth but is expected to be weighed down by higher inflation. Rising regional tensions and an incendiary domestic political climate pose the main downside risks to growth,” says Mr Mc Innis.

In January, 2017, inflation rose to 0.1 per cent, which marked the first positive reading in 20 months. Nonetheless, inflation remains well below the Central Bank’s target band of 1.5-3.5 per cent. In 2017, panellists expect inflation to average 1.6 per cent, while for 2018 panellists foresee inflation of 2.8 per cent. The Central Bank kept its policy rate unchanged at its 7 February meeting. FocusEconomics Consensus Forecast panellists expect the policy rate to end 2017 at 2.12 per cent. For 2018, the panel foresees the rate closing the year at 2.79 per cent.

“The government is counting on the growth momentum carrying over in order to justify its 2017 budget, which was passed in February, and foresees large spending increases on defence, for example. The budget deficit is expected to come in at 2.99 per cent of GDP this year, within the EU’s three per cent limit, but this is based on very optimistic GDP growth forecasts. The projections are so at odds with the consensus view, of a slowdown, that the president voiced serious reservations regarding the budget’s cred-

ibility, despite signing the bill into law. The government is still reeling from its failed attempt to introduce legislation to soften anti-corruption standards, which caused mass protests across the country and cabinet ministers to resign, though the government survived a parliamentary vote of no confidence,” says Mr Mc Innis.

Industrial output rose 3.6 per cent in December 2016, from the same month of the previous year, and down from November’s 5.4 per cent increase. According to the National Institute of Statistics, production in the manufacturing, electricity, gas, steam and air conditioning supply sectors accelerated, while the contraction in the mining and quarrying sector deepened, compared to November. FocusEconomics Consensus Forecast panellists expect industrial production to expand by 3.4 per cent in 2017, which is unchanged from last month’s estimate. The panel estimates that industrial output will increase by 3.8 per cent in 2018.

After the depreciation of 2016, the Romanian Lei continues to appreciate. FocusEconomics expects the currency to end 2017 at 4.25 per USD and to reach 4.05 at the end of 2018. As far as the Euro is concerned, it is expected to cost 4.46 lei at the end of 2017 and 4.46 at the end of 2018. ●

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[anne-marie.martin@cobcoe.eu](mailto:anne-marie.martin@cobcoe.eu)



**CLAUDIU  
VRINCEANU**

*Former state secretary  
Ministry of Economy in Romania*

*Published on  
April 2, 2017*

## Seven reasons for optimism in Romania

Every morning, a gazelle wakes up. It knows it must out run the fastest lion or it will be killed. Every morning, a lion wakes up. It knows it must run faster than the slowest gazelle or it will starve. It doesn't matter whether you're the lion or a gazelle, when the sun comes up, you'd better be running.

This African proverb still represents the tenor of the foreign direct investments (FDI) landscape in the Central and Eastern European (CEE) countries; a very attractive region for international players who have decided to expand their business to new destinations. But what is the connection between FDI dynamics, one of the most relevant indicators reflecting the health of an economy, and the behaviour of savannah animals?

Responding to a prospective investor's needs means to run faster than your neighbouring countries. 2016 marked the best, in the last eight years, in terms of foreign investment in Romania. The amount of foreign direct investments in our country reached close to €4.1 billion in 2016, which was an increase of 18 percent year-on-year. This record level forced all the stakeholders, implied in FDI ecosystem (state representatives, consultants, bankers, lawyers, economists), to be fully committed for better years to come and to attract investors who might be more interested in Romania.

I found seven reasons for optimism in Romania, an economic growth champion in European Union:

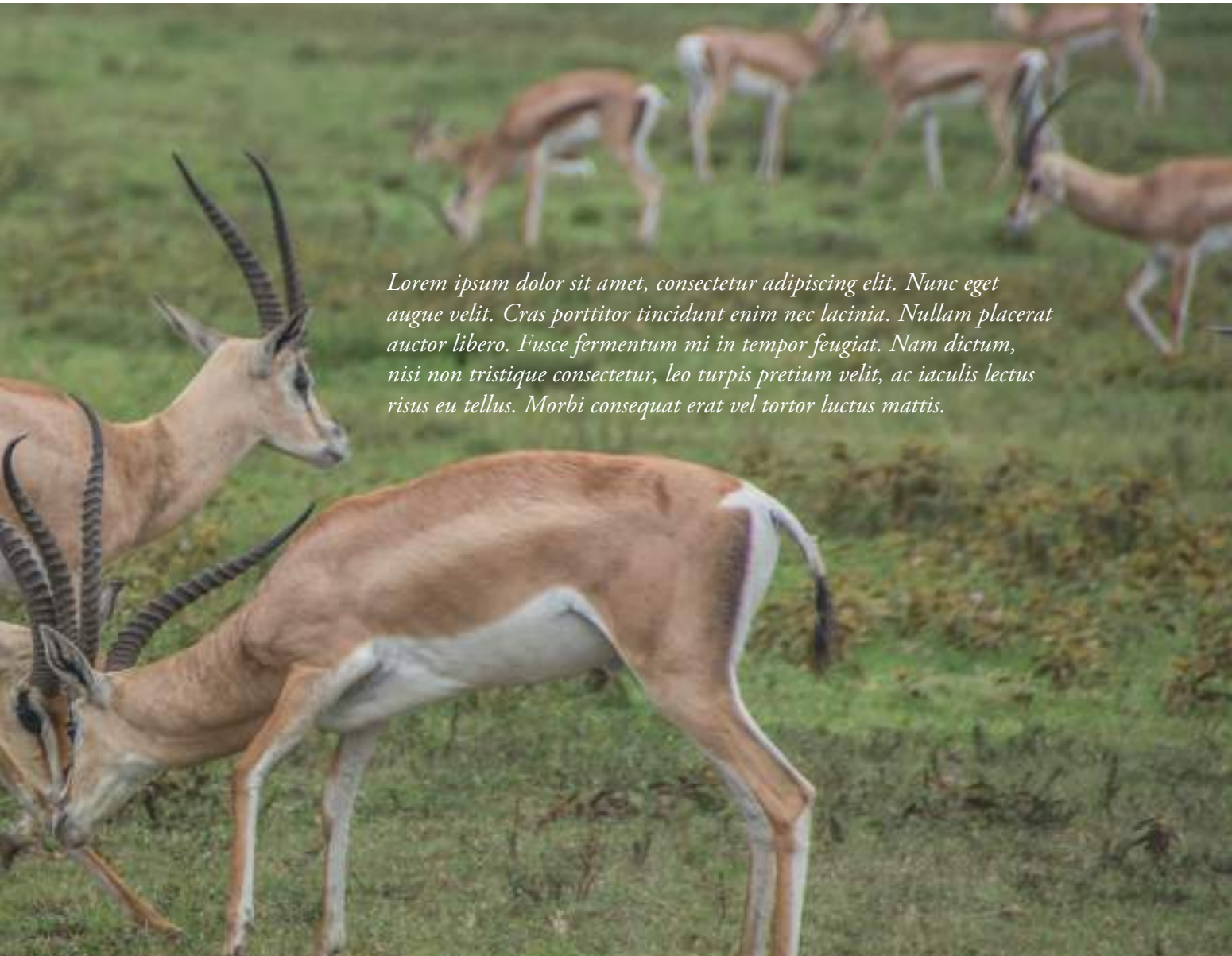
The current government is committed to developing the existing Invest Romania platform, which was launched last year, by approaching the promotion of the country correctly. Invest Romania, now present in the Ministry of Business Environment, is the "one-stop-shop" for foreign investors, and an ideal place for an investor to approach in order to

have an institutional conversation with public authorities.

There are private and non-governmental projects or actual plans which aim to build bridges between foreign investors and local partners, promoting conversations with public institutions and positioning Romania as an attractive investment destination. The state should be helped in order to raise awareness about Romania as a doing business destination.

Labour costs are still competitive in Romania, despite the highest increase in the EU (up by 12.33 year-on-year). In my opinion, the competitive figures (wages are 20 per cent of the EU average) and the good quality and size of the IT workforce (more than 60.000 specialists) will be drivers of Romania's strength in the next three years.

State aid schemes and EU Funding instruments continue to be some of the most advantageous sources for financing strategic investments that are available in Romania. Let's take just one very recent example: EU funds worth €90 million were made available for investors to develop tourism sector.



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The public institutions have a strong focus for the developing workforce. In 2016, a governmental initiative incentivised unemployed people to relocate for work, through a mobility package that covered travel expenses for commuters and it was well appreciated by foreign investors. Moreover, the current government is committed to stimulating companies to invest in the workforce. For example, firms which accept to train apprentices and trainees are reimbursed with the minimum salary.

The expected upgrade for Romania from a frontier market to an emerging market will open the country to many large investors and will also improve the local financial ecosystem.

Romania is attractive, of course, on fiscal side, with one of Europe's friendliest tax regimes: corporate income and personal income tax are at 16 per cent, one of the lowest in Europe. The new 1 per cent tax rate that is applicable for micro-enterprises with at least one employee became a magnet for small and medium foreign investors. Moreover,

the corporate income tax exemption for taxpayers that exclusively perform innovation, research and development activities is well perceived by investors, after last year's decision concerning individuals who work in research and development or the technological development fields, and who benefited from a complete exemption from tax on their employment income that was attributable to these activities.

Macroeconomic indicators and financial incentives confirm the comparative advantages of Romania in the eyes of foreign investors, but we need to create a fresh story in order to reach two visionary objectives: Romania, in the top ten countries for expansion and co-location projects and Romania becoming the economic star of the CEE-based on our reputation and new investments.

Our new story will be based on running faster than our neighbours, not the lion. We, the private environment, teamed with public institutions, should better be at running. ●

Written by  
**CLAUDIA  
PATRICOLO**

Published on  
July 5, 2017

# Driving the Romanian automotive industry

*The socialist government is making hardly any effort to sustain the automotive industry.*

Before 1989, quite a few countries in Central and Eastern Europe had their own car brands. Today, car manufacturers have located their production facilities across the region, and only two countries can still boast about their own brands: the Czech Republic's Škoda and Romania's Dacia.

Over the last two decades, Romania has attracted foreign manufacturers and has proved to have all the right ingredients required of an automotive hub.

"Many successful stories began here. Renault and Ford, two great global manufacturers, chose Romania as a destination for their projects. Approximately 600 original equipment manufacturers (OEMs) produce automotive components in Romania, for local producers as well as for export," Harry Ilan Laufer, state secretary in the Ministry for the Business Environment, Commerce and Entrepreneurship and head of Invest Romania tells Emerging Europe.

According to ACAROM, the association of automotive manufacturers of Romania, 387,000 cars were produced in 2015, showing a positive trend compared to the previous years, while 203,600 people were employed in this sector, in 2016.

## Taking it further

Nowadays, many investors are establishing and developing more complex operations in Romania, thus shifting the focus of their employment policies from 'cheap labour', towards a highly skilled, diverse and globally competitive workforce. Renault and Ford are

the biggest players on the market, but there are more. There is Porsche with its R&D centre for the region, Suzuki, Opel and others.

Opel Romania is the oldest investor in the country, having been active in Romania since 1998. It has grown its presence in the country, and is one of the most popular car brands internally.

"Romanian customers like our philosophy," explains Cristian Milea, country director at Opel Romania and a board member of the Association of the Automotive Manufacturers and Importers in Romania (APIA). "We make the innovations of premium vehicle classes available to a wider customer base. Democratisation of high-tech technologies and high quality features are very much appreciated by the Opel fans here. In 2014, the market in Romania started to recover from the global economic crisis and we are once again on an ascending trend. We started 2017 with excellent results, increasing our sales in the first four months by 37.8 per cent compared to the same period last year," he adds.

The signs of recovery are visible in many sectors of the Romanian economy. Every company was hit by the crisis, in 2009. Suzuki, for example, invested in the country right in 2007, just before the economic crisis. But this did not stop the industry which managed to develop a good and efficient dealer network, so that their figures even increased during the crisis.

"Slowly the market has started to recover," comments Suzuki's General Manager Alin Radu. "It dropped from 305,000 new cars, sold in 2007, to less than 100,000 in 2016. 2017 is expected to



be above 100,000 passenger vehicles, with the near future potential of the market being around 150,000 new cars. In 2016, we had our best year in Romania with a 2.1 per cent market share and a strong year-by-year increase of 63 per cent. My expectation is that we will continue to increase and will set a new record, this year, with 2.5 per cent of market share,” Mr Radu adds.

Generally speaking, a survey released by PwC, showed that 4.9 million cars were in circulation last year, even if three quarters of the vehicles sold in Romania were second-hand.

### **New trends arriving**

Ford started production in Romania, in 2009, after the company bought the majority of shares from Automobile Craiova, becoming the owner of the facility.

“After nine years in Romania, we are happy to see that the plant is preparing for the start of the production of the new EcoSport, a project where an important transformation has been made and an additional workforce has been hired. Progress is visible, both in terms of technology band in regards to the people, as Ford has one of the most modern production facilities in Europe, and certainly in Romania,” Ford’s general manager, John Oldham, tells *Emerging Europe*.

“Obviously the market has changed and one of the most important aspects is that customers are deeply concerned about safety features, fuel efficiency and new technologies,” notices Suzuki’s Mr Radu.

Invest Romania’s Mr Laufer confirms this trend. “An important factor that is shaping the automotive, aerospace, chemicals, agriculture and many other sectors in Romania, is the development of the IT sector. Over the last few years, IT has become one of the most dynamic economic drivers, making massive development, both in volume and complexity. These transformations, as well as our consistent efforts to build and strengthen the partnership between universities and the business community, are placing Romanian companies in a position where they can fully benefit from the Industry 4.0 revolution,” he says.

“We all know how much the economic downturn impacted our industry, several years ago, and indeed we saw important changes in our customers’ behaviour,” agrees Ford’s Mr Oldham. “Nowadays customers prefer to have more equipped vehicles, with lots of assistive technology, and in this respect Ford is one of the most innovative manufacturers, especially as Ford makes technology available for everyone.”

Other car manufacturers, including BMW, are also looking at the Romanian market, which is why the government has offered to support BMW to find Romanian IT companies that could be involved in developing software for the German group. Although the process is still ongoing, more than a dozen companies have been selected to participate in the BMW’s newest project in Romania.

### **Challenges still exist**

Technological support is one thing but there are a number of other challenges that the sector is facing, including the political framework and the tax system.

“As a representative of the APIA, the legal framework for the automotive sector has always been one of the main concerns for me,” Opel’s Mr Mileas says. “I have been continually involved in relations with the authorities and the market, aiming to create the right environment for the future development of the automotive sector.”

“The socialist government is making hardly any effort to sustain the automotive industry,” says Suzuki’s Radu. “The elimination of the first registration tax, together with a small yearly tax for cars with non-Euro to Euro-4 compliance, not related with engine displacement and CO2 emissions, transformed Romania into a garbage basket. The import of second hand cars became a nightmare for new car business. Usually, those cars are imported by private individuals, without VAT and profit tax. So the official dealers cannot compete in such conditions.”

Ford’s Mr Oldham complains about the lack of a proper infrastructure and is in a constant dialogue with the government, in order to make further improvements. Invest Romania’s Mr Laufer expects such improvements in the near future. In the meantime, he points to the labour force as an area that needs to respond further to the sector’s needs.

“There are some challenges with the workforce and the ongoing process of adjustment to the needs of the industry. This is an important concern for us, but I would say that in comparison to other countries from our region, Romania has still an advantage, and we consider that the dual education program that we have developed will help narrow the gap between the private sector’s requirements and the available talent pool,” he adds.

### **People make the difference**

There seem to be quite a few challenges, so what made some of the world’s leading car manufacturers come to Romania in the first place? The answer is unanimous: a big market potential.

Opel exported cars to Romania, prior to 1998, and Suzuki strongly believes in the great resources of the country. “Despite the fact that Romania is one of the poorest country in the EU, the population is almost 20 million,” says Mr Radu. Many people means more sales. APIA reports that 32,874 cars were sold in the country in 2016, and 2017 already shows interesting figures with 11,121 cars having been sold in just the last five months.

“It has an important asset: the people,” adds Ford’s Mr Oldham. “I keep saying that, because I really believe it. It is one of the best, if not the best, team that I ever worked with and their talent and dedication is visible in the quality of their work. I’m personally very proud to be leading such a team.” ●

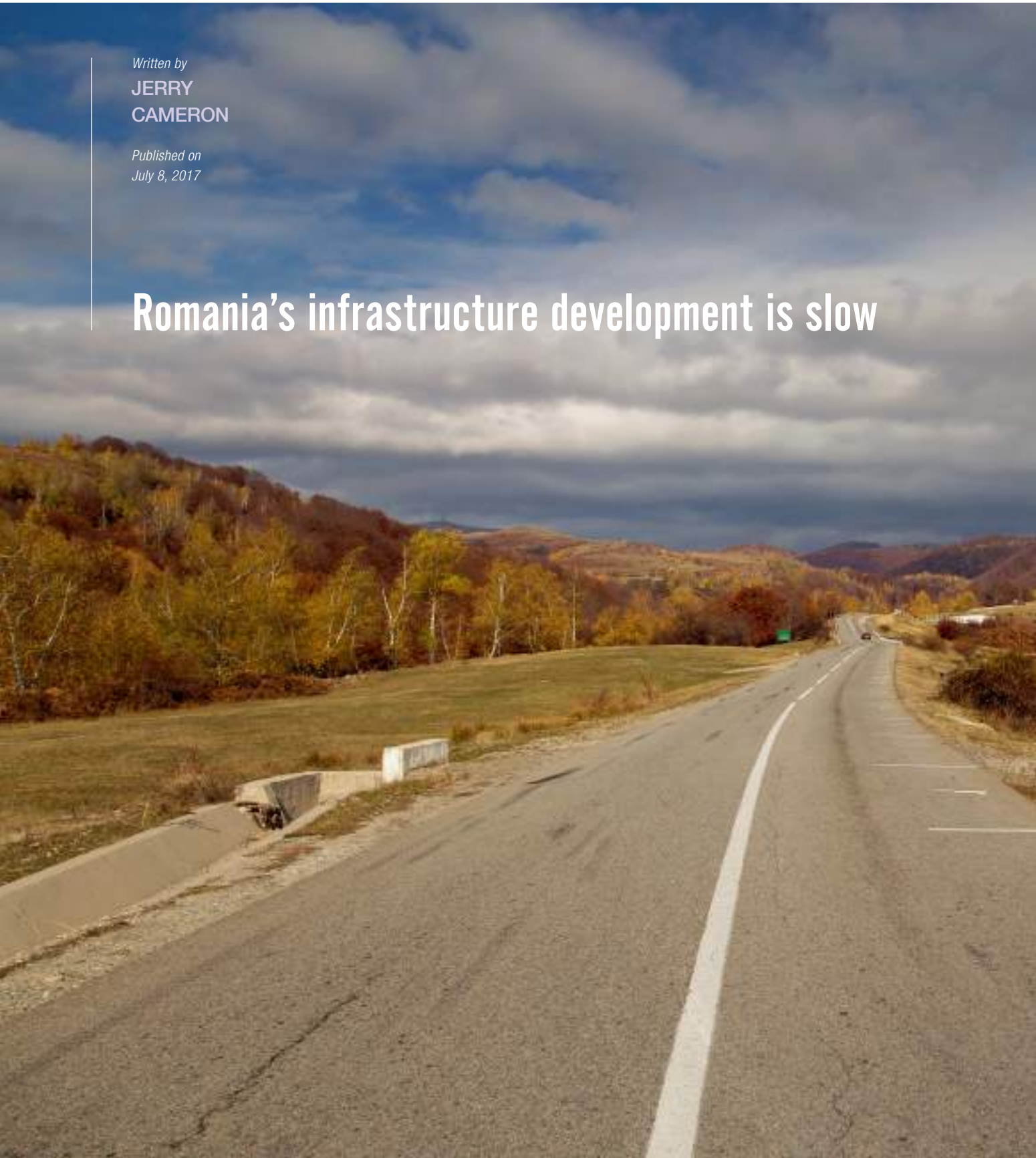
*Written by*

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# Romania's infrastructure development is slow



*While EU Structural Funds are available to support large-scale infrastructure projects, a lack of coordination and strategic planning within the public administration, as well as ongoing issues relating to public procurement and PPP legislation, mean the country's ability to absorb these funds has been limited.*

In 2015, București-Ilfov, Romania's capital-city region, had a GDP per capita of €19,300 amounting to 136 per cent of the EU average (GDP per capita PPS, EU28=100). At the same time, Sud-Muntenia, Sud-Vest Oltenia and Nord-Est were three out of 19 EU regions that were still below half of the average 47, 40 and 34 per cent of the EU average respectively, according to Eurostat.

"The first step in developing a country is its access to sufficiently big markets and capital. The larger cities are the first to attract capital and to develop markets, and in this way they become the engines of development for a region, in the process attracting the secondary cities and then the villages," Ana Maria Mihăescu, IFC chief resident representative for Romania, Bulgaria, the Czech Republic, Hungary, Moldova, Poland and Slovakia, tells *Emerging Europe*.

"For many years, the biggest engine of growth in Romania was Bucharest, the capital city. In the last few years, other cities are becoming strong engines of growth such as: Cluj, Arad, Timișoara, Brașov, Constanța, Sibiu, Iași, and Oradea. The growth rate of some cities has even exceeded that of the capital city," she adds.

Alexandru F. Ghita, the founder and director of the Centre for Urban and Territorial Development (CDUT), adds some additional reasons, for example, the

public administration aspect. "The regional dimension, in the case of Romania, was an EU integration priority and had little local impetus. Also, because of the "thin" chapters on regional policy of the acquis, the implementation of the regional layer is somewhat problematic. The regional level lacks decision-making status and is not an administrative-territorial unit, which would require a constitutional reform and a referendum. This situation perpetuates strategic void at the regional level, which hinders coherent development above county level," he says.

IFC's Ms Mihăescu says the investments in infrastructure are lagging behind. "The large infrastructure projects have not been started yet. In order to respond to the need for accelerated development, infra-projects will need to rely on a high percentage of EU funds, as well as private sector participation," she says.

Roger Kelly, EBRD's lead regional economist for Romania, says that the country's poor infrastructure limits labour mobility within the country, and reduces flexibility in the labour market and ultimately contributes to emigration. "While EU Structural Funds are available to support large-scale infrastructure projects, a lack of coordination and strategic planning within the public administration, as well as ongoing issues relating to public procurement and PPP legislation, mean the country's ability to absorb these funds has been limited. Consequently, infrastructure has remained chronically underdeveloped," he says adding that the development of national transport networks "will not happen overnight".

"Combining the lack of resources, outward migration, and the lack of investment in strategic business and communication infrastructure results in what we could call a development vacuum, where nothing really happens," says CDUT's Mr Ghita.

"A more immediate means to foster growth in the regions is to focus on making them more attractive places to live and do business. This involves municipalities developing their public services. This is a highly effective strategy for addressing regional disparities, using loans blended with EU grant funding, and has resulted in a number of cities becoming regional hubs, that generate growth and jobs and help to stem the emigration of young skilled workers to Bucharest and overseas," says EBRD's Mr Kelly. ●



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## Juncker's "more, together" offers Romania a better future

*Looking into the not so distant future, a strategist might easily anticipate a natural "hexagon" of leadership in Europe, where Germany and France, Italy and Spain, and Poland and Romania would be the economic, geographic, cultural, religious, demographic, and strategic "glue" of a diverse, re-energised, forward looking, and balanced European Union.*

The five scenarios Jean Claude Juncker recently presented, concerning the future of the EU, are still provoking lively conversation in all corners of the European continent. Seen from Bucharest, the future, as described by the Commission's White Paper, looks both simple and complicated.

Simple, because Romania is one of the few countries where the domestic political and public consensus on Europe still holds. For centuries, the national dream of Romanian citizens was, and still is, to escape from the periphery of Europe, where geography, history and Great Powers' politics have separated our nation from the developed West. From among the Juncker scenarios, only one fits this relentless ambition: "more, together"! More Europe, with as few different "speeds", "intensities" or "levels of ambition" as possible; this is what Romania and Romanians want.

Yet it is also complicated, because there is a significant and debilitating gap between our consensual level of ambition and the political, economic and strategic realities of the country and of Europe itself. Indeed, ten years after our accession to the EU, Romania still struggles in the last circle of European Union integration. Outside the Eurozone and the Schengen area, and crippled, in terms of reputation, by the never-ending Mechanism of Cooperation and Verification (MCV) concerning the state of its judicial system and fight against corruption, as well as its ranking among the last of the EU 28 in most developmental indicators, Romania's plea to join the core of Europe appears to be nothing less than a naive political fantasy.

Is this enduring dream a fantasy? Is this gap truly insurmountable?

In the short term; definitely, yes. Memories of the Greek saga, the systemic and institutional problems of the Eurozone and the yet unknown impacts of "Brexit" or "Trumpism" have left the leaders of the Union with little room, or predisposition, to invest political energy in such a "peripheral" issue. Moreover, the more turbulent leaders from Central Europe, Russia and/or Turkey could cause additional headaches in Paris, Berlin or Brussels. This could further complicate an already shaky European project.

A preference to choose the "fewer, faster" scenario is more than likely, especially after Brexit, and combined with the remarkable surge and victory of Emmanuel Macron, a champion of the deeper integration of the Eurozone countries.

However, Romania could begin presenting its true face and potential to Europe and the world if a rather long list of "ifs" are fulfilled: if Romania stays the course of being the only regional player who steadfastly supports a more ambitious Europe and a strong transatlantic community; if the economy continues to grow between four and five per cent per year for the foreseeable future, as it could easily do; if the governance of the public and private sectors improves even marginally, bringing the same modern capitalism and levels of prosperity into the smaller cities and the vast rural areas that the big cities of Romania enjoy and, finally, if the fight against corruption continues unhindered. If these are achieved, then this late comer could change from being the laggard of the EU to one of its driving forces.

By unleashing its untapped economic and human potential, Romania could move up the ladder of the European and world economic value chain. The geography of the country, which lies at the intersection of the East-West and North-South trade corridors, makes Romania a natural gateway and logistics hub to and from Europe, for our multiple neighbourhoods and not its mere dead-end. The engineering and scientific talent of young Romanian and its diversified industrial base and export structure could make the country one of the winners of the Industrial Revolution 4.0.

Romania's vast natural resources and unspoiled nature could make it an energy, agribusiness and tourism power-house of Europe. With the largest number of technology graduates per capita in Europe and a high-speed internet that is at record highs, the thriving ICT sector contributes with almost nine per cent of the country's GDP, today. More and more European, American and international conglomerates are moving their R&D and engineering design to Romania.

The O&O sector is on the rise, as are the automotive, shipbuild-





ing and air & space industries. Cutting edge technologies, such as the largest particle accelerator in Europe (in the Laser Valley south of Bucharest) are bringing scientists to Romania and are beginning the long expected reversal of the brain drain in the country. This is without mentioning culture: the “intangible” dimension of creativity and competitiveness, where Romanian film directors, artists, painters, dancers, and musicians are world-acclaimed.

As the standard of living, public services and infrastructures in the country improve, millions of Romanians, who work and live in Europe and around the world, will gradually return home, bringing new skills, work ethics and healthy democratic and patriotic instincts with them to the ancient lands of Dacia and Rome, the cradle of the Romanian civilisation and of our national identity.

Many Western citizens who are concerned by terrorism and violent radicalism will chose Romania – the safest country in Europe – as their second, retirement or permanent home. With his unbridled love for Romania, Prince Charles is just the precursor of a reverse exodus of Romanians and of the massive transformation of “brand Romania”, with all of its positive reputational, economic, and political consequences.

In strategic and geo-economic terms, the aggressive resurgence of Russia and the arc of instability surrounding Europe have transformed Romania into a frontline state; the first line of defence of the EU and NATO, and a defender of liberal democracy in

a region where authoritarian and anti-liberal impulses abound.

With the inherent pressures, and also the strategic relevance, that are derived from this unique strategic position, today Romania is the bulwark of the West’s interests in the Balkans, the Black and Caspian Seas and the greater Middle East. Slowly but surely, Romania is beginning to reap the economic dividends of its strategic relevance, becoming a frontier economy and an emerging and dynamic market. And, from a newcomer to the West, one of its pivots.

Looking into the not so distant future, a strategist might easily anticipate a natural “hexagon” of leadership in Europe, where Germany and France, Italy and Spain, and Poland and Romania would be the economic, geographic, cultural, religious, demographic, and strategic “glue” of a diverse, re-energised, forward looking, and balanced European Union. Who knows? After the roller-coaster ride of the British elections, we may even see the UK added back to a deeply reformed Europe.

This would give a well-deserved simplification of options to Mr Juncker’s Five Scenarios and to the leaders of Europe who are frantically searching for a way forward. “More, Together” — this is the Number One Scenario for Romania and Europe. By the way, this is also the only one that could keep Europe together, staying strong and relevant in the new political and economic world order and shaping our today in a conclusive manner. ●

Written by  
**JERRY  
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## Romania works to cement its position in the EU

The way in which Romania prepares for the presidency of the EU Council and how it finalises this are paramount for its role in a future Europe, says **Cristian Buchiu, deputy head of the EU Representation to Romania**. He talked to Jerry Cameron about the country's ten years of EU membership.

**Romania has been an EU member state for ten years now. Some argue it joined too early. How has that helped the country develop?**

Romania joined the European Union at the right moment and its economic success since accession proves this. Its success story is both a function of its full economic rights within the single market and the EU policy of convergence, implemented with cohesion funds. During 2007-2013, over 35,000 new jobs were created and more than 400,000 people benefited directly, each year, from projects aimed at investments in human capital.

Major projects were implemented ranging from national roads (356 km built) to waste management, from improved water supply and extended water networks to faster railways lines, and the list goes on. Not to be forgotten are the European-level projects such as the Extreme Light Infrastructure laser facilities in Măgurele, the cultural patrimony conservation at Monastery Dragomirna or the Cultural Palace in Blaj, the latter two of which were awarded EU prizes for cultural heritage.

**What are the available funds now and what can they be spent on?**

In the current financing period (which runs until 2020), Romania has been allocated €30.8 billion, under nine programmes, through the European Structural and Investment Funds.

They are to be used to develop infrastructure networks in energy and transport, to better protect the environment and to increase resources' efficiency, to support transition to a low carbon economy, as well as in climate change adaptation and risk prevention. They are also designed to promote social inclusion and sustainable employment, including that for young people.

Last, but not least, their aim is to increase SMEs competitiveness, to provide quality education and vocational training, to support research and the ICT sector, and to provide technical assistance while increasing the efficiency of the public administration.

It is for Romania to find the best mix of projects to further develop its economy, so that both citizens and businesses have maximum benefits.

**What does the EU funds absorption process look like now? There is criticism that this is not going fast enough. What are the reasons for that?**

The absorption rate for the period 2007-2013 is estimated to reach around 90 percent. This was possible mostly because of efforts, from the regional policy commissioner, Corina Crețu, aimed at both Romania and all EU Member States with absorption difficulties. She convinced the Commission to adopt initiatives that allow for the continuation of major projects beyond the 2007-2013 period and improved use of available funds to carry them out.

For the current period, the buzz word is simplification, also supported by Commissioner Crețu, who has spoken against "gold-plating" (the unnecessary complication of procedures for using EU funds at local levels) several times. Romanian authorities should answer this call for action and simplify. They need to support development of an efficient public administration, at all levels. Then, absorption capacity will no longer be an issue.

**Romanians are one of the most EU-enthusiastic nations within the EU. What is the reason behind that and how/why will that strengthen in the future? Or will this enthusiasm decrease?**

It is important for Romania to get actively involved in the construction of future Europe, by participating in further integration initiatives. This is happening already, one example being the setting up of the European Public Prosecutor's Office, with Romania as one of the founding Member States. There are a couple of fields where Romania would appreciate more progress, such as joining the Schengen area, as it already fulfils the requirements. Another is introducing the single currency. But these issues will not stop progress and integration in other fields.

In its ten years as a Member State, Romania has developed high standards in the fields of the fight against corruption, justice reform and respect of the rule of law, because of the Cooperation and Verification Mechanism. It has also made a major contribution to the protection of EU's external borders, both at home and in Frontex operations, and it is a major factor for stability in its region.

Its role will be even more important in the first part of 2019, when it will hold the rotating Presidency of the EU Council. It is a major task during an important time, when negotiations on the next financial framework and Brexit are to be concluded. The way in which Romania prepares for this task and how it will finalise it are paramount for its role in the future Europe. ●

## Romania needs to follow its EU membership with some sweeping reforms to avoid stagnation

*There is a need to rethink the growth model. A revamped growth model would help to overcome the middle income trap.*



**DANIEL DĂIANU**

Member of the Board  
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The European Union is going through some very hard times. The European Commission's White Paper, which puts forward five scenarios on the Union's future, is quite eloquent about the tremors that are undercutting its foundations. However, in order to make good policy judgements about the future one has to keep history in mind. The last decade was quite momentous for Romania and it does pay to glance back at it.

The EU has been a powerful force for change in a weak institutional setting. This influence was being felt even before Romania's accession to the EU in 2007. The *acquis communautaire* embodied a roadmap that helped to summon domestic resources and find a strategic purpose. There is now talk among local politicians and business leaders of finding a new anchor (e.g. Euro adoption).

This seems to be a sensible stance for a country that still has weak institutions and needs benchmarks for collective action. In addition, belonging to the core of the EU is a commendable aim. But, while EU benchmarks are relevant, they cannot put a country on automatic pilot when it comes to surmounting economic gaps and working out concrete public policies. Besides, the Euro area has institutional and policy arrangements that badly need overhauling.

There has been considerable progress during the past decade. Millions of Romanian citizens are travelling, living and working abroad; there has been a modernisation of organisational patterns and know-how transfers have taken place. Considerable productivity gains took place after EU accession, but there have not been enough of these to make an all-around and decisive breakthrough. It is also fair to say that things became increasingly blurred once the EU started to be buffeted by a series of crises.

The liberalisation of financial flows and the huge differentials between Romanian prices/wages and those in the more developed states of the EU have invited troubles and volatility, as well as increased social polarisation. Pro-cyclical policies have played a role in this regard. A legitimate question is 'how durable is this new upswing'. Massive corrections of fiscal and external imbalances took place after 2009.

### **Tied to the EU**

There has been a dismemberment of more than a few industrial production chains, some of them presumably obsolete, with a subsequent exodus of human capital. Migration has become a

big irritant over time, however much one values remittances as a source of balancing external accounts. About three-quarters of Romania's exports go to EU markets and the local banking sector is heavily controlled by European groups. The persistent malaise of European economies, especially those in the Eurozone, is a handicap for Romania's economic growth.

A Euro adoption hinges on two fundamental preconditions. One is a critical mass of real convergence as a means of withstanding the pressures within the Eurozone (Romania's GDP/capita is currently cca 57 per cent of the Eurozone average in PPP terms). This is one of the major lessons of the Eurozone crisis. It is wishful thinking to believe that this precondition can be tackled in just a few years' time. The second precondition is to have the Eurozone in a better shape institutionally and policy-wise by the time of joining it. Membership in the European banking union would make sense given the heavy local presence of foreign banks.

Efficiency reserves exist in all societies and one assumption could be that these are where massive productivity gains could easily be achieved. Nevertheless, moving towards the production possibilities frontier in a highly inefficient system is not easy, when the policies that foster economic growth are hard to articulate and institutions are weak. Mobilising internal resources implies, in most cases, the overhaul and upgrade of public administration. The functioning of public administration is crucial for an efficient absorption of European funds and for better public investment. Public policies should focus on the expansion of tradable sectors and upgrading output. The bottom line is that all these endeavours call for better-functioning domestic institutions and structural reforms, including superior management of state companies.

### **Mobilising domestic resources**

Romania's institutions would have to go from being 'extractive' to being 'inclusive'. This would also involve a taxation system that provided a sufficient amount of resources to the public budget to improve public services and keep social polarisation in check. Fiscal revenues are among the lowest in the EU as a share of GDP – about 26 per cent in 2016 against an average of over 40 per cent for the EU. Taxation policy has to convey a message of fairness to citizens, most of who have been severely battered by the financial and economic crisis. Fairness involves combating tax

evasion and tax avoidance (profit shifting).

Industrial rejuvenation and the modernisation of agriculture depend on the development of infrastructure (highways, irrigation systems, upgrading the railroad network, the drinking water system, the sewage system, etc.), and this is where Romania is lagging considerably behind other EU countries. A poor infrastructure significantly offsets Romania's labour cost advantage; EU funds could help to overstep this stumbling block.

There is a need to rethink the growth model. This does not mean that Romania should be less friendly to foreign inward investment. A better resource allocation, more targeted on higher valued tradeable sectors and an efficient absorption of EU funds could increase potential growth by 1-1.5 per cent of GDP annually (from a current potential growth of around three per cent). A revamped growth model would help to overcome the middle income trap.

### Going forward

How should public policies be improved in the years to come? Well, by strengthening institutions, setting clearly defined investment priorities, allocating resources on a multiannual basis, and by taking measures to insulate institutions from predatory vested interests. It is important to try to diminish the human capital exodus, to foster institutional values and professional standards, to allocate more resources to education, for which expenditure

should rise above five per cent of GDP. The country also needs to mobilise internal resources and to avoid pro-cyclical policies that worsen macroeconomic imbalances; the late fiscal policy slippage has to be reversed and the budget further consolidated.

It is essential to deal with budget sub-optimality, for it causes an insufficient amount of required public goods (too few resources for education and health care). For this to happen, fiscal revenues should climb above 30 per cent of GDP and nearer to the average of other NMSs. Romania needs to reform its education in conjunction with a significant rise in R&D expenditure and to foster more investment which should enhance domestic production of higher value-added goods and services. This should be followed by a strong push to develop infrastructure (EU funds have a major role to play in this respect), and the country should take industrial policy measures that enhance higher value-added production and tap into the huge potential of agriculture

The prospect of economic stagnation, over wide stretches of Europe, is looming while shifting economic power in the world complicates the global environment for Europe's emerging economies. In such a context, Romania needs to mobilise its internal reserves, absorb EU funds on a large scale and efficiently, undertake extensive reforms in the public sector, while promoting entrepreneurship and innovation as the means of raising its economic growth potential and offsetting adverse shocks. ●



## Romania's EU membership was slow to be appreciated but now the tide is turning

*We did not capitalise the benefits of EU membership to the full extent.*

It was on January 1, 2007, some fifty years after the creation of the European Economic Community, in the Treaty of Rome, that Romania officially became a full member of the European Union. The country's road towards integration has lasted fourteen years after signing the Association Agreement, back in 1993. It has been a long journey, full of hurdles, in parallel with the process of modernising the country and of consolidating the rule of law in our young democracy.

Despite being the first former communist nation to sign the Association Agreement with the EU, the negotiations between the Romanian Government and the European Commission were only initiated in February 2000, long after Poland, the Czech Republic and Hungary, who were the front runners of the integration. It was as if it finally marked the end of a decade of lost opportunities for Romania, as the 1990s could be called, and it was the beginning of laying the foundations for a new start.

The negotiations lasted for five years, during which time there were many accomplishments for Romania. Progress was made every day, and there was a consensus between society and the political parties to speed up the process, to shorten the time and to modernise the country, by adopting the EU legislation – overnight at all costs. Our future couldn't have looked brighter. It was also a time of selling some of the most valuable state assets, which later became a subject of controversy. It was a period for convincing the EU that Romania was committed to democracy and a market economy. With Hungary, Poland and the Czech Republic becoming full members of the EU in 2004, public pressure increased even more to hasten integration.

In recognition of the progress achieved by Romania in consolidating the rule of law and in controlling its borders, some visa requirements were lifted, starting in 2002. Romanian citizens became free to travel to EU countries. For many people, the freedom to travel to more developed regions abroad was of greater significance than the integration itself. In 2002, the minimum salary in Romania was around €40 net, while the average income was approx. €100. However, large industry was being dismantled which left behind mono-industrial regions where residents were struggling to survive. Thus, the lifting of visas fuelled the process of emigration, with Italy and Spain attracting over two million Romanians, mainly from the rural areas, who were offered jobs especially in agriculture and basic services.



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By 2003, the success of the negotiations for integration was already looming, therefore a referendum was held to allow the required loss of sovereignty in favour of EU. A year later, Romania was admitted into NATO. It was like nothing could stop us; the economy was steadily growing with rates exceeding the EU averages and country by country we were ratifying our integration treaty in 2005 and 2006. When the last Member State to sign the treaty, Germany, submitted the ratification instrument on December 20, 2006, we knew that our dream would come true on 1 January, 2007.

Unfortunately, we stopped there. We did not prepare any plan for the aftermath of integration. There was no longer a consensus between the political parties and society. In addition, the economic context became unfavourable for us. In 2008, Europe was hit by a crisis and all of the sudden, overnight, everything changed. Romania's budget deficit exploded and borrowings became too expensive to cover it. New taxes were introduced and VAT was effectively raised overnight, in parallel with significant salary cuts in the public sector.

The millions of Romanians who had started a new life abroad, soon discovered that they were no longer sheltered from the vicissitudes of life. Those who remained in Romania witnessed an abrupt increase in taxes, a sudden decrease of salaries and a drastic depreciation of the domestic currency. After so many years of struggle, we were finally in EU but only to arrive in the aftermath of the 2008 financial crisis. We discovered that EU membership was not the universal panacea to our problems. Additionally, we had to observe the rules to which subscribed through integration as well, if we wanted to enjoy the benefits of membership.

Instead of the expected accelerated convergence after integration, and only two years after integration, our government gave us massive tax rises together with salary cuts; done to cope with the huge budget deficit that was accumulated in the years of economic growth based on consumption, and following the same Government's irrational economic policies. We realised that for the convergence to happen, we first needed to establish objectives and realistic implementation plans. The absorption of non-reimbursable EU funds, which should have constituted a driver for our development, stalled due to a toxic combination of corruption, lack of competence and poor legislation.

In spite of all those adverse circumstances, it is of public

evidence that this first decade of EU membership has seen faster modernisation and socio-economic development in Romania and an improvement in Romanians' quality of life. Judged exclusively from a balance of payment perspective, Romania's EU membership has brought us around an extra €27 billion which has contributed to the further modernisation and development of the country.

This is because the vast majority of those funds were spent in building basic infrastructure (especially in the construction of aqueducts and water sewage systems, improvement of country's roads, further construction of highways, railways and the Bucharest subway as well as investments and direct payments in agriculture and rural communities). Since integration into the EU, Romania's GDP per capita, in terms of PPS compared with the EU average has advanced spectacularly in only ten years, from 35 per cent to 55 per cent — the highest increase of all ECE countries.

In addition, the Romanians who now live and work in other EU countries have sent over €52 billion home during these past ten years, which has also contributed significantly to raising the

living standard of Romanians.

It is equally true that we did not capitalise the benefits of EU membership to the full extent. In fact, once inside the EU, we have evolved by inertia without any milestones of our own. We have gone back to a mechanical participation in EU initiatives, being too busy with local internecine political fights.

We are now witnessing a European Union that is at a cross-roads, with the United Kingdom on the exit road and its founding members confronted with the rise of nationalist groups and the discontent of their own citizens toward the influx of immigrants. After ten years in the EU, we are still in the expectation phase. Eventually we will realise that convergence does not come automatically just because we are on the inside. We were fortunate enough to take the last train of integration ten years ago, but not inspired enough to formulate an articulate opinion about what we want and what we offer. However, we are certain that our future is inside the European Union and the debate about its future helps us to shape our goals. ●



# Surprising resilience of Romanian social-democrats

Written by  
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VOLINTIRU**

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*With the recent impeachment of the Grindeanu cabinet, on the grounds of poor governmental performance, the policy and institutional predictability is very low.*

In the current European context, not many European leftist parties are successful in elections. From Western Europe to the new democracies, either populism or anti-establishment parties are seizing the moment. On the other hand, the Romanian Social-Democrats (PSD) held a steady grip on their electoral share, with a sweeping 45 per cent in the national elections, less than a year ago.

As one of the major parties in power, during the entire post-communist period, PSD has managed to survive and adapt to larger EU trends, as well as grass-roots' realities. Even though it is a successor party, and often tainted by corruption, PSD has placed Romania on the path to EU integration and has ensured its NATO membership.

Still, neither its governmental failures nor its successes explain its steady grip on political power. Rather, its recipe for success is something that few other parties manage to have today: roots in society!

Many parties in Europe have grown increasingly reliant on the state, and PSD is no exception. Much like their Western counterparts, the main Romanian parties have developed a cartel that mobilises state resources to suit their own interest. Central and Eastern European cartel parties fuel their organisations and supporters partly through public subsidies but mostly through state capture, thus transforming public goods into club goods. PSD's vast territorial network ensures an additional advantage, of distributing the captured resources through the consolidated informal networks of client exchanges.

Since the very beginning of the Grindeanu cabinet, they have made their goal rather clear: seizing discretionary control over public resources. But the cabinet also has the major task of easing the anti-corruption legislation. With various scandals having affected the National Anti-corruption Agency (DNA) over the course of this year, such changes would have been possible with large public consultations and inclusive deliberations. However, they were done hastily, last winter, in order to officially bring the party leader, Liviu Dragnea, to the head of the government and they were extremely contentious.

The largest protests since the 1989 Revolution reflected the

high public sensitivity and awareness. The protests also showed the limits of PSD's popular support from younger urban professionals.

Numerous MPs from both the PSD ruling party and the opposition (PNL) are in specialty commissions, supporting the initiative to amend the criminal and criminal procedure codes. While the public justification for this exists in a certain level of ambiguity regarding criminal offences in public office (e.g. influence peddling), the motivation for both of the largest parties in Romania, to support such amendments, is to safeguard their elite from pending investigations or court decisions. Given this personal motivation, it is highly likely that some form of revision will take place in the months following the summer break of parliamentary sessions.

One of the latest developments suggests that an alternative way of implementing discretionary control over public institutions in Romania is the latest legislative provision to suspend Corporate Governance procedures (i.e. L111/2016) for various SOEs, which de facto increases the governing coalition's control over them. It is amplified by critical delays in management recruitment and questionable political intermediary appointments.

Given Romania's upcoming presidency of the Council of EU in 2019, the vast majority of political leaders in Romania are having frequent dialogues with EU representatives. Additionally, as foreign pressure to uphold the rule of law has worked very efficiently in the past, it is likely to work just as well in the near future.

Nevertheless, with the recent impeachment of the Grindeanu cabinet, on the grounds of poor governmental performance, the policy and institutional predictability is very low. PSD had a comfortable majority to allow it to change its own government, but the reasons for doing so remain indiscernible, as it was not entirely clear what its policy or administrative failures were. The domestic and international press has focused on the personal conflict between party leader, Liviu Dragnea, and former Prime Minister Grindeanu. It is, however, much more important to discern what will prevent such intra-party divisions with the incumbent prime minister, Mihai Tudose. As Liviu Dragnea can no longer hope to become prime minister, given a constitutional court ruling, its objectives with Tudose cabinet will be targeting

the general control of key decision-making positions as gatekeepers of state resources.

The current cabinet will face significant pressure concerning issues such as the fiscal deficit or the preparation of Romania's presidency, in 2019. Another contentious issue is the announced Sovereign Fund whose purpose or structure is not clearly described. OECD membership would have been the ace on any current government's sleeve, but the efforts in this regard are weak if at all present. On top of these harsh issues, a lack of specialised units and experts in relevant positions makes for a poor overall administrative capacity.

On the upside, the fight against corruption is likely to extend

more and more towards prevention, promoting public ethics and increasing institutional capacity at a local level. On the downside, the quality of the governmental process, especially as concerns public funds is likely to decrease, because of poor management and a lack of evidence based policy-making, as well as opacity, lack of transparency and no clear chain of accountability.

Is the party-state inter-penetration helping or hindering PSD? More likely than not its support base will diminish, if governance objectives remain oriented towards the benefit of a few select central office elite. Its roots in society will then wither, much like everywhere else. ●

*Liviu Dragnea (source: BigStock)*





# People power reminds the government of the rule of law



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*Published on  
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When I first came to Romania in 1990, the revolution had just finished. Ceausescu was dead and the political classes were forming into parties. That was 27 years ago. Even in 1990, people were on the streets, elated by what had been achieved. The then Government party was the party which eventually morphed into the Social Democratic Party (PSD).

Fast forward to 2017. What we have now, is a PSD government because they won the elections in 2016, without any complaints of manipulations — rather, apathy gave them the majority party in parliament. However, in recent days, this government has acted in an extremely dismissive manner towards the people of Romania. It has tried to pass laws which benefit those in jail and who have supported the PSD financially, over the last few years.

I have sat watching the TV these last few days and have even been to the demonstration to see what was really happening. It has been very exciting to see what might develop and you could feel that change was in the air. The atmosphere at the demonstration was incredibly calm; no violence, no anger. Admittedly there was one night when several supporters of the local football clubs decided to join in and attack the gendarmes. The gendarmes were prepared for that and it was the only night when the riot police were present, in front of the government building. The gendarmes knew what was coming. Since then, there has just been the normal gendarme presence outside the government building at night. Last night there were six.

As I have said, it is exciting and interesting to be in Romania and, particularly, in Bucharest now. There has certainly been a feeling of anticipation in the air. The actions of the Government that triggered the demonstrations had an air of Stalinist communism. However, unlike in the times of Stalin, no police broke up the demonstration and I am sure that the pressure of the people on

the streets in Bucharest, and other towns, together with pressure from the EU, brought about the withdrawal of the ordinances which had originally caused the problems.

Was the Government right to pass the ordinances in the way that it did? Probably not, because those ordinances were not in the manifesto on which the PSD was elected. Should criminal law be amended? No law is perfect and maybe there are areas which require clarification and that could be improved. This should have been discussed, rather than actioned the way that it was done. Maybe a better law would have resulted, especially as the government has now said it will discuss the law.

If they try and push through an ordinance again as they did here, I think the people will become very angry. This risk exists as the Government and its allies have more than 51 per cent of the parliamentary seats. Do the people want to change the governing party? There is no complaint as the PSD won fairly in 2016, but those who are complaining now should perhaps have voted in December 2016, but they did not. Many people support the social programme of the PSD, even though no-one is sure how it will be paid for, but there is certainly an air of 'give the government a chance'.

Most anger is directed at the leader of the PSD who has claimed to have no control over the Government, although nobody believes him. The mood in the street and which is one I agree with is to change the leadership of the Governing party and bring in new "clean" leaders who will be welcome in the capitals of Europe. Reorganise the Government with ministers with experience and then allow them to govern according to the mandate upon which they were elected.

As events continue to unfold it will certainly be interesting times. ●

# Political in-fighting must be resolved



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*The shock decision of the PSD's leadership to try to remove Grindeanu came less than a month after Dragnea publicly declared that he was satisfied with how the government was working.*

Only six months after winning the parliamentary elections, Romania's Social Democratic Party is in turmoil following an attempt by the party's leader, Liviu Dragnea, to remove the current Prime Minister, Sorin Grindeanu. With the party set for a key parliamentary vote on whether to keep the Prime Minister in power, it seems that both Grindeanu's and Dragnea's political futures now hang in the balance.

Romania's Social Democrats won the country's parliamentary elections in December in 2016. But their first six months in power have turned out to be an extremely bumpy ride. The latest drama has seen the party enter a spiral of crises that follow a failed attempt by their leader, Liviu Dragnea, to sack Prime Minister Sorin Grindeanu, who was, until recently, perceived to be something of a political puppet for Dragnea.

The situation came as a surprise, especially after the cabinet managed to survive protests in February, when hundreds of thousands of Romanians hit the streets in a reaction to the government's attempt – allegedly under Dragnea's influence – to decriminalise certain corruption offences. The crisis is even more surprising given the fact that the government has actually experienced solid economic results in recent months. However, the relationship between the leader of the Social Democratic Party (PSD) and the new Prime Minister – who has refused to obey party orders – has, nevertheless, deteriorated rapidly. Indeed, events unfolded at a staggering speed – in just a little over two days.

The shock decision of the PSD's leadership to try to remove Grindeanu came less than a month after Dragnea publicly declared that he was satisfied with how the government was working. When the Prime Minister refused to leave office, he was ousted from the PSD outright and Dragnea asked the PM's cabinet members to submit their resignations. However, despite facing immense pressure and a hostile leadership within his own party, Grindeanu is now trying to form a new cabinet, and has the support of several vocal Social Democrats who have repeatedly spoken out against Dragnea's allegedly authoritarian rule.

These supporters include MEP Cătălin Ivan, and Mihai Chirica, the mayor of Iași (one of the biggest municipalities in Romania),

as well as former minister and MP, Aurelia Cristea, all of whom were isolated by Dragnea over their critical stances against his leadership style. But there seem to be many more who have kept their silence, until now, but who could manifest their disapproval with their leader, at any point. The fate of the government will remain uncertain until the clash between these divergent views inside the PSD is settled. Two distinct shades of red within the party have now come to the surface.

An evaluation that Liviu Dragnea produced, together with his close collaborators (which he used as the basis for the reasons he considered the government should resign) was nothing short of an absurdity, as the document was a simplistic mathematical representation of the number of decisions taken by the government in its first six months. The numbers were compared with the entire sum of decisions that the government was expected to take during its whole four-year-term: of course this showed that only some of what was expected had been implemented so far.

The Prime Minister criticised the document and declared he would not resign on the basis of such an ill-founded paper. He added that, given Dragnea's substantial contribution to establishing the portfolios in the cabinet, he should also assume part of the guilt in not having the party manifesto properly implemented. He was backed by former Prime Minister, Victor Ponta, a staunch opponent of Dragnea.

Moreover, Ponta pledged his full support to Grindeanu, promising that he would devote time and effort to persuading MPs, who remained faithful to him, to support the Prime Minister, now left without a cabinet. But Dragnea fought back and the PSD leadership will now ask for a vote of no-confidence in the Parliament. Romanian politics is experiencing a novel situation, as a party is preparing to vote against its own government and is asking the opposition to do the same.

However, simply adding up numbers, yet again, might produce a distorted image. Although, theoretically, the PSD and its junior coalition partner would have enough votes to topple the government, the situation is more complicated, precisely because it is still unclear whether Dragnea can rely on the votes of all the

Social Democrat MPs. A number of them are unhappy with the fact that key positions are held by those who, until not so long ago, came from outside the party, i.e. mostly from the Greater Romania Party (PRM).

Even Dragnea has been reminded that he was initially a member of a competing party (the PD), before joining the PSD. If

Grindeanu manages to pull enough support from those who are uneasy with Dragnea as party leader, he might just manage to survive. It would be a disastrous scenario for the current leadership of the PSD, which would then, almost surely, find itself in the situation of having to call for a congress within the party. This would open up competition for the leadership. In this potential



*Sorin Grindeanu (source: BigStock)*

weakened position, it might be the beginning of the end for Dragnea's political career.

Ultimately, the crisis will only end once things are settled, one way or another, within the PSD. Should the government fall, following the vote in parliament, Dragnea will cleanse the party of all those who spoke out against him. He will then form a genuine 'puppet cabinet' which he will scrutinise even more

closely than he did the current one. However, if the government survives the vote of no-confidence, the situation will continue to linger until the victors remove Dragnea and his team from their positions. Regardless of how events unfold, both the government and the PSD will be fragile until a new leadership, with or without the current key figures, regains full legitimacy through a proper congress. ●

Written by

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## Romania says NO to corruption

*The support of the Romanian citizens, who have become more and more intolerant of corruptive practices, may represent a prerequisite for a real and deep change of mentality that appreciates the honesty, the merit and the respect of law.*

The fight against corruption in Romania seems to be a never-ending story and corruption has very often been closely associated with the country.

“Corruption has been a number one issue in the media, and in the governments’ agenda. It is part of the country’s brand but in reality things are better than they look,” Victor Alistar, executive director at Transparency International (TI) in Romania, tells *Emerging Europe*.

“For many years, corruption was considered a generalised phenomenon as well as a major risk for the citizens, and one that affected almost all fields of activity: education, healthcare, public procurement, etc.,” says Laura Codruța Kövesi, chief prosecutor at the National Anticorruption Directorate (DNA).

In the latest Corruption Perception Index (CPI), published in January 2017, Romania ranked 57th, twelve notches higher than in 2010. Perhaps that is why in February 2017, the issue brought hundreds of thousands of Romanians to the streets. In January, Romania’s ombudsman asked the court to declare a law that was introduced in 2001, and which bars people with convictions from serving as ministers, unconstitutional. Why only now?

“The Social Democratic Party (SDP) won the general elections in December 2016, therefore its leader claimed that he was entitled to become prime minister. But he had a major legal obstacle to overcome, the law prevented people who have been previously convicted of criminal offences becoming prime minister. The president of SDP was convicted of electoral fraud some few years ago, with a suspended sentence, and is now awaiting a new trial,” says Dr Gabriela Baicu from Arté Management Consulting.

In January, the country’s ombudsman asked the court to declare it unconstitutional. Following that, the government decided to lift criminal sanctions from any public officials who had benefited from an abuse of office, for a sum of less than 200,000 lei (€43,600). The government said the changes were required by a court ruling. The parliament voted the amended law in, overnight.

“It was not wrong,” says TI’s Mr Alistar. “It was just communicated wrongly. There were technical ambiguities and a lack of transparency. Currently, the Ministry of Justice has slowed the changes down and is seeking the opinion of the constitutional court, the Venice Commission and the other parties involved.

This was a good lesson for the government and keeping public pressure on politicians is good,” he adds.

“In 2006, only 360 people were sent to trial. After ten years of activity, in 2016, the DNA sent 1,270 people to trial. Among them, and in the last three years, there were three ministers, six senators, eleven deputies and 426 people with management and positions of control. The conviction rate in our cases is constantly over 90 per cent,” DNA’s Ms Kövesi tells *Emerging Europe*.

The DNA is a judicial institution that enjoys the highest level of trust among Romanians — 50 per cent according to a survey dated December 2016 — and is one of the five examples of good practice mentioned in the Anticorruption Report of the European Union. Does this mean there are no challenges going forward?

TI’s Mr Alistar believes that the sanctioning part of the anti-corruption law works very well but the prevention side has been disregarded. “For example, abuse of power has an unclear definition which makes lower rank officials prolong the decision making process so they will not be accused of bribery,” he adds.

For DNA’s Ms Kövesi the most critical challenge is the observance and guarantee of DNA’s independence in the future, as well as ensuring the stability of DNA and, generally, the stability of the anti-corruption legislation.

“Numerous high ranking officials are among those who are the subject of investigations, a situation that proves that the principle “no one is above the law” is becoming a reality in Romania. However, investigating, sending to trial and getting convictions against so many influential high-ranking officials and business people has also raised a counter-reaction. Some of the subjects of our investigations, their pros and the media channels controlled by them opened a counter-attack, all of them trying to maintain their control, power and influence,” she says.

Will the public continue watching the government’s hands, ready to take it to the streets again?

“In Romania, more and more people perceive anticorruption action as the only way towards a clean society,” says Ms Kövesi. “The support of the Romanian citizens, who have become more and more intolerant of corruptive practices, may represent a prerequisite for a real and deep change of mentality that appreciates the honesty, the merit and the respect of law. ●

Written by

**CLAUDIA  
PATRICOLO**Published on  
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# Romania to stay close after Brexit

*The UK has been a long-standing supporter of Romania. Our bilateral relations are good and, even if the UK is now leaving the EU, I hope we can keep trade flows going as well as investments.*

“Romania is a hidden gem in Europe, a country which is a very good place for investments but which also needs to promote itself in Western Europe and beyond,” Alain Pilloux, vice president, Banking, at the European Bank for Reconstruction and Development (EBRD) said during the EBRD Emerging Europe Outlook on Romania investment forum, held in June in London. He was pointing to the fact that in the first quarter of 2017, the country’s economy grew by 5.6 per cent.

“The general economic situation in Romania is good and figures are convincing, in particular the country’s growth, which is one of the highest in Europe. Debt is under control, even if some recent measures could affect the budget deficit, but basically things are going well. It would be good if this model would evolve towards investments replacing consumption in Romania’s economic model,” he told *Emerging Europe*.

In 2017, the country celebrated the tenth anniversary of its membership in the European Union. Eurostat data says Romania’s GDP per capita grew from €4,600 in 2006 to €8,600 in 2016.

“The UK has been a long-standing supporter of Romania,” said the British minister for state for trade and investment and Minister for London, Greg Hands, who also took part in the forum. “We strongly supported its entry into the European Union and NATO. Our bilateral relations are good and, even if the UK is now leaving the EU, I hope we can keep trade flows going as well as investments,” he told *Emerging Europe*.

“Immigration did play an important factor in the Brexit referendum, but I genuinely think that the British people are some of the most open and generous people in the world when it comes to migrants,” says Mr Hands, speaking about the image of Romania among Brits. “There have been some regrettable instances but in general Romanians are welcome. I’ve been a big part of that; making them feel welcome in London, and especially in Hammersmith, where the largest Romanian community is living.

According to the Office for National Statistics (ONS), Romanian nationals are now the fourth biggest national group in the UK, with 233,000 citizens. As in the case of other countries with a high number of immigrants living in the UK, for example, Poland, bilateral trade is growing. In 2016, it amounted to €4 billion.

“People need to hear the message that the UK wants to increase trade and investments in Romania, and that it is not just an intention but that we already have the tools in place, and a good network within Romania, since we are working closely with the Chambers of Commerce,” Mr Hands said. ●





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## Romania's short-term prospects remain solid

Since 2014, gains in household purchasing power, resulting from a combination of a tighter labour market, strong nominal wage growth alongside deflation or weak inflation, and a highly accommodative fiscal stance resulted in a vigorous consumption-led recovery.

Following growth of 4.8 per cent in 2016, the Economist Intelligence Unit (EIU) expects the Romanian economy to grow by 4.2 per cent in 2017, and 3.7 per cent in 2018, placing real GDP at levels 17 per cent above its 2008 peak. As in recent years, growth will be mainly supported by private consumption.

If something is clear from the data, it is that the economy is firing on all cylinders and hence it would take a big disruption



to change the current dynamics. Fortunately for those banking on continued growth, such a shock is hard to discern in the short term (though they seldom are). In the first quarter of 2017, real GDP grew by 5.7 per cent year-on-year, nominal wages grew by an average of 16.1 per cent and inflation averaged 0.2 per cent. In May, the unemployment rate stood at 5.4 per cent.

Despite a recent warning from the European Commission, the government will maintain its accommodative fiscal stance that has entailed cutting VAT rates and increasing the minimum wage and pensions, by 16 and 30 per cent respectively. The unitary wage law, which will raise public-sector salaries by 25 per cent in January 2018, to be followed by further rises for certain categories of public-sector workers, will continue the bonanza.

The main downside risks are that this could result in more moderate growth (three per cent) in 2018; a sharper-than-expected slowdown in China or a bigger negative fallout for eastern Europe from the slowdown, compared with the EIU's forecast. Our baseline forecast is that after the president, Xi Jinping, has consolidated his power at a party conference, in late 2017, he will sanction policies to rein in credit growth. As a result of these policies, growth in China will slow sharply in 2018, to 4.6 per cent, from 6.6 per cent in 2017. We estimate that this slowdown will result in export growth in Romania decelerating to 6.7 per cent in 2018, from 8.8 per cent in 2017. A more pronounced slowdown cannot be completely discounted.

The recent political turmoil, which resulted in the Social Democratic Party (PSD) presenting a vote of no-confidence against its own prime-minister, will have minimal short-term economic ramifications. In response to the turmoil, the Leu depreciated modestly and then recovered and stock market losses were minimal.

Given the majority the PSD holds in both houses of parliament, a radical change in economic policy is unlikely. Businesses are unlikely to modify investment or hiring plans in the current high-growth environment. Institutional credibility, however, has been undermined as a result of the recent actions. The swift removal of Mr Grindeanu from office confirms that the effective executive power resides with the PSD leadership. This concentration of power in the PSD leadership undermines the checks and balances that are a guarantee for the rule of law, increases political uncertainty and may negatively influence investment in the medium-term.

If strong growth rates are to be maintained, the authorities need to improve the business environment. The economy is already operating at full potential and faces significant and increasing labour constraints that will demand added capital investment as well as innovation from the private sector. The government will need to provide its support via quality investment in skills development, public infrastructure and continued reforms of the public and judicial administrations. In the absence of such reforms, Romania faces the risk of seeing much less glamorous medium-term real growth rates. ●



## ANNE-MARIE MARTIN

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# A family between Britain and Romania

It is unfortunate that, in the current geopolitical climate, anyone from overseas is considered a potential threat to our so-called way of life and British values.

There is an increase in foreign workers being drawn to the UK, particularly from parts of the CEE region, because of the very nature of those British values that they so admire and aspire to being a part of, and this has created an often unfounded perception that such people are only here to derive benefit from our work and social infrastructure, for personal gain without no regard for the wider communities where they settle.

### Business demand

A great deal of this is fuelled by the popular media, whose success is built on sensationalism and high octane output, as well as political figures whose interests have been driven by personal and political agendas, for example driving the UK's exit from the European Union.

What is not often considered is that the call for access to a migrant workforce is driven by a real demand from business, desperate for access to relevant skills and talent that it struggles to find in its own marketplace, and that migrant workers contribute both financially and culturally to the rich tapestry that has always made the UK such a unique and attractive place to be a part of. It is not always about the money!

For as long as I can remember Romania, and to a great extent Bulgaria, have had a harder battle to fight than their neighbours who became Member States three years before them. This has been further hindered by the UK's decision to impose a relatively lengthy period of right-to-work sanctions after opening its doors to both countries.

### Improving the image

To justify this decision, a great deal of political rhetoric began to circulate, communicated far and wide by the media at that time: scaremongering stories about the evil impalers and criminals flooding the country and why it was important not to allow them to integrate and work in our society. They became the fall guys for the political reaction to an unforeseen outcome concerning the number of migrants arriving in the UK, from the CEE countries that joined the EU in 2004.

At that time a great deal of incredibly positive work began to emerge, predominantly driven by a growing number of Romanian groups, derived from business, culture, religious institutions and to some extent governments. Several initiatives and projects, with ambitions to convert the doubters and to educate people about Romania, its culture and greatest asset — its people, were born and to a great extent succeeded in raising awareness about the realities and image of this little known country in Europe.

The task at hand was not always easy — it took a great deal of dedication and passion, from an amazing number of incredible people from all walks of life, to make a huge difference. The often turbulent political landscape in Romania and

the frequent reports of systemic corruption did nothing to help the cause, and despite the enormous strides taken in Romania to get its house in order, these issues rumble on to this very day.

### Historical burden

CEE countries, in general, seem to have less self-confidence about what they have achieved over the last quarter of a century and what they can achieve in the future. The burden of history plays a critical role in that behaviour. Each country in the region comes with its own baggage. The region is still in a phase of transition — in the generational context for the most part — those that were there before the fall of Communism, and who lived through the full effects carry trunk loads of baggage — those that crossed the before and after and travelled with their suitcase and now hand-luggage only, and those that have only known the democracy and free-will to achieve whatever and be whoever they want to and who backpack their way around the world absorbing everything life has to throw at them.

When you say a quarter of a century in those words it sounds like a really long time, but if you say 25 years, that is nothing in the big scheme of things. A drop in the ocean! What has been achieved in this region is extraordinary: freedom, democracy, reform, strategic partnerships and alliances, enterprise and investment, jobs and social mobility. A lot of new buildings! A force of nature for many, and not just the young but also those who have experience on both sides of the coin, has been a willingness to break free; to see the world, be educated and learn as much as possible from the developed world and then to bring all that wealth of knowledge and know-how back, to build the region for the future.

Self-confidence comes from achievement and recognition for those achievements, and achievement comes from opportunity. There are so many good stories of opportunity in the region and success. If we find a way to better communicate both, then recognition will be abundant and self-confidence will grow. From that point the rest is a self-fulfilling prophecy.

### Learning to communicate

Some parts of the region are much better at communi-







cating their value proposition than others. This, in my view, is where Romania is lacking. Somehow, it has not quite managed to strike the right chord in its communication with the outside world. Despite its many admirers and willing and passionate ambassadors for the country, be they Romanians, British or other nationalities, somehow we are still missing a beat. I don't have all the answers, by any means. Romania's brand image is not what it could be and somehow we need to find a more joined up way of connecting the dots.

It is paramount to bring the business, culture, social, civic and official brains together to create cohesion in the melting pot and to work constructively and systematically together to achieve this important common goal.

Romania is the fastest growing economy in the region. That is incredible. It is this kind of key fact that must be communicated and not just for gloss and glamour, but because of a real business case. Romania, as the rest of the region, is open for business, full of real business opportunities, and ready and willing to be capitalised upon.

I am one of those I mentioned earlier that straddle both sides of Romania's history. I was born in Romania, into a highly socio-political family dynamic. My memories of Romania from that time are those of a child, and of a charmed life of family and friends. I remember the love and protection of devoted parents and grandparents and close cousins with neighbouring children as playmates. I recall kindergarten and being bossy and leading my playmates astray and getting into a lot of trouble, predominantly

with my beloved grandmother.

### **Building a bridge**

Beneath the idyllic picture in my mind lies a difficult family history, full of pain and disappointment, hardship and separation, and social exclusion because of upheld heartfelt anti-establishment views. The exodus from Romania that began in the late 1960's, resulted in our close family being dispersed across continents, but still closely tied by our common history and values. The home we finally made was in the UK, in the early 1970s, and was where I grew up firmly rooted between two cultures. I had activist grandparents, who dreamt of and campaigned for a better Romania, parents who worked hard to move on from a challenging past to blend into a new culture and to embrace newfound space to breath and grow without restraint. All have gone a long way to help shape my British-Romanian trajectory.

I cut my teeth in industry and through my father's own dream for a better Romania I entered the world of business and chambers of commerce. His vision for an economically strong Romania was driven by business investment that led to the founding of a brand new British chamber of commerce. It was dedicated to driving British Romanian trade and investment and acted as a powerful platform for raising awareness of the opportunities in Romania for business and also for raising the profile of the country on the world stage. His enthusiasm and passion was infectious and relentless. I couldn't resist. From that point onwards my hand-luggage only journey began in earnest, and as they say, the rest is history. ●



**SERGIU  
OPRESCU**

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Alpha Bank Romania  
President  
Romanian Association  
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*Published on  
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*Romania must  
resynchronise its economic  
cycle with the financing  
cycle, which is currently  
out of step.*

The Romanian banking system is undoubtedly the banking system with the highest liquidity level in the European Union because of its 40 per cent immediate liquidity, which at present features advanced structural stability and one of the best capitalised systems.

In Romania, it has achieved a performance which could be adopted as a “best practice” standard at a European level; this because of the accelerated mitigation rate of non-performing loans that has dropped from 23.7 per cent to 9.36 per cent, in less than three years. The country’s aim is to reduce this indicator even further, to match the European average of six per cent, by the year’s end.

The banking system has also reaffirmed its resilience to external and internal factors alike (populist legislative initiatives), at the same time regaining its profitability and investment attractiveness.



**Romanian banks must use  
lessons learned**

With such a capital surplus, i.e. almost 20 per cent, our opinion is that the banking sector will contribute decisively to enhancing the country's economic well-being, especially when the current low level of financial intermediation is taken into account. Hence, there is a great opportunity, at this point, to swiftly support the economic development by strengthening financial intermediation.

Romania must resynchronise its economic cycle with the financing cycle, which is currently out of step. Only by enhancing capacity and by making an entrepreneurial effort, resulting in greater productivity as a whole, can the virtuous circle of credit multiplication be implemented.

We must enhance our financial intermediation, from its current level of the lowest in the European Union (29 per cent) to a one that is closer to that of our peer countries, or, at least, to the level we attained in 2008, i.e. a 40 per cent non-government credit as a percentage of the GDP. Considering the banking sector's capacity to fulfil this financial intermediation enhancement, we can say that, indeed, we are well positioned to do so.

Places where we could have an advantage in terms of convergence could be the very spots where Romania ranks last in Europe (namely, our faster rate of development than

the speed of the group we are chasing). This paradox relates to the fact that, generally speaking, opportunities come from areas where we have got problems, today. Here, I will mention only three fields: financial inclusion (only 62 per cent in Romania versus over 90 per cent at a European level); the digital agenda (last position in Europe based on the Digital Economy and Society Index, but second ranking in connectivity, i.e. the digital market infrastructure) and financial literacy where, again, we rank last in Europe at place 28, and where, with no great effort, we could have special power as concerns the sustainable enhancement of our financial intermediation.

We praise RAB's initiative of implementing a major strategy for the banking sector that targets the national interest in enhancing our economic well-being. The goals of the banking community's ongoing projects are: to accelerate the introduction of digital technologies in financial and banking services — via the Platform for the Digital Agenda; to enhance the financial literacy level — via the Platform for Financial Education and to integrate financial inclusion — with a view to increase the percentage of accessed European funds, to develop Public Private Partnerships and to fund large investment projects.

It is only natural that banks are particularly concerned with enhancing SMEs capacity to access bank loans. The more resources the economy needs and the more financial intermediation can be employed, the better the overall economic outcome.

The banking community's interest in enhancing conduct and cultural standards within banking plays a crucial role in reducing the trust deficit that is facing banking systems in general, particularly those operating in countries with low levels of financial literacy. Conduct and organisational culture are also major national European topics. We are making our voice heard, in this respect, through the associations of which we are members. This subject was also raised with the European Banking Federation where we discussed several models and best practices concerning Codes of Conduct.

There is still room for improvement where conduct is concerned. Banks should commit to having a more proactive role in self-regulation, when it comes to banking conduct and should penalise slippage within the community. For instance, we had some cases in the past, when the lack of trust expanded across the whole industry — a situation we do not want to see happening again. In fact, we are at a far cry from the times when a single bank's actions concerned that bank alone. Nowadays, we live in times when any bank's action is everyone's concern.

As for rebuilding trust, and assessment of our latest data shows that we are on a positive trend. Nonetheless, we must be mindful of the widening gap in regaining trust within the population, expressly, trust is regained faster with better-informed people, who are more financially-educated, than with others, which could lead to a two-speed system that creates unwanted side-effects. As such, the banks' efforts must also be aimed at lifting the level of financial education.

Most importantly, banks must truly understand those lessons we have learned from the legal initiatives of recent years and adjust their conduct proactively, with a view to eliminating the risk of potential populist legal initiatives which, at the end of the day, impose costs upon society. ●

# Romanian upgrade to Emerging Market is on the cards

Written by

**ANDREW  
WROBEL**

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*All the capital market reform and efforts we have undertaken recently, together with the stakeholders of the capital market, are driven by a belief in, and a strategic plan to create, a new good Emerging Market for investors. The upgrade to Emerging Market not only describes the new reality, but also creates it.*



Ludwik Sobolewski (source: BVB)

On 30 June 2017, BET, the main index at the Bucharest Stock Exchange (BVB), closed at 7,855 points, thus reaching 18.87 per cent growth in the first half of the year. At the same time, the average daily value of transactions increased by more than 30 per cent to €9.68 million and market capitalisation of all companies listed exceeded €37 billion.

“Romania’s market performance is pretty strong — until the end of April, the index was up over 20 per cent and it was the best performing exchange in the EU. The monthly turnover in May was the best in a decade,” says Jim Turnbull, senior manager in the Local Currency and Local Capital Markets team at the European Bank for Reconstruction and Development (EBRD).

## On the up

According to Berenberg, in 2017, BET companies are expected to pay seven per cent dividend yield. Almost eight per cent was paid in 2016 and that was the highest yield in the world, above Kuwait (7.6 per cent) and Bahrain (7.2 per cent).

Dr Panagiotis Diamantis, CEO at IEBA Trust, believes that one of the key factors that sustained that considerable growth on BVB was the favourable macroeconomic numbers. “In Q1 2017, Romania’s GDP grew by 5.7 per cent year-on-year and was the highest in the EU,” he says.

But there are other factors too. Carsten Hesse, EME equity strategist at Berenberg, believes the Romanian capital markets have done tremendously well not only in 2017 but also over the last years. “They have been the best performing equity markets among the countries that received a bailout during the global financial crisis. Since March 2009, the Romanian equity market has gone up by 250 per cent. The ten-year bond yields in local currency fell from 7.5 per cent in 2011, to only 3.75 per cent now,” he adds.

Mircea Ursache, vice-president of the Romanian Financial Supervisory Authority (FSA), says that the recent years have seen important steps made to improve the legal framework: improving corporate governance of all entities present on the capital market and harmonising their financial reporting standards with the international financial reporting standards (IFRS); diversifying financial instruments traded on the market; strengthening and development of the capital market infrastructure, to name but a few.

“We have also taken action to remove the bureaucratic legal barriers, so that the Romanian capital market becomes attractive to sophisticated investors,” FSA’s Mr Ursache adds.

“Romania’s capital market presents considerable potential within the regional and global context and this is clearly illustrated by the recently successful IPOs that were realised exclusively on the BVB platform,” says Florin Pogonaru, coordinator of the Central European Financial Services Group for Romania, president of the Romanian Businessmen’s Association and vice-president of the Aspen Institute Romania.

## New perspectives ahead

The awareness amongst companies and investors is growing. “Over the past six months we have seen three successful IPOs:

MedLife in healthcare, Digi Communications in ICT and AAGES, an industrial company,” says Radu Hanga, head of Group Strategy at Banca Transilvania.

At present, new projects are being prepared for the further issuance of shares, as well as corporate and government bonds on the Bucharest Stock Exchange.

“Romania is a great example of a country which is on a course of fast transition and fast development. The capital market is set on a new basis and investors will have access to new listings and products,” says Ludwik Sobolewski, CEO at BVB.

“These operations represent encouraging signs that Romanian investors are increasingly considering the financing of companies, through the capital market, as a viable alternative to bank loan,” FSA’s Mr Ursache says.

“We’re definitely seeing opportunities there for either private business champions who need to go big to keep their competitive edge or for state owned enterprises which can benefit from the improved governance, transparency and planning which come with accessing the capital markets,” says Sergiu Manea, CEO at Banca Comercială Română.

“Just recently have I noticed an entirely new trend — that is a clear desire from local privately-owned and managed enterprises to enter the local stock exchange,” Rafael Szczepaniak, head of EMEA Emerging Markets Coverage at UBS Investment Bank, tells *Emerging Europe*.

“Romania appears to be on the brink of being upgraded to an Emerging Market status, which would help put it on the radar of many new investors. There are a vast number of high quality disruptive start-ups, other home-grown tech companies as well as an in-place sophisticated regulator and growing exchange, all providing reasons for a lot more funds to chase Romanian issuers,” he adds.

### Changing the category

Berenberg’s Mr Hesse says that Romania’s capital market implemented many reforms which make it easier for foreign investors to invest in Romania; therefore the country deserves to be seen as an Emerging Market country, and no longer a frontier market country.

“The prospect of promoting a new market status — endorsed by MSCI index — will give the Romanian capital market, as part of the Emerging Market segment, a higher visibility and acceptance to large international investors. Special investment vehicles which will be in a position to increase the volume of the funds to be injected and consequently will provide much better market dynamics, in terms of volume and liquidity,” says Aspen Institute’s Mr Pogonaru.

“We see this as a key development for ensuring the next phase of growth for the Bucharest Stock Exchange, as it will put us on map for many institutional investors that are still waiting for a green light before investing here,” says Banca Transilvania’s Mr Hanga.

“The Emerging Market status will have major impact on liquidity; it will put Romania on the radar of a different category of investors. The brokerage houses will definitely have to improve and adapt to the higher standards of services,” says IEBA Trust’s Dr Diamantis.

According to International Financial Corporation (IFC), a member of the World Bank Group, an emerging market is “a market that grows in size and sophistication, in contrast to a relatively small, inactive market that gives very few signs of change” and, in order to increase the size of a market, it is primarily necessary to issue financial instruments and to encourage companies to finance their objectives through the capital market mechanisms.

### More privatisation ahead

“If Romania is upgraded to Emerging Market in the coming years, it would likely lead to a stock market rally, which then attracts more companies to list on the stock exchange including privatisations. As companies that are listed on the stock exchange have, on average, a more efficient management and grow faster, it would help the overall Romanian economy,” Berenberg’s Mr Hesse tells *Emerging Europe*.

EBRD’s Mr Turnbull says such an upgrade is extremely beneficial, if handled well. “Of course, a reclassification is just the start — the challenge still remains to keep the country at the forefront of investor’s minds. But increased international investor inflow is likely following a reclassification to Emerging Market,” he adds.

“There is no doubt that privatisation stimulates the real economy through both the rebound and the capital market,” says FSA’s Mr Ursache. “By listing important companies on the stock exchange, the grounds for improving the visibility of the capital market and the liquidity on this market will grow. The goal is to attract companies with a large free-float, but also with a large size. In the future, everything that will mean privatisation in Romania should be carried out only through the capital market, the only fair and honest one, where investors are convinced that their management will be a profit-making one,” he adds.

Aspen Institute’s Mr Pogonaru believes that further privatisation, through initial and secondary public offerings of a significant value, seems to be the only way the Romanian capital market can attempt to really escape the liquidity trap. “The state is the only owner of a portfolio of large companies and, hence, the only one that can truly internalise the benefits of additional listings,” he says.

### Other conditions required

“While the privatisation of major SOEs players such as Hidroelectrica, is still among the aces up our sleeve, in terms of developing the local capital market, we would also bank on more private businesses and entrepreneurs reaching maturity and turning to the stock market to go public,” says Banca Transilvania’s Mr Hanga.

“A wholesale privatisation of large, state-owned companies is not a singular solution for capital market development — that is why it is so gratifying to see the successful private sector IPOs this year,” says EBRD’s Mr Turnbull.

“All the capital market reform and efforts we have undertaken recently, together with the stakeholders of the capital market, are driven by a belief in, and a strategic plan to create, a new good Emerging Market for investors. The upgrade to Emerging Market not only describes the new reality, but also creates it,” says BVB’s Mr Sobolewski. ●

Written by

**ANDREW WROBEL**

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## The Bucharest Stock Exchange has started the year on a promising note

In the first quarter of 2017, the value of transactions on the regulated market of the Bucharest Stock Exchange (BVB) climbed to a six-year high and reached €530 million while the number of transactions and traded volumes climbed to a seven-year high. **Ludwik Sobolewski, CEO of the BVB**, spoke to Andrew Wrobel, about the effects that could positively influence the country once it gains Emerging Market status, and the increased interest shown by private companies to be listed on the stock exchange.

### The last two quarters seem to be very promising for the Bucharest Stock Exchange.

Indeed, the first quarter was very good but it started at the end of last year. First of all, in September 2016, Romania was put on the so called “watch list” for Emerging Market status by FTSE Russell, because of the progress it has made on modernising the capital market. Romania currently has the status of a frontier market and we would like to be upgraded to be among the emerging markets.

Secondly, we witnessed a very big transaction on the market: one of the largest companies, listed in Bucharest, sold a significant stake in OMV Petrom, another big company that is listed on the exchange. The market showed a good appetite and good strength, and this transaction was completed within a couple of hours, with a value of around €150 million.

Finally in December, we had an IPO of MedLife, a company operating in the health-care sector. The value of the transaction was €50 million and it was the largest ever IPO of a private company (non-privatisation linked to) in the Romanian stock market. All of these events showed that the market is really evolving in a very

good direction. We had rather better liquidity at the end of 2016 and it has continued throughout January, February and March. When we counted the number of transactions and the value traded, we saw that this is the best quarter we have had for the last six or seven years.

A big challenge for the Romanian capital market has always been characterised by the assets list which is undervalued. So, we are very happy to see that during these last three months, prices are going up and it has nothing to do with a superficial euphoria. It looks like a process with a certain thriving activity. It turned out that, when we look at index performances, Bucharest is the best in the entire region and one of the best in Europe. This is also partly because in 2015 and in 2016 we had the highest dividend yield in the world.

### Let's briefly circle back to the upgrade to emerging capital market status. What would this upgrade entail?

We will have larger flows of capital investing in Romanian stocks, equities and also other instruments. This is taking into consideration the fact that the size of the firms that invest globally in emerging markets is much larger than the size of the firms which specialise in frontier markets. The Emerging Market status help us to be better perceived than a frontier one, where the level of risk commonly associated with this type of market is higher. But it will also be translated into larger flows and we think that this will provoke a chain reaction, allowing us to have get flows coming from all sources, domestic and from abroad.

Then, it will incentivise more retail investors. They will be more willing to invest money because they will see the market growing, with growing

Bucharest Stock Exchange (source: BVB)



prices and an increase of new companies arriving to the market. Besides, in Romania we have pension funds and investment funds. These two types of institutional investors would also feel a lot safer if the market becomes greater. There was always a challenge here, because, according to the MSCI's requirements, a market which wants to be an emerging market must have at least three companies that fulfil very demanding criteria related to the market capitalisation and the value of free float and liquidity.

At the beginning of February Romania began to have such companies thanks to the improved turn over. So, we now have these three required companies, which is also something we have never had before. We are also expecting a large IPO, probably to be launched end of April, of a private company, which will be much bigger than the MedLife one. Later, chances are that we will at last see a big state-owned company going public. I am talking about Hidroelectrica which is currently the largest Romanian company. So, there is a very serious chance that we will have even more than the three required companies to gain emerging market status, by end of this year.

**Do you think these two IPOs, the one that happened in December and the upcoming one, can help to increase the interest of private companies in Romania, in being listed on the stock exchange, in order to raise the capital on the market?**

Yes, this is exactly the effect we expected to be created after this IPO in December. Apart from these, we also know about at least two or three small or medium sized private companies that are preparing IPOs. They are much smaller, but still they decided to go public to raise funds. It will not have a very meaningful impact on the overall condition of the market, but this is very symptomatic because it shows a new culture. Of course, we at the Bucharest Stock Exchange are trying to build up this equities' culture through different promotions, education and so on. For instance, very recently we launched a project which is called 'Made in Romania'.

We invited companies to participate in a very developed programme that is aimed at education, training and coaching and was about how the capital market could be used for them, by them and for their development. It is structured as a competition with the objective of having 15 qualified companies. In the first stage, we had 166 applications that were submitted by small and medium sized companies, and by larger ones, as well. Then we chose 16 of them. But it is significant to see that 166 companies reacted to our initiative, which was thanks to a growing awareness, an activist culture and also to the example given by MedLife.

Romania is now perceived as one of the most dynamic capital markets in the region. I would even be tempted to say that it is perhaps the most dynamic market in the entire region, because everyone knows that there are some companies that debuted on the exchange, which is, apart from Poland, something that is virtually unknown in other countries in the region.

**What is the impact of pension funds on the development of the capital market in Romania? You have experience from Poland, where the funds played an important role.**

Pension funds are solidly established in Romania and the assets are growing. They have quite a solid financing because five per cent of salaries go into the fund. Basically it is different because they have now around €8 billion under management. Hence, the scale of assets this industry handles is much smaller in Romania, than it was and still is in Poland.

There is a significant difference as regards investment funds. This is because for many years, in Poland, the money from investment funds was invested locally in domestic instruments and, increasingly, in equities. In Romania, only a small fraction of the assets are invested in equities and shares; literally only around five per cent of the total funds. The rest is invested in cash market instruments and in bonds. The second difference is that even this five per cent is mostly invested abroad, not in Romania. But I am now seeing changes; it is becoming a time when fund managers and clients will be convinced that there are many opportunities in Romania.

**What is your development strategy right now? How do you see the stock exchange developing in the next couple of years?**

The number one challenge is to do everything we can to accelerate the process of getting Romania an emerging market status. Another challenge is to continue current projects and efforts that are aimed at involving retail investors.

I venture that the set of projects that we have been running for the last two years is probably the most comprehensive programme in the domain of financial education in all of Europe. It is strategically important for us, because we want to have more retail investors.

We want Romania to resemble Poland and we, in Poland, have always had a very important group of individual investors. Unfortunately, the market at the moment is mainly focused on shares and debt instruments, or on bonds. We also have a clear goal, to start with derivative products. As a result, Romanian capital market will provide investors with additional opportunities, and when it happens, we will be able to say that the market is much more refined, is fully fledged ●

Written by

**ANDREW  
WROBEL**

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*The capitalisation of the market is at between 20-25 per cent of GDP. If we compare that with developed economies, we have about one fifth of what we should have.*

Romania will be the hot corporate story of the next decade in Europe, says **Panagiotis Diamadis**, CEO of IEBA TRUST, a licensed brokerage company in the Bucharest Stock Exchange. He spoke to Andrew Wrobel about what can foster future growth in the Romanian capital market.

**The company was started in 2003, when the Romanian capital market was in its really early stages. What did it actually look like?**

When we entered the market, we were still in our infancy and we did not have too many institutional clients. At the beginning there were just a small number of retail, local and foreign clients and slowly, by working at it, and by developing our own network, we managed to start corporate projects and developed a corporate department. We have arrived at a place when we are the biggest privately owned brokerage house, and by that I mean we're not a bank.

**So you've also seen the capital market develop over time?**

Well, it has been a slow process and the main feature is that we do not have a lot of new listings. The capitalisation of the market is at between 20-25 per cent of GDP. If we compare that with developed economies, we have about one fifth of what we should have.

Today, the Romanian economy is one of the fastest growing ones and this is going to continue. If you combine this with the fact that it will be characterised as an emerging market, as opposed to a frontier



**Romania will be a hot topic in Europe**



one, we should expect important growth generally in the capital market.

I strongly believe that in the next ten years Romania will be a success story as the engine of development. It has many issues and compared to other countries in the region it will show its comparative advantages very quickly and this will be reflected in the capital markets.

**Where do you see obstacles that have slowed growth so far?**

There has actually been a lack of education and the right mentality both from the issuers and the investors. This is still something that needs to be improved, and when Romanian corporates find out the merits and benefits of being listed, it will eventually start to grow.

**In 2016, we saw the first private IPO. Do you think that this could trigger more?**

I think that this will definitely trigger more in the next few years and soon we will see a few listings a month. I am strongly publicising this, as I believe in the future of the Romanian economy.

**What do you think currently makes Romanian private companies look closely at the capital market, as a source of funding?**

I have detected a switch in recent years, especially in 2016, in the potential of the capital market. It has mainly been a mentality issue, of companies which that not want to share, and that were afraid of

being listed, but it is a trend that is slowly starting to be reversed.

**What sort of education do you think is necessary to increase awareness of the benefits, or to make this learning process faster?**

I guess this education comes with time and with the development of the Romanian economy, as well as with more and more institutional investors coming in to the country. On the other hand, the burden lies with the intermediaries: the authorities, the stock exchange and the brokers. We should further promote the capital market through the media. The Romanian population is quite intelligent and very adaptable to new structural developments so I think that the market will adapt very quickly.

**How do you see the individual versus the institutional investors' portfolio right now and is the development moving forward?**

Well, last year we organised a roadshow to draw the attention of foreign institutional investors. We are going to do the same again in 2017.

What I have discovered is that Romania is now considered as a hot region in the world, especially with institutions based in London, which understand the market's proximity. They are beginning to understand the dynamics of the economy better. They are starting to approach, test and invest in it.

**When we look at the domestic investors versus international investors, how do you see this picture here?**

There are few domestic retail investors. They are mainly high-end, network individuals. There are some institutions so there is an increasing tension, especially as concerns pension funds and individual companies.

**What do you think could attract more foreign investors to the Romanian capital market?**

Romania is not well known in the West, with the exception, of course, of the institutions that are specialised in emerging economies. There are countries and investors for whom Romania is not even on the map. They have a misperception of the Romanian economy. For example, in Switzerland, I have seen a number of institutions such as family offices and high network individuals that know hardly anything about Romania. We had some long discussions and they were astonished by the facts.

Among the Central and Eastern Europe countries, I think the Romanian mentality is the most corporate-oriented. What I also would like to stress is that Romania will be the hot corporate story of the next decade in Europe. This will soon be reflected in the capital market, and what we need to do first is to make all the business agents aware of the merits of the capital market, and then to make foreign investors aware of what Romania stands for. ●





## BRYAN JARDINE

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# Privatisation, past and present in Romania

*Most recently, the Romanian Socialist Party (PSD) has introduced an initiative in Parliament to suspend any further privatisations in Romania for the next five years; during which time prior privatisations should also be re-assessed.*

Unlike other countries in Eastern Europe, which took fairly ambitious steps to swiftly privatise key sectors of their economies in the years immediately following the fall of Communism in 1989, Romania's experience with privatisation has been one that is marked by delays, fits and starts. Following the World Bank sponsored PSAL1 programme, in the late 1990s (which sought to organise international level due diligence and sales processes for a number of Romanian state owned companies), the most notable large privatisations took place in the early to mid-2000s only (e.g. Sidex-Mittal, Petrom-OMV; BCR-Erste; and a number of the regional electricity distribution companies, sold to companies such as ENEL, E.ON and CEZ). This was almost a decade after other countries in the region had already privatised most of their large state-owned

companies, in these key industry sectors.

In more recent years, the Romanian government has renewed its efforts (encouraged also by the EU and IMF) to privatise those remaining sectors which are still largely controlled by the government.

One of the most notable of these is the Romanian energy sector. This process began with the successful (and greatly oversubscribed) November 2007 listing of the state-owned gas transmission company, Transgaz, through an initial IPO on the Bucharest Stock Exchange. Currently, the state still owns roughly 58 per cent of Transgaz.

Thereafter, there were similar "partial privatisations" in the Romanian energy sector, through the capital markets. For example, Transelectrica was sold by the Romanian Ministry of Economy in March 2012, through a secondary public offering on the Bucharest Stock Exchange. The Romanian State still owns 58.69 per cent of Romgaz, which was listed in November 2013, through an IPO for 15 per cent of the shares on the London Stock Exchange. Romgaz is still 70 per cent owned by



the Romanian State and 15 per cent by Fondul Proprietatea and Electrica SA, which was partially privatised in July 2014, through a public IPO on the London Stock Exchange. The company raised \$605 million with this IPO, giving it a market value of \$1.18 billion. Currently, the Romanian State still owns approximately 49 per cent of Electrica SA.

Hidroelectrica, the state owned hydroelectric power company, entered into voluntary insolvency in 2012, in order to unwind a number of below-market historical off-take agreements. Although it emerged from insolvency in 2016, the latest expectations are that the company will not be ready for privatisation until 2018.

Most recently, the Romanian Socialist Party (PSD) has introduced an initiative in Parliament to suspend any further privatisations in Romania for the next five years; during which time, prior privatisations should also be re-assessed. If any companies are proven, by a court decision, to have been “fraudulently privatised”, this could result in those fraudulently conveyed company shares and/or assets reverting from the

investor back to the Romanian state. The initiative also seeks to restore any “fraudulently earned” income by the National Property Fund back to the Romanian State.

However, it is unclear how these deals could be unwound practically, given the significant post-privatisation restructuring and investments that have been made into these companies, by private investors. Hindsight is 20/20 and the proponents of this initiative seem to forget that in almost all cases, prior to privatisation, these companies were a significant financial burden on the Romanian state. Had they not been privatised at that time, the unpleasant alternative would have been a liquidation sale of the company assets at fier vechi (scrap metal) prices.

It seems unlikely, under this initiative, that bona fide investors will be fairly compensated for the added know-how, value and investments that they have brought into these companies in the years since privatisation. Moreover, such a move would irrevocably harm recent efforts to promote Romania’s image as a clean, safe and reliable environment for those investors considering to do business here. ●



## CRISTIAN COLȚEANU

GE President & CEO for Romania,  
Bulgaria and Moldova

Published on  
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# Romgaz and GE partner in a new power project

*With Romania's energy strategy to be further developed, we also anticipate that more and more digital solutions will be integrated into the national energy system.*

The Romanian energy market has gone through a process of accelerated growth in recent years, leading to the emergence of new energy needs and solutions. The steps that have been taken to achieve a high-performance energy system, although still early, are vital for Romania's chances of becoming an important player in the regional energy market and an energy hub for Central and Eastern Europe (CEE).

However, as efficiency and security are top energy priorities for Romania, the local energy infrastructure needs additional investment in new, technologically advanced equipment that will be able to ensure security of supply, limit environmental impact and offer economic sustainability. This is a particularly tough challenge for the CEE, since 52 per cent of the total power in the region comes from coal, while 76 per cent of power plants in CEE are more than 30 years old. Major investment is also prompted by also the EU's targets to reduce CO2 emissions and policy objectives that are aimed at a more competitive, secure and sustainable energy system by 2030.

One such example of the transition towards a sustainable energy system is one of GE's most recent projects in Romania, where the company will provide the core technology for a new combined-cycle power plant for Romgaz, in Iernut, Mures County. With a total investment



of €268 million from Romgaz, this is Romania's largest public investment in conventional power in 20 years and South-Eastern Europe's largest gas project in the last five years. The Iernut project is an important milestone for GE and is unique in the region, especially because of its size and the full package of installed equipment, based on GE's extended scope portfolio and following its acquisition of the former Alstom Power business.

I am in full agreement with Răzvan Nicolescu (Energy & Resources Industry Leader, Deloitte Romania and Romania's former Minister of Energy) who said, "The new gas-powered plants play an essential role in transitioning towards a sustainable energy system, with high efficiency and low CO2 emissions. The partnership between Romgaz and General Electric could become a landmark in the field, and in addition could strengthen economic cooperation between Romanian and American companies".

The Iernut power plant will bring more stability to the grid by providing faster and more accessible energy reserves. Moreover, the strategic location of the Iernut power plant — close to high-voltage lines connecting Romania's various geographic regions — will enable energy providers to



respond quickly to fluctuations in grid demand in the region, with minimal transmission and distribution loss.

The Iernut combined-cycle power plant is also particularly valuable, given Romania's climate of recent times. The country has been experiencing extremely cold winters and very hot summers, which represents potential risks for the national energy system's balance. Combined with the 25 per cent reduction of power generation capacities reported this year by Hidroelectrica, the state-owned hydro power generation company (according to the National Statistics Institute in Romania) and the general low predictability of wind-power parks throughout Romania, this will lead to an increased need for balanced capabilities in the national energy mix.

As an example, power consumption in Bucharest increased, recently, by 50 per cent during an extreme heat wave that lasted almost a week, putting additional strain on the grid. Some transformation stations reported an increase of almost 80 per

cent in power consumption. Cases such as this require quick activation options, where the system needs an extra boost. Gas power plants such as the one in Iernut could help alleviate this issue, as GE's new technology allows a faster start-up time (lower than 15 minutes) as well as increased efficiency.

With Romania's energy strategy to be further developed, we also anticipate that more and more digital solutions will be integrated into the national energy system. To this end, digital technologies are the most powerful tools for effectively responding to fluctuations, for incorporating renewables and for providing flexibility in the system. I am convinced that the new solutions that are being brought about by the 'Industrial Internet' will provide reliable electricity, foster decarbonisation and help consumers to participate in the energy market. Companies such as GE are excited to contribute to the national grid's security and infrastructure modernisation, with milestone projects such as Iernut. ●

# CEE MARKETS ATTRACTIVE TO INVESTORS AND DEVELOPERS

There is no doubt that the stable political and economic environment, combined with a strategic location between East and West, strongly supports the further growth and attractiveness of the real estate market across the CEE. Unemployment is at a record low which requires employers to seek higher productivity and encourages greater investment into technology.

This is great for the property sector, as capital investment results in longer lease terms and greater commitment from tenants. This in turn brings stability, growth and value to the market, which is a great combination that appeals to any investor. Strong consumer demand supports further growth of the retail and e-commerce sectors. The shift of production and distribution from the West to the East, and growth of the automotive sector, has added to the attractiveness of the CEE's industrial real estate market.

The Czech Republic, Romania, Slovakia and Hungary are great success stories for CTP, with strong growth driven by local automotive OEMs such as Daimler, Audi, Suzuki and Dacia, as well as a growing local consumption by the national e-Commerce players. The latest trend clearly shows that it is no longer about cheap space and labour, but more and more often about efficiency and productivity. Tenants are also looking for long-term solutions, and thus are more specific in their requirements.

A few years ago, ten-and-a-half metres clear height was considered standard for modern A class facilities; now it is twelve metres and this goes hand-in-hand with better insulation to reduce the heat exchange with the outside world. Broadband internet connections accompanied by building- and technology management systems are the near future for the industrial sector. It is no longer only about "green," but about "smart" buildings— such as the one CTP built recently for Makro at CTPark Prague North, or such as we provided to Pro:Direct at CTPark Teplice.

At CTP, over sixty percent of our tenants are manufacturers, as opposed to simply pure warehousing and distribution. Producers have always cared about energy efficiency, and now they do so with an even greater focus. The same goes for e-Commerce with its large labour pools,

which need to heat their facilities to much higher levels than an ordinary warehouse, in combination with a much greater daylight requirement. CTP has pushed, and will continue to push, boundaries and to set market standards for the region. Energy efficiency is a cornerstone to this philosophy—in fact we have committed ourselves to increasing energy efficiency by five per cent per annum.

Projects such as these are a true team effort and we have the great advantage of generating a lot of new engineering ideas and concepts from our in-house design, architecture and engineering teams. All developers that are active in the market drive slightly differentiated concepts which often make it very hard for prospective clients to make a clear comparison among them, because of the different value propositions. Hence, it is very important to take the time to explain in great detail, as well as to listen and adapt to the clients' needs. While they may share many attributes and certain standards, no two buildings in our portfolio are alike – every CTP built-to-suit is truly bespoke to the client.

We at CTP are very passionate about the quality of our buildings, our tailor-made solutions, and the valuable input from our increasingly experienced engineers who add real value to our clients' bottom line. Winning a second or third project for a client is the best compliment. It shows that we are on the right track with our approach to quality real estate.

Our development activities do not just stop here. Only recently CTP started constructing a unique student housing project that will be delivered at our Ponavka Business Park in Brno. Upon completion, this autumn, the project will have the capacity to accommodate up to 300 students in a modern, A-class facility in the city centre. This is another example of CTP providing added value to the local community. Once it is finished, it should be a place where talent meets leaders and, if successful, we would be ready to replicate this concept in other places.

*Written by  
Jaroslav Kaizr  
Business Director, CTP*

# Building on CEE's established reputation for quality and value

Written by  
**JERRY  
CAMERON**

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*If you compare Romania to other European countries, you will realise that there is only 120 sqm of industrial property space per 1,000 inhabitants, compared to perhaps 400 sqm in the Czech Republic or Slovakia.*



In ten years' time we're planning to be managing an industrial space of some 15 million sqm, across Central and Eastern Europe and beyond, says **Remon Vos**, CEO at CTP. He spoke to Jerry Cameron about the growing demand for warehouse space in CEE and the company's plans to satisfy that demand.

At the end of last year, CTP owned and managed a warehouse area of 3.84 million sqm, 600,000 sqm more than last year. In 2017, you're planning to add another 700,000, and in 2018 to exceed one million sqm. That means demand for warehouse space is growing exponentially. What is behind that demand?

I think the main factor behind that strong demand is the fact that CTP is currently able to operate and offer its services in more countries than just in the Czech Republic. This gives us a unique opportunity to cooperate with our existing clients, but also with our many new ones who are active in other CEE countries.

Additionally, the demand is also led by an e-commerce business and the need for well-located big warehouse facilities. The automotive sector is also growing and many of our existing automotive suppliers are looking to expand their facilities in order to fulfil car producers' requirements. Finally, the overall economic situation in Europe, as well as the low interest rates, is supporting the demand.

CTP operates industrial parks across seven countries in the region, but Romania seems to be taking off quite quickly. Why is this market so dynamic at the moment?

Most importantly, Romania is able to offer a sufficient labour force for our tenants, a developed infrastructure and there is land available for expansion.

Although we entered the Romanian market in 2007, we only started to develop it in 2014. The first project we did was for Fränkische, a German automotive business and one of our long-

term clients. We built a facility in the Czech Republic and then they asked us if we had something for them in Romania, because their clients, such as Daimler, are located there. We offered an existing site that we had bought in 2007, south of Cluj, and that's how it started. Then we saw the market pick up.

If you compare Romania to other European countries, you will realise that there is only 120 sqm of industrial property space per 1,000 inhabitants, compared to perhaps 400 sqm in the Czech Republic or Slovakia. That shows that there is an undersupply in

#### markets: Ukraine and Poland?

In Poland, we just started growing – we signed a deal with IAC, one of our long-term term clients in the automotive sector, to build a factory in Opole and this is currently under construction. We actually bought more land there, so this is just the first property we'll be building. This example shows how we do it — our developments in different regions are always driven by the requirements of existing clients.

Thanks to the EURO Football Championship in 2012, Poland



a country of about 20 million people.

We started acquisitions at the end of 2014, beginning with the purchase of a park from Prologis with 100,000 sqm of lettable area and 30 hectares of land just outside of Bucharest. We continued buying throughout the country during the following year – properties from Portland Trust, ING Bank, Volksbank, Heitman and others. At the same time we began construction, so our business has grown in Romania within a short time.

**As I understand it, Romania is now the second largest country of operations for CTP. What are the prospects for the two largest**

did a great job of developing the infrastructure that helped the country to improve its competitiveness, especially compared to the Czech Republic. However, due to the fact that there are already many other international players established on the industrial market in Poland, the country is not a core focus for CTP. We see much more opportunity, but also challenges, in Ukraine, where CTP bought land in the city of Lviv two years ago and where we are expecting newcomers during 2017 or 2018.

The Ukrainian market offers educated and cheap labour which, now and in the near future, will be the main driver for our tenants to look for alternative sites for establishing new factories.





There are a lot of people who say that Ukraine is not so politically stable. I do not think this is the case. I travel to Ukraine and spend a lot of time there, and I do not see any signs of instability in real life and real business matters. I believe that Ukraine is on the right track to be quickly discovered and developed, also by our tenants. We are confident that together we can grow there and do a lot of business.

**We have recently released a special report about doing business in Ukraine and will continue discussing the country's opportunities in October in London. Are you looking at different countries now, for example, further south to Bulgaria, Croatia, outside the EU to Serbia, or perhaps further north to the Baltics?**

Yes, we are looking at other countries which we would like to integrate into our business model, in order to increase our already significant CTPark Network. At this moment, we are in the process of evaluating several options for where our next destination will be.

**Before we continue discussing the future, I would like to take a step back. CTP has been in the market for some two decades. What made you focus on the CEE region?**

Yes, about 20 years ago CTP's main focus was to establish and offer premises to production companies that wanted to get out of the western part of Europe to low cost manufacturing areas. The Czech Republic was their first and most logical choice because of the fact that the Czech Republic was strategically located close

to Germany and Austria while, at the same time, they offered cheap labour.

At that time, the Czech Republic was underdeveloped and CTP was able to deliver premium building quality near to regional cities such as Brno, Ostrava or Pilsen, cities which also offering a big pool of technically educated people. This was the key advantage for CTP – offering Western European tenants A-class properties across the country. Very soon the Czech Republic became famous. These days it is not considered a low cost manufacturing country anymore, but rather as a centre of the research and development which is clearly visible in the portfolio of our tenants.

The CTP portfolio currently stands at 3.9 million sqm. We have about 2.9 million sqm in the Czech Republic, 500,000 sqm in Romania, and 250,000 sqm in Slovakia and Hungary, respectively. Across the entire portfolio, 85 per cent of this lettable area is warehouse or industrial space. The balance is composed of offices, particularly in projects such as Spielberk Office Centre in Brno.

**How do you see the CTP network in the next decade?**

In the next ten years I see the CTPark network as the strongest and the biggest network of A-class properties and services not only across the CEE region, but through all of Europe, and maybe even outside of Europe.

We are strong enough to achieve this ambitious goal with the support of an excellent and experienced team of people and may end up with 15 million sqm in year 2027. ●

# Office real-estate is burgeoning in Romania



## ANDREI DROSU

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*Romania (especially Bucharest and Cluj) has a large educated labour force with a good technical background, which, when combined with the excellent internet infrastructure, has made it a wise destination for IT companies.*

The Romanian economy is slowly transforming into a service-oriented one, with IT services registering the highest growth, in all components of the GDP over the last two years and half. This has raised the requirements for quality office accommodation that can support a new generation of white-collar workers.

The Bucharest office market started to develop in the late 1990s and grew significantly by the mid-2000s. As of the first quarter of 2017, it is comprised of just over 2.6 million sqm, divided into 12 major office sub-markets. The construction, with one exception, has followed the city's metro network. The largest office districts remain the areas in the north of Bucharest which enjoy good accessibility to both public (especially metro) and private means of transportation: Floreasca Barbu Vacarescu, North and Dimitrie Pompeiu. However, with the recent infrastructure improvements, new areas such as Centre West are now attracting the attention of developers.

After two consecutive years (2013 and 2014) in which the total yearly supply was close to 120,000 sqm, only 62,500 sqm were delivered in 2015, mainly because of the fact that a number of projects delayed their delivery dates. This is also one of the reasons why a large amount of office space was delivered in 2016 – approximately 290,000 sqm. In 2017, construction activity has slowed down and close to 140,000 sqm are expected to be finalised.

Historically, the market has been driven, mainly, by local or regional developers, with some smaller international institutional players acting occasionally. The largest office owners in Romania are local or are backed by Austrian,



Greek or South African money. Major investors include Globalworth, Immofinanz, CA Immo, NEPI or Genesis Development, with their main activity in Bucharest and Iulius Group and again NEPI, focused on the secondary cities.

Romania (especially Bucharest and Cluj) has a large educated labour force with a good technical background, which, when combined with the excellent internet infrastructure, has made it a wise destination for IT companies. Big names, such as Microsoft, IBM, Oracle, Amazon, EA Games or Ubisoft, have chosen the country for their offices. IT occupiers were the main generators of demand in the last five years, followed by BPO/SSCs, professional services companies, banking and financial institutions and retailers.

The vacancy rate, which reached the lowest value in the last ten years, at the beginning of 2017, is expected to remain relatively stable despite the large offer. However the vacancy rates continue to be uneven between the sub-markets, which is also reflected in the evolution of the rental levels.

The prime headline rent in Bucharest is € 18.5/sqm/month, with the average headline rent for non-CBD locations in the region being €14-15/sqm/month, while similar Class A accommodation in peripheral locations commands headline rents of €10-12/sqm/month.

However, most of the large contracts in the market are signed at around the 14 – 15 €/sqm/month mark. Even though the real estate offerings in Bucharest are indisputably more diverse than in the secondary cities, the cost gap is not that wide, considering that occupiers usually compare prime projects, in regional cities, with quality assets, located outside the CBD in Bucharest.

Cluj-Napoca is Romania's second largest city in terms of population. Construction activity picked up in Cluj-Napoca (west of Romania's centre) in recent years, on the back of a growing demand, especially from IT companies. As of 2017, Cluj-Napoca offers the largest modern stocks of office-space among Romania's regional cities. Current office stock consists of over 210,000 sqm, with the largest projects being the Office, Liberty Technology Park, Cluj Business Centre and United Business Centre.

The demand that is generated by international tenants, looking for flexible spaces and extension options, has influenced the offerings which have changed, from small or medium-sized projects in the past, to larger multi-phased developments in the recent years and also in the pipeline. The list of major international occupiers that already have operations in Cluj-Napoca include Endava, Office Depot, SAP, IBM, Siemens, Intel, Bombardier, Pentalog, Genpact, EXL, IQuest and SoftVision.

Timisoara is the third largest city in Romania

and starting in the period, 2005-2007, the first Class A office developments appeared (Romcapital building and City Business Centre – CBC), bringing Timișoara's office market into its modern stage. Currently, the office stock in Timișoara is estimated around 140,000 sqm, out of which close to half is comprised of the five existing phases of CBC.

However, Timisoara has the strongest pipeline of the secondary cities, with more than 50,000 sqm expected to be finalised by the end of 2017. Advanced technologies and IT&C are the main sectors which are quickly expanding in Timișoara, as a result of both “near shoring” and the growth of domestic companies. Alcatel-Lucent and Continental are the two largest occupiers in the city, but it is also worth mentioning WIPRO, a recent entrant to the market. Other representative multinational occupiers that have a presence in modern office buildings include: Bosch, Athos, Hewlett Packard, PwC, Deloitte, IBM, and Microsoft as well as other local financial institutions or insurance companies.

Iasi, the fourth largest city, which is located in the north-east of the country, has, as of the beginning of 2017, the second largest stock of office-space outside the capital city, as offerings have continually increased in the last years, fuelled by increasing demand. Current stock consists of approximately 180,000 sqm with the largest projects being UBC, Ideo and the Moldova Centre.

The large number of students present in the city and the strong technical and foreign languages universities that are in Iasi, have all attracted the interest of IT&C companies and BPO which were the most active in terms of leasing activity. Amazon just entered the market recently, signing the largest contract in the last few years (13,000 sqm). Other names such as Unicredit, Xerox, PwC, Capgemini, Yonder or NESS are also present in the city.

Finally, there is Brasov, whose office market has started to develop in recent years, on the back of a demand mainly generated by IT and BPO companies. This has made the city a cost efficient alternative to already crowded Bucharest. Its current stock of modern office-space is the fifth largest in Romania, just below 100,000 sqm mark, with the largest projects being Coresi Business Park and Brasov Business Park. There are a number of owner-occupied buildings in Brasov, which are owned mainly by banks and financial institutions.

The city has a large multilingual labour pool because of its large German sub-population, and is an important academic centre, with over 20,000 students enrolled in both public and private universities. Traditionally, demand has been generated by BPO and IT companies. The largest tenants in the market include CGS, Siemens and Tata Technologies. ●



## MIHAI PATRULESCU

Head of Strategic Analysis  
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*The shift towards higher incomes is also evident if we look at the upper-middle segment brands that recently entered the Romanian market.*

Over the past three years, the Romanian economy has recorded some of the fastest growth rates in the European Union, helped by a rapid expansion of consumer spending.

During this period, retail sales have benefited from what can be considered as a perfect storm of growth catalysts: the VAT rate was reduced from 24 to 19 per cent, net average wages increased by a cumulated 26 per cent, and interest rates fell to historic lows. Overall, these factors have helped drive consumer confidence back towards levels that were last observed in the pre-2008 period, and which was also reflected in a rapid growth rate of turnover for retail sellers.

Combining all of these factors, consumer spending is very close to a cyclical peak. The fiscal stimulus, which has fuelled the growth of consumer spending, will gradually have to be phased out. The government has put forward a series of measures that will keep up expansion in 2017 (e.g. higher wages in the public sector, a reduction of the general VAT rate to 19 per cent), but the picture for state finances, in 2018, is increasingly more complicated.

The current plans for the 2018 budget risk putting the deficit target of three per cent in danger, unless policymakers also implement a series of revenue-generating policies. The preferred course of action is still unclear, and it is possible that the policy debate will remain

# Romanian market moving towards rebalancing



front and centre in the second half of the year. Overall, the result will be that fiscal spending will provide a more limited support for consumer spending as we move forward.

Against this background, I believe the Romanian market is taking some important steps towards rebalancing. Export oriented services have become the second most important driver of growth, after a sustained annual growth rate above ten per cent during the past five years. Overall, this shift towards services will warrant a continued rise in consumers' disposable income as well as their spending patterns. The shift towards higher incomes is also evident if we look at the upper-middle segment



brands that recently entered the Romanian market: COS, Boggi, Lanidor, Kiehl's or Uterque.

The real estate market is responding closely to the conditions in the real economy. Renewed interest in BPO, SSC and IT services has become a major driver of demand for office space and, consequently, it sets the stage for a renewed interest of retail stores in these development schemes.

At the same time, traditional developments in the retail sector have become much more nuanced. 2017 will record new deliveries of approximately 180,000 sqm of gross leasable space (GLA), down from 240,000 sqm in the previous year. Against this backdrop, the structure of the market is changing. Developers of traditional shopping centres will focus on cities with 100,000-200,000 residents such as Râmnicu Vâlcea or Sibiu, whereas retail parks will be the primary focus for the smaller cities.

During this period, retail schemes in Romania's main cities, such as Bucharest, Cluj Napoca, Timișoara or Iași, will focus primarily on extending the existing space and will concentrate increasingly more on entertainment options. This focus on entertainment will be particularly important in order to maintain the positive evolution of foot-fall; even as consumers shop increasingly more online. Cinema centres and food courts have been the focus so far, but I believe that there will be an increasing demand for retailers that provide family-oriented entertainment.

Furthermore, fashion brands will remain very active in 2017 and there is strong potential for new players to join our market. Several brands from Poland or Turkey will be at the forefront of this trend, encouraged by the good performance of the already established brands from these markets. ●

# Merging and growing Romania's outstanding broadband and other infrastructures

Written by  
**JERRY  
CAMERON**

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*A shared infrastructure has a positive impact on the environment by reducing the amount of land that monopolies occupy.*



Our focus should be on how we can turn high broadband speed into meaningful advantages on the Digital Economy and Society Index, says Teofil Mureșan, chairman of the board at Electrogrup. He talked to Jerry Cameron about the need for consolidation in the market as well as the impact infrastructure sharing might have on the economy.



Teofil Mureșan (source: Electrogrup)

We recently spoke to Matteo Patrone, Director for Romania at the European Bank for Reconstruction and Development (EBRD), who said that one of the challenges for Romania is the infrastructure gap, in particular in the transport sector, which is both a hindering factor for further economic development and a cause for regional inequality. How do you view the development of infrastructure in the country over the last decades?

Generally speaking, the stage that the infrastructure in our country is at currently creates huge disadvantages for Romanian companies. Although it has been developing over the last 20 years, in Romania, there is still discrepancy between the infrastructure in our country and European standards. I consider the biggest one to be in transportation. Apart from the telecommunication infrastructure, all other infrastructures, such as power and gas, water, transportation, railway etc., need important investments.

Over the past 20 years we have seen differences between the development of the telecommunication and energy infrastructure. Telecommunication operators, which are large multinational companies, developed a telecommunication infrastructure starting from almost nothing. In contrast, the power and gas transmission and distribution operators have inherited a better infrastructure than telecommunication operators, but because of inertia, lack of experience and political protection, they have developed investment initiatives in an inefficient and flawed way.

On the other hand, infrastructure investments could become an important driver for sustaining the high growth rhythm of the economy. An economy with a developed infrastructure brings major competitive advantages; such is the case for companies located in Western European countries.

Returning to the telecommunication's infrastructure — Direct One, which is part of Electrogrup, owns and operates over 62,000 km of fibre optic infrastructure. The company has recently acquired Nectcity, a company which operates the underground fibre optics network in Bucharest. What does such consolidation mean for the Romanian market?

While consolidation within the telecom's sector has not begun on a significant scale it is simply a necessary step, prior to moving telecommunications towards sharing this infrastructure, as we have seen in other parts of Europe and around the world.

Our goal is to diversify our asset base within the telecom's infrastructure, while supporting the growth of both the telecom's sector and the economy, as a whole. An increased sharing of the telecom's infrastructure will only have positive consequences for all the parties involved. It will allow telecommunication operators to focus on serving the consumer while lowering their overall costs and investing more in content and other additional services. It will also provide a more reliable infrastructure, decreasing the barriers for new entrants in the telecommunication's sector and, finally, it will provide healthy and sustainable returns for our current and future investors.

A shared infrastructure has a positive impact on the environment by reducing the amount of land that monopolies occupy. Direct One will continue the consolidation process, by acquiring fibre optics, SEM towers and telecommunication's equipment from other telecommunication operators, in Romania and the entire region. The resulting infrastructure, which will be optimised for costs, will be offered back to the same telecommunication operators, as a shared infrastructure.

**When it comes to broadband internet, Romania prides itself in one of the highest speeds in Europe. At the same time the country ranks last in the European Commission's Digital Economy and Society Index. How would you explain that?**

Romanians benefit from coverage from fast broadband connections in urban areas, which translates into the highest share of subscriptions in the EU while the take-up of mobile broadband is also accelerating. However Romania lags behind with regard to fixed broadband coverage, as well as mobile 4G broadband coverage; the mobile broadband take-up has advanced significantly, even though it is at a slower pace than the EU, on average.

I believe our focus should be on how we can turn a high broadband speed into meaningful advantages on the Digital Index, and this process has already begun. Romania's service exports have increased dramatically, off the back of tech services which are outsourced from multinationals to small Romanian IT players and the city of Cluj-Napoca city is probably a national leader in this regard. Additionally, and in order to increase the rate of digitalization of the economy and the levels of digital skill, our country adopted the National Strategy for the Romanian Digital Agenda 2020.

The strong infrastructure in our country, mainly in the urban areas, is reflected in two indicators where Romania's performance is outstanding: the subscription to fast broadband — Romania is in second place and largely outperforms the EU average with almost twice as many subscriptions — and the relative price per income for fixed broadband — where our country ranks tenth.

The lack of fixed broadband coverage in white areas is being tackled with the help of European Structural and Investment Funds. More than 600 localities are expected to be addressed in the second phase of the RO-NET project, which provides a publicly owned backhaul infrastructure.

**Nova, which is another company within Electrogrup, is a relatively new brand that builds on the experience of firms that**

**have merged. Why was such a consolidation necessary in the electricity and natural gas market?**

Since its founding, 20 years ago, Electrogrup, and the companies that are part in the group, followed one main differentiator: the implementation of the concept of cross-sector activities. In the first stage, we developed concepts and projects at the meeting point between the telecommunications and energy infrastructures: fibre optic networks on the top of overhead power lines, telecommunication antennas on high voltage poles, telecommunication centres in electric substations. Nova, as a trading company that operates in the power & gas infrastructure, was the next step in applying the cross-sector concept.

**Romania is said to have the highest wind potential in continental Europe. How is WESEE using that potential?**

I would say the Dobrogea area in Romania, which houses the largest onshore wind park in Europe. As a joint venture of SSC Wind GMBH and Electrogrup, WESEE emerged while this big park was under construction and continues to provide maintenance services there.

In order to export the expertise it gained during this big project, WESEE expanded to other countries, such as Germany and Belgium, where the company provides installation, commissioning and maintenance services for major wind parks.

**When we look at Electrogrup's operations we see three major areas: the energy infrastructure, telecommunications and civil engineering. Are there any new areas the group wants to develop into now?**

In the short and medium term, our focus is on strengthening and growing our expertise and expanding to other countries and markets. In the long run, however, we are also considering investing in other types of infrastructure, such as water and railway.

Apart from Romania, Electrogrup is active in Germany, Russia and Poland. How will Eximbank's recent financial package help in further expansion?

Electrogrup started the process of expanding its services across Europe in 2013. The expertise we have accumulated over 20 years of activity and the high numbers of complex projects we have successfully implemented have all helped us to enter foreign markets and to strengthen our position there, as well.

Our use of similar technologies, in the projects and investments developed in Romania and other countries, along with the globalisation process, have made it easier for us to expand into other markets. One of the key factors in an investment process is financing the expansion with investments and the working capital that is needed in such large projects. Our group of companies is funded both from private banks and from the Eximbank's multi-product package.

**The company was set up 20 years ago. How will Electrogrup grow within the next decade?**

In the next decade, Electrogrup will grow through all three business lines: telecommunication, energy and (mainly) civil works construction. At the same time, we will also grow by expanding our services in Europe, the Middle East and Africa. We do not exclude merge and acquisition projects, if we will find meaningful synergies. ●

# Romania's government plans to grow the country's already high ICT reputation

Written by  
**JERRY  
CAMERON**

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The growing number of ICT specialists, plus the increasing foreign investment in the sector, as well as the number and innovativeness of tech start-ups make Romania's ICT an upcoming sector, says **Augustin Jianu, Romanian Minister of Communications and Information Society**. He also spoke to Jerry Cameron about the challenges the industry faces.

The Romanian software and IT services industry is expected to generate more than three per cent of Romania's GDP within three years. ICT exports already account for almost four per cent of total trade. Where does that potential come from?

Well, let me put it this way: according to Eurostat, Romania posted the biggest economic growth in the EU in 2016, with a more than six per cent increase. It is also expected to grow by another six per cent in 2017. As such, the country is a regional leader in multiple fields, among which ICT stands as a prime example.

There are several factors conducive to this favourable outcome. The high quality of ICT education — at high school and at university level — immediately comes to mind. Our geographic proximity to the West, in addition to the quality of the labour force, serves to favour us over competitor countries from Asia in the evaluations of international corporations. These are followed by our western-leaning culture, our general proficiency at learning foreign languages and our willingness to be mobile for work-related purposes.

Last, but most definitely not least, the early implementation of e-government services, the stable political climate and the investor-friendly approach to the management of our national economy have all led to an increase in confidence and to the creation and strengthening of numerous and varied trade ties across the EU,

the wider EMEA region and beyond.

Over the next few years, in addition to the already significant achievements of the ICT sector, we hope to see further advancements in its share of the total number of employees, in the amount of foreign (especially American) investments and in the number and innovativeness of multi-layered tech start-ups.

That sounds very promising. When it comes to broadband internet, Romania prides itself on having one of the highest speeds. At the same time the country ranks last in the European Commission's Digital Economy and Society Index, How do you explain that?

Romania's access to the internet is indeed serviced, to a great extent, by next-generation networks (NGN), by virtue of us having 'leap-frogged' over some of the intermediary steps other countries took in the early days of the internet. The existence of such NGNs has made it possible for central and local administrations to provide a number of digital public services, such as online information about taxes, online payments of taxes and fines, an online medical dossier, medical digital card, e-procurement, e-jobs services, and online declarations for companies etc.

However, we still have a long way to go in terms of one particular facilitator that is indispensable for a wide-spread and efficacious use of these services. This facilitator is digital literacy. There can be no true and lasting penetration of ICT without dramatically increasing people's knowledge of, and trust in, digital means of communication, payment and all-round public service delivery. In addition to further increasing the number of online public services, heightening digital literacy is our current biggest challenge.

In terms of the digital services themselves, we are in the process of moving to a new generation of technologies and approaches





Augustin Jianu (photo: Sabrina Bouchaala)

that are certain to bring us to the forefront of those countries with modern administrations. Currently in the works are: the creation of national online registers, the enforcement of interoperability between public authorities, the sharing of open data, the implementation of EIDAS or GDPR, as well as the conception of a hybrid governmental cloud, all of which are pivotal for the construction of an integrated public services' infrastructure.

**Romania has been an EU member for ten years now. How has the membership helped the country develop in such areas as eGovernment, innovation, research and development?**

Over the last ten years, direct access to information, standards, finances, or expertise from the rest of the Member States have been, and still are, important development drivers for Romania. eGovernment, innovation, and R&D are among the areas that benefitted most. Gradually, we have seen an important increase in the quality of public services, in part due to EU-wide regulations, but also due to our fundamental interest in the efficient economic integration into the Single (Digital) Market.

**In 2014, the government adopted the National Strategy “Digital Agenda for Romania 2020”. Its direct and indirect impact on the economy was estimated at a GDP growth of 13 per cent, thereby increasing the number of jobs by eleven per cent and reducing administration costs by twelve per cent, between 2014 and 2020. Which areas have been successfully completed and which ones still have room for improvement?**

We believe all areas have room for further improvements. A modern information society should align people's needs with their responsibilities and goals and, therefore, no stagnation is possible. This is true for Romania, but also for every other Member State. Our EU membership, and our participation in the Single Digital Market — they all come with benefits and responsibilities. We acknowledge our strong need for a continuous increase in performance and we are committed to achieving higher competitiveness.

**Where do you see innovation potential in Romania, going forward?**

The Government is investing in creativity, in innovation and in performance using all available means. For the duration of the current governance period, several national financing programs

are dedicated to the stimulation of small enterprises, especially in areas such as production, ICT or creative industries, but not only there. “Romania — Start Up Nation” with an annual record budget of €438 million (2 billion lei) is an example of those programmes. The grant programme is intended to stimulate the creation of start-ups and the development of micro-enterprises by innovative entrepreneurs.

**We have mentioned Romanian talent. Around 3.5 million Romanians are believed to be living and working in other EU countries. How sustainable is access to the pool of talent in the country?**

Romania is giving ICT education an important role in the coming years, for at least two main reasons: the need for digital literacy, especially in rural areas, and the competitive position Romanian companies have in the global market. These reasons drive us equally, to invest more in ICT education and quality services for all areas related to ICT. The number of technical universities with specialisations in, or related, to ICT is increasing. More and more master or doctoral programmes are being set up each year, with an increasing number of young people starting their active life in ICT or other related domains.

Given these things, I can say that the size of the current pool of talent will not only be sustainable at current levels, but it will in fact dramatically increase over the next decade, for those potential foreign investors out there. Furthermore, we are confident that the quality of talent will go up even more than its current quantity, as more and more creative people will choose to pursue joint degrees with an ICT component, further broadening the overall scope of innovation.

**We are going to discuss Romanian ICT and innovation at the ‘EBRD Emerging Europe Outlook on Romania’ conference, on 14 June. Where do you see the largest potential from foreign investors' perspective?**

As a highly skilled market, we are very open to investments in Artificial Intelligence, cyber security, IoT, mobile platforms, spatial computing, and virtual reality etc. We see most of these investments as going into multi-layered tech start-ups that leverage our unique educational system, our creative approach to circumventing problems and our national propensity for hard work and goal-driven single-mindedness. ●



**KERRY  
HALLARD**

President  
Global Sourcing Association

Published on  
July 2, 2017

*Romania is definitely an emerging sourcing delivery destination with considerable potential; they just need to have the confidence to step out of the shadows.*

As far as the UK sourcing market is concerned, Romania has been on the periphery of the sourcing radar for some time now, but has never really made it to the front and centre.

Certainly, there is a general awareness of Romania as an outsourcing destination, amongst the most critical section of the sourcing community — the buyers, but the fact is that the country lacks real presence in the UK in this area on a macro level. In fact, there are other countries in the region that are arguably less capable than Romania, but that enjoy greater visibility because they are more actively engaged with the market.

What is perhaps ironic is that a large number of Global Sourcing Association (GSA) members or organisations who regularly attend our events, actually do have active operations in Romania; Conectys, Stefanini, Atos, Webhelp, Accenture, Capgemini, Wipro, Genpact, Ciklum, Telus International, WNS Global Services and EXL to name but a few!

The competitive nature of outsourcing, however, makes it very unlikely that they will ever come together and collectively shout about what a wonderful value proposition Romania is (indeed, all of these organisations also have operations in a diverse number of countries within and



It's time for Romania to roar

outside the CEE region). The responsibility for this, then, falls to the representative trade bodies, the municipalities and the central government bodies for trade and investment within the country itself, plus perhaps other interested private enterprises also, who are vested in Romania's success.

These organisations not only need to collectively agree what 'Brand Romania' actually is, but they must work together to ensure that there is complete alignment right across the value chain; consistency of messaging is critical when promoting a country or region for future investment. Then they need to have a joined up go-to-market strategy that involves actively engaging with UK buyers at the market level. This means having boots on

the ground in the UK, and making their voices heard. Luckily, there are organisations such as the GSA, or the British Romanian Chamber of Commerce, which can provide advice and support, as well as actively facilitating market-level engagement where it is required.

Between Bucharest and Cluj there is something in the region of 80,000 people employed in the business services sector in Romania. According to some analysts, this number is expected to grow to 200,000 by 2020 — a faster growth rate than that predicted for its 'older' sourcing neighbour Poland, over the same period, and a larger increase than countries such as the Czech Republic and Lithuania.

With something like 21 weekly flights

from London to Bucharest, providing easy access to a multi-lingual, highly talented workforce and a generally high quality of life, it's little wonder that major brands such as Vodafone, Xerox, Microsoft, Oracle, Proctor & Gamble, IBM and Intel already have facilities there — it's just that no one is shouting about it!

Yes, Romania is definitely an emerging sourcing delivery destination with considerable potential; they just need to have the confidence to step out of the shadows and socialise their achievements more — loudly and proudly. With the spectre of Brexit currently hanging over the UK, forcing buyers to review their sourcing location strategies, there will never be a better opportunity for them to do so! ●





**TEODOR  
BLIDARUS**

*Managing Partner  
Softelligence Romania  
President, ANIS*

*Published on  
July 6, 2017*

## Romanian IT business statistics are promising

The software and IT sector produces three per cent of Romania's GDP and is expected to exceed €4 billion in 2017. It is growing, thanks to the high demand coming from Western countries, and Romania now stands in 6th place in the global index when it comes to the number of certified IT specialists.

Romanian tradition in this field is one of the most respectable in the CEE region. A high standard of education system generates a well-qualified workforce and can count on a considerable number of engineers; something that is always appreciated abroad. However, despite the economic crisis, the IT sector kept growing and its low labour costs are attracting more and more investors.

Nowadays, the entire Romanian software and IT industry is showing signs of recovery, after the slowdown that began in 2014. In 2017, the annual growth rate stands at 13.6 per cent, with a market volume estimated at €4.1 billion. Future expecta-

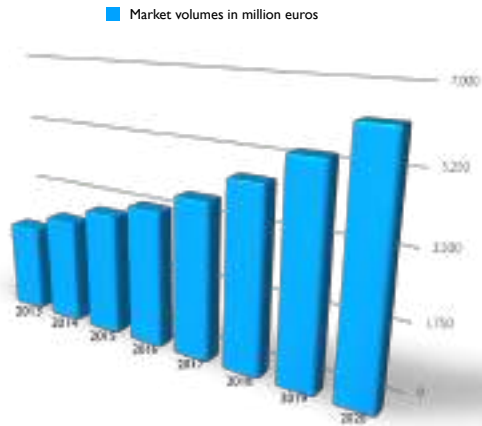
tions are even brighter. Current forecasts expect a growth of 15.9 per cent by 2018, and a market volume that will be close to €6.3 billion in 2020.

Mid-term expectations are clearly discernible and in the longer term, Romania could strengthen its position as a leader in the IT industry, both in the domestic market and abroad. Working for foreign clients has helped Romanian companies build their own reputation and success. Romanians are also showing a good sense of entrepreneurship, developing start-ups and winning business ideas.

Concerning businesses ownership, there is a remarkable difference between Romanian ownership and foreign ones. If we consider 2016 revenues, only 27 per cent of the total industry was owned by Romanians, while the remaining 73 per cent was owned by foreigners. When it comes to numbers the situation is totally reversed: 92 per cent of the total active companies are owned by Romanians and a very poor eight per cent belong



Romanian IT services and software industry (source: ANIS)



(with an expected reach of 55,248 in 2020).

Multinational companies' R&D centres are also helping to improve the whole sector, creating a good combination of the two different parts that make up the SITS industry: the internal market and the export of IT services.

Domestic growth had a small but important reprise in 2017, after the catastrophic breakdown of last year, when it decreased by 5.9 per cent. While foreign growth stands steady at more than 18 per cent, the domestic one is only 0.5 per cent with better expectations for the future. In 2018, it is expected to be 9 per cent and 11.4 per cent in 2020.

In general, the context is favourable. More funds and financing are expected in the short-term. Business angels, crowd funding, start-ups, accelerators and business incubators are taking hold in the country, and are encouraging young entrepreneurs to develop their ideas with success. Additionally, the government and the legal system are working in this direction also, in order to make Romania more attractive than ever.

In fact, the players' share increased considerably in the last few years. If two years ago the top five players' shares were 560, today they are 810. Even companies that were ranked among the top 200 showed growth, moving from 660 in 2015 to 745 in 2017. ●

to foreigners. However, once again foreigners take the lead with regard to those businesses that are owned by employees: Romanian employees own 41 per cent of their companies and foreign ones represent 59 per cent.

Romania is one of the favourite outsourcing destinations, with the innovative approach of Romanian companies and an English fluency rate that is greater than 80 per cent in the IT sector. As we are living in an era where the labour shortage is much higher than before, the country's market can be defined as a successful one if we consider the number of people entering the labour market yearly.

The total SITS industry has witnessed enormous growth, in terms of workforce. With 65,930 employees in 2013, Romania can now rely on 90,380 workers in the IT sector, and this number is expected to grow by 113,850 in 2020. Productivity (€/employee) is also showing a positive trend, moving from 35,947 in 2013 to 45,309 this year

The number of employees in the Romanian IT services and software industry (source: ANIS)



# Nurturing a needed knowledge and innovation culture



**ANDREI  
KELEMEN**

*Executive Director  
Cluj IT Cluster*

*Published on  
July 8, 2017*



Many have dubbed Cluj-Napoca the emerging Silicon Valley of Eastern Europe. Although this is debatable (for many reasons which are not within the scope of this short article), one thing is clear: technology has found a good home in my native city.

More than 400 companies, employing more than 15.000 people (approximately 10 per cent of the entire active working force), are contributing to what has become the main economic pillar of the Cluj region. Although approximately 60 per cent of the aggregated turnover is generated in Bucharest (against 12 per cent in Cluj), companies in my region account for almost 70 per cent of Romania's IT exports.

Together with the very powerful educational sector, the IT industry is literally changing the landscape of the city with new complex buildings, offices and residential; new services and a new infrastructure to support a lifestyle that has become a model for many in Romania. A recent World Bank study showed that Cluj is the most preferred destination for Romanians who are considering a move within the country, outranking Bucharest and all the other major cities.

So, if this is not San Francisco, then what makes this city so attractive?

While space is limited I have tried to summarise a few possible explanations, with an eye on what the future holds for Cluj region.

Technology is not new to Cluj. The city is the birthplace of some of the first computers in Romania: the famous (at least locally) DACICC-1, followed by the more performant DACICC-200, both developed in the 1960s. They were a product of the Institute for Calculations of the Romanian Academy, which is now considered the place of origin of Information Technology in Cluj.

From here, knowledge in computer science spread across the region, first with the contribution of the universities, and then with emergence of the first entrepreneurs (immediately after the fall of the communist regime, in the 1990s). So, tradition is definitely part of the answer.

Cluj is the perfect test bed for almost everything: new social models, intercultural relationships, education and public services, technological advancements and business in general; they are all echoed in some way by the community. This happens continuously, throughout the whole year, with perhaps the exception of August.

Here is why: there are approximately 100,000 students, enrolled in ten public and private universities, who flock to the city every autumn, eager to make a life for themselves. Officially, Cluj has a stable population of 312,000, so the impact of almost 100,000 students is, obviously, of great magnitude. They are the driving source behind many of the initiatives that have emerged here, or in other places. They are also the source of talent that the local IT industry needs. More than 2,000 of them graduate each year with a specialty that relates to technology; from computer science to robotics. Therefore, students and a generally vibrant young community is also part of the answer.

There is also an important innovation eco-system that is driven by the presence of universities and research institutes. Cluj is home to the largest public, higher-education institution in Romania, Babes-Bolyai University as well as other prestigious schools such as the Technical University or the University of Medicine and Pharmacy. They have infrastructures and knowledge that fosters many innovation-based initiatives.

Although its potential is insufficiently exploited, there are now encouraging signs that this eco-system is becoming more and more connected with the entrepreneurial behaviour that is being manifested by the Cluj community.

Which brings me to another reason why Cluj is at the epicentre of technological development in Romania: start-ups are not a rarity anymore. More and more people, especially technically savvy younger individuals, are willing to take this risky road to building a business from scratch. Investors, business angels and venture capitalists are starting to pay attention to this forward-moving landscape, with the important aid of incubators and accelerators.

My short review of the technological success of Cluj cannot be complete without mentioning "motivation"; this underlying consciousness about the unrealised potential of an Eastern European society that has now had the chance to manifest itself. It is a powerful fuel that I hope will keep the engine running, despite the political and societal turmoil that looms over the entire continent.

These are all reasons to further nurture a culture of knowledge, innovation and entrepreneurship, not for the benefit of the few, but rather for safekeeping a way of life that has been refused us for decades. ●



**ANDREI  
VICTOR  
SANDU**

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*Published on  
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## Romania could catch up in innovation

Since entering the European Union, Romania has shown great potential for developing its innovation areas.

One of the main strong points for Romania remains its qualified and innovative employees and also the low cost of labour. The IT field is now growing extremely quickly, due to the multinationals which have established large developmental departments there (Microsoft, Xerox, Amazon, Continental, Bosch, Delphi etc.). Specialists are now speaking about an Eastern Silicon Valley. Conversely, there is also potential for agriculture and mainly an organic/ecological one. All Romania's visitors from abroad are amazed by the taste and aroma of vegetables, fruits and even meat.

If we speak about weak points, the first barrier to foreign investment is the lack of a road infrastructure, which is a result of low funding and corruption, both of which are generated by the old laws, and the long time it takes for auctions, executions, commissions etc.; summed up in one term, "eastern bureaucracy".

Considering the speed of information transfer, the innovation field in Romania suffers from a lack of funding (this being observable from the declining number of patent applications). The main sources of funding for innovation projects, remain research grants (European vs. national), and then, in second place, investment from private companies (which are still sceptical because of the investment recovery time) and finally, the inventor's own pocket.

The Government is trying to find solution for supporting these kinds of activities; IT sector employees are not taxed on income, if you can prove that your job is 100 per cent a research activity. The allocation for education is around three per cent of the GDP and research around 0.5 per cent of the GDP, taking into consideration that the GDP is also very low when compared to the European Union average. It is expected that we professors, researchers and innovators should have an output similar to that in Western Europe, even though we earn 10-30 per cent only of their monthly salary.

When we say we, we are talking about the members of the Romanian Inventors Forum, which is a professional association which aims to support and stimulate the development and valorisation of scientific and technical creative activities and also

cultural and artistic ones. It also looks copyright problems faced by its members, as well as looking into the diversification of research and technological development, design, scientific investigation, micro-production etc.)

In order to take a chance on our innovative potential, we are writing projects and we have also taken the initiative to create a National Agency for Invention Implementation. The idea was approved by the Ministry of Education and respectively the Ministry of Economy, but without any financial support.

The main aim of the National Agency is to identify, evaluate and highlight the potential of Romanian ideas that can easily be transferred into production. The first step could be achieved by organising exhibitions, workshops and seminars to stimulate innovative incubators.

One of the largest exhibitions in Eastern Europe is EUROINVENT, which brings together over 400 inventors from more than 20 countries, every year. Most of the inventions come from the public universities and research institutes and a smaller percentage from private companies and respectively fewer than five per cent from private inventors. EUROINVENT is a platform for identifying innovative opportunities ([www.euroinvent.org](http://www.euroinvent.org)), and started in 2009 as a project. Its last edition, in 2016, showcased some 500 projects and inventions in all fields, from agriculture to medicine, from environmental to material science.

The number of the registered patents in Romania has declined, but the number of international patents is growing, due to support from large companies. With the alignment to Europe's targets (six per cent of the GDP to be spent on education and three per cent on research) Romania should quickly close the economic gap. Most people in this emerging industry are not aware that they need to protect their innovative assets, and are prey for "IP thieves".

Considering the low cost of labour, Romania represents a "good deal" for foreign investors to come and to even start a new company from scratch; if they have patience to learn the "traditions" and the bureaucratic system.

A strong nation is one with healthy and educated employees. ●

# Risky (but rewarding) business



**JENNIFER  
AUSTIN**

*Co-founder  
Risky Business*

*Published on  
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Roughly three years ago, after graduating from UCLA Anderson and developing a severe allergy to cubicles, I moved from perpetually sunny Los Angeles to Cluj, Romania—the heart of Transylvania. Through an extremely circuitous path, I took over a non-profit that was trying to be an accelerator; I built a team and an accelerator programme, had an exit out of the first batch and raised the first accelerator/pre-seed fund in Romania, appropriately named Risky Business. When I first arrived onto the tech scene in Romania, start-ups were largely perceived as a dalliance for students or, at best, a way for students to gain some of the practical, executional, and critical thinking skills their universities were not providing. Programmes focused on hackathons, workshops on basic topics and, of course, perpetual pitching for investment—blithely ignoring the fact that there were never investors in the room.

“No investors” was often lamented as the reason that the Romanian start-up ecosystem lagged; it seemed a shallow analysis to me. In truth, most start-ups just never reached a fundable level. Although there were many hackathons, meet-ups and even, over time, programmes, these were largely created as marketing and recruiting efforts by real estate and other businesses. As a result, the focus tended to be on the number of participants and the event’s attendance, rather than quality and outcome.

Coming from outside of Romania, I was perplexed that none of the programmes took equity for participation, as is the norm for accelerators. After all—start-ups aren’t supposed to be charities, and an accelerator is supposed to provide valuable services, becoming a partner in building your start-up. The fundamental misalignment of incentives and governance structures that were created by the programmes run for marketing and recruiting had created a situation where, indeed, people understood start-ups as a fun thing to do and accelerators as charities that would give them some free workshops and perhaps a shared desk.

Obviously, that is neither sustainable nor particularly helpful for start-ups. Our programme became the first in Romania to take equity. The fact that some founders balked at the idea that they should have to give something, in exchange for receiving something, is telling of just how distorted the ecosystem had become. I’m happy to say that that mentality is slowly changing and now

it is generally understood that it is the norm for accelerators to take equity and for both the start-up and the accelerator to have a proper contract outlining the relationship and expectations of each party within that exchange.

While lack of funding was not the primary challenge of the start-up ecosystem, it was an element; specifically, a lack of early stage funding was absent. Most of the funds in Romania had mandates that did not allow them to invest less than €300k or so—which is quite a lot in Romania, where you can live very decently on less than €1,000 per month. As our work with start-ups began to show results, including investments, a meaningful acquisition after 1.5 years, and so on, we decided to address this early-stage funding gap on our own.

As Dan Pitic, one of our advisers, pointed out, we should ask our teams to make an MVP (minimum viable product) to test the market before they (and we) invest large resources in going further. So, why not do this with a fund? Raise enough capital and effectively use this capital, and indeed, our own team’s ability to invest it wisely. Bringing together some 30-odd investors who believe in our vision and team happened quicker than I thought it would. In fact, so much enthusiasm was gathered around the initiative that at one point we had to refuse investors and limit the capital, since we only wanted to raise enough to invest in one programme.

In March 2017 we launched our first programme as Risky Business, moving on from the previous organisation, which could not evolve beyond a non-profit model. Although the brand changed and we shed the strangely misaligned governance structure of the previous organisation, the team and community surrounding us remained the same. We relocated to the Cluj Business Campus, which offered us their support to grow the new organisation.

The campus is quickly becoming an epicentre of innovation because of the unique vision of the owner and the community that is growing there. Without any marketing expenditure we received more than 250 applications in three weeks. Reading through all these applications was exhausting, but fascinating. Even though we are now out of our application cycle, we still receive an average of two applications per day. Indeed, there is much potential in the Romanian market—but the gap is no longer in funding. The gap is in the hard, and not very glamorous work of supporting these start-ups to go from valuations of €200,000 to €1 million. This challenge is not addressed by dispersing monies.

Since products and plans change so much at early stage, we evaluate the start-ups heavily on their team, their vision, their motivation, and their dedication. Currently, we work with 18 start-ups in different phases. Because we take equity from the start-ups we work with, we ask them to undertake a month long “boot-camp” period in which neither party makes any commitment except to do their best. This trial period gives us a chance to get to know the founders better, as well as their motivations, and to explore the potential of the team and business. Likewise, they get to see the same about us.

Although we still run many community activities and educational programmes through a non-profit, our primary focus is on creating successful and investable start-ups. Given that





an exit from a start-up takes an average of five-seven years, we supplement our budget with revenue from product consulting and incubating products and spin-offs for companies.

Our model is quite simple: we fund start-ups with up to €20,000 from the Risky Business Fund, and the start-ups that need more receive co-investment from the investors in Risky Business. Our first investment was €70,000 in the start-up Ebriza, a cloud-based POS platform. The owner of a prominent restaurant chain invested alongside Risky, bringing his industry experience and connections to support Ebriza. The second investment was in Skillview.io, a market place for interviews. The co-investors in this deal were serial entrepreneur Sergiu Biris (co-founder of Trilulilu and LiveRail, which was sold to Facebook for \$500 million) and Cristi Anghel. Regardless of whether our limited partners co-invest more than the fund, Risky Business always acts as a lead investor, setting the terms and valuation.

Start-ups that are developing a product in Romania often need to focus quickly on international markets, in order to be able to grow to a size that might eventually reward their founders and investors handsomely. The leading tech markets do not function like many local Romanian markets, where (political or family) relations, the lure of quick money, or outright corruption are often the oil that greases successful enterprises. As such, acculturation and global connections are a critical element of our programme.

Early on in my experiences in Romania, I was constantly advised, and even admonished, that I needed to adapt more to the local business culture. Although I strove to understand this local culture, some of it is simply unacceptable and blocks innovation. I refused to adapt to much of it and instead created a unique culture within our programme that helped start-ups to succeed locally and when going abroad.

One ongoing challenge the Romanian innovation and start-up ecosystem suffers from is a lack of transparency. When funding or acquisitions happen, the sums involved are rarely disclosed. This is often done to cover up poor results (start-ups exiting for €1) or convoluted and onerous terms. In the past, disadvantageous liquidation preferences, undue and improper access to clients,

preferred supplier relationships with their own companies and other unfavourable conditions were frequently imposed on start-ups during investment, setting teams off to a bad start. Besides the burdens imposed by often unfair terms, the lack of transparency impedes start-ups from making informed decisions, including appraising their target valuation, which investors are best suited, and which programmes provide the most value etc.

The past few years have been both rewarding and, indeed, strange. For years it was repeated to me that Romanians will never invest in start-ups, and that Romanian start-ups that want to succeed must go abroad. Foreign investors I spoke to were sceptical of Romanian start-ups, rightly wondering why Romanian investors wouldn't invest—it sent an extremely bad signal.

Despite the challenges, seeing other start-ups come to Romania and appreciate the opportunities it offers, rather than complaining about what isn't built yet, has boosted appreciation and momentum. Over the past years, foreign interest in the Romanian start-up ecosystem has slowly, but surely, increased. In 2017, some of the most prominent venture capital funds from Europe, including Passion Capital Atomico, and many more attended Techsylvania and Start-up Avalanche to see what Romania has to offer.

For better or worse, in the coming years, the early-stage venture capital (VC) market in Romania will be flooded. The European Investment Fund will be placing some €40m here for seed stage start-ups. Of course, others funds will follow. One might imagine that this sudden influx of capital would intimidate a small operation such as ours. However, the true challenge is always finding qualified start-ups to invest in and effectively supporting them. Romanian start-ups still struggle with product and market skills, in part because of the outsourcing mentality.

When it comes to early stage investing in the Romanian market, the successful investor will be the one that doesn't shy away from and is capable of the hard work of creating pipeline, adding value, and seeing potential where others cannot. In this, Romania is just like any other market: in early-stage investing, money is fungible—value added is the deal maker. Or, you might say: it isn't the size (of the fund), but how you use it. ●



## FLORIN GODEAN

*Country Manager*

*Adecco Romania*

*President*

*Romanian Association of Temporary  
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*Published on*

*July 2, 2017*

Nobody really noticed it at the time, but everything changed in the year 2000, when Romania was invited to join the European Union.

Before that, the main employers in Romania had been mostly textile companies and the government. In early 2000, we started to meet several companies involved in automotive, logistics and the FMCG industry, mostly doing manufacturing activity. Literally everyone wanted to come here or to expand their businesses. Most people were looking to open a business in the North-West, because of the good connections to the rest of Europe, places such as Bucharest (the main market), Pitesti (near to Dacia Renault plant) and Ploiesti, because of the gas and oil industry and its proximity to Bucharest.

Joining the EU in 2007 meant opening the door to huge investments. In the first years, a big wave of investments flooded the labour market, mostly attracted mostly by the low cost of the labour force and its relatively high skills and abilities. Automotive, light industry, logistics and electronics were the heroes of the day. In the same period, the white-collar segment began to be even more interesting to investors. Outsourcing companies such as Genpact, Accenture, HP or IBM began to either invest in the Romanian market or to develop their activities. But it was the ITC sector that really put the cherry on the cake – the tech sector was in such demand that wages sky rocketed and IT experts stopped leaving the country, as they had did in the 1990s.

However, while Western investors were heading to Romania, looking for cheap skilled workers, hundreds of thousands of

# Can Romania's success last longer?



Romanians were heading west, in search of new opportunities and, well, higher wages. Spain and Italy were the main targets because of the language similarities.

For this reason investors needed more workers on all levels, in 2007 and 2008, and job candidates started to see opportunities everywhere (not just with their employers): emigration peaked and Adecco launched a huge relocation project, bring-

ing thousands of people from poor areas to work in the industrialised cities. There were cases where employers brought workers from Portugal, China or any other Eastern European country. Wages were not an issue anymore for any person looking for a job. You just had to ask for it.

And then, everything collapsed. In Adecco Romania alone, the number of associates decreased by 50 per cent



(approximately 2,000 workers). Everyone tried to reduce the number of employees at the same time and unemployment exploded. It only took one year.

In 2010, we had already jumped to 4000 associates and the market overall grew by 50 per cent. Why? Because most of the Western European companies decided to cut their costs and to move as much production as they could to a more reliable country, closer to their HQ. Seven years later, the level of unemployment is 5.7 per cent and wages are double those of 2010.

Today, Romania is the victim of its own success and of a

bigger, more worrying shift in society.

Romania is facing a huge problem — depopulation, and it may be the fastest in the EU. Companies are not finding candidates, even for increased wages. The millions that left the country are not returning, well not in big enough numbers, anyway. So, because of this balance between offer and demand, wages are heading towards the Central European average. From this point of view, we are not Eastern Europeans any more. We are a Central European labour market with all the benefits and drawbacks this entails. ●

# 20 Years of Romanian-US cooperation



## ANCA HARASIM

*Executive Director*

*American Chamber of Commerce in Romania*

*Published on*

*June 22, 2017*

2017 is a landmark year for US–Romanian bilateral cooperation. It marks the 20th anniversary of the Strategic Partnership for the 21st century between the two states, whose overall tradition of diplomatic relations is over a century old.

The current state of political and economic relations between the US and Romania suggests a favourable outlook for future cooperation. Romania's NATO and EU membership, along with its strategic role in the regional context, makes our country an important partner for the US.

The country's macroeconomic stability, together with the success stories of US investors who are already operating in Romania, make it an appropriate destination for further investments, provided that our country continues its internal efforts to curb corruption and strengthen the rule of law. Romania is constantly referred to as a friend of the US and an ally in the region and it is important that this status is maintained through our further efforts to improve its economic governance.

AmCham Romania makes a priority of contributing to increasing trade between the US and Romania, and our major focus is on advocating to make Romania a better home for business by: promoting our members' business priorities; making recommenda-





tions for improved public policies, through open and transparent consultation and dialogue between decision makers and the business community.

As we experience both administrations' increasing determination to extend the already good cooperation in the military and defence sectors, as enabled by the Strategic Partnership Framework, into the commercial area as well, we see raised interest in Romania on the US side.

However, investment decisions are still very much relative to the overall perception of the country. Irrespective of their country of origin, some points that US and other investors seek, when making investment decisions, are: stability, predictability, transparency in decision-making and regulatory and tax framework, reduced bureaucracy, efficient public administration, availability of skilled labour force and proper infrastructure. Romania should promote its investment leads better internationally and AmCham is the right partner for US promotion and commercial connections.

For US – Romanian trade, we anticipate that the pillars of further economic cooperation will continue to be sectors such as automotive and machinery, ICT, FMCG, chemicals and pharmaceuticals.

The best "trade ambassador" for Romania is the experience of US companies, already operating in Romania, and AmCham Romania will continue to advocate for increasing the country's economic competitiveness for the US, and other international and local investors alike.

So far, over 400 American companies, that are members of AmCham Romania, have invested some \$20 billion in Romania and have created 200,000 new jobs. But the US is still only the 11th largest foreign investor in Romania, so there is room for improvement. ●

# Romania can foster German partnership



## SEBASTIAN METZ

General Manager  
Romanian-German Chamber of Commerce and Industry  
(AHK Romania)

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*German companies also put particular importance on fighting against corruption and maintaining the rule of law.*

Romania is a strategic economic partner for the German economy. Bilateral economic relations continued to increase, once more, in 2016, as figures, published by the National Institute of Statistics, demonstrated that Germany remains Romania's number one economic partner.

In 2016, imports from Germany amounted to €13.8 billion (+10.5 per cent), while exports amounted to €12.3 billion (+14.6 per cent). In total, the trade volume between the two states consisted of €26.1 (+12.4 per cent), which equated to more than 20 per cent of Romania's foreign trade; a growing trend. Traditionally, the most important product groups in the trade between Germany and Romania are: machinery and electrical equipment, means of transport and materials and common metals.

German companies are part of the Romanian economy and they make a decisive contribution to the gross value added, but they also increase competitiveness through their transfer of know-how. Around 7,500 German companies, with German capital, are active in Romania. These play an important role as employers and have contributed to creating and securing jobs in Romania in the last years. As taxpayers and employers for more than 250,000 employees in Romania, German companies have an important role to play in social contributions and other contributions to the tax authorities.

As an active player in the business community and as a trusted partner to the Romanian ministries and authorities, AHK Romania contributes to the development and improvement of business and investment conditions in Romania, as well as the enhancement of bilateral trade relations.

Amid a lack of qualified personnel, it is important (also from the point of view of the German economy) that the Romanian authorities and policymakers continue to take all the necessary measures for the development of vocational education. Economic development can only be assured in the long run if heavy





investments are made in education. In our discussions with German investors, the availability of qualified staff is one of their most important criteria for making investment decisions. This covers both higher education and vocational education, which are complementary in a functional education system.

Policymakers within state institutions should pay particular attention to the following aspect: mechanisms should be integrated into the educational system to reconcile the labour market's with an educational offer. This is the only way qualified personnel can be trained and adapted to the development and needs of the economy.

German companies also put particular importance on fighting against corruption and maintaining the rule of law.

At the many events that Romanian-German Chamber of Commerce and Industry holds, economic issues are discussed, and members of AHK Romania have repeatedly underlined that predictability, stability, transparency and the rule of law are vital to planning new investments and to allow economic activities to be carried out successfully.

German interest in Romania is still high. According to surveys, carried out by AHK Romania, the level of satisfaction regarding siting investment – compared to other countries in Eastern Europe – is encouraging, but German investors also face many challenges which the Romanian side should consider, in order to further ensure the country's competitiveness. ●

## Poland and Romania: almost 100 years of friendship that is still growing



**MARCIN  
WILCZEK**

*Polish Ambassador to  
Romania*

*Published on  
June 20, 2017*



Poland and Romania are not only the two largest countries in Central Eastern Europe but also tried and tested friends and strategic partners who have always had a friendly and deep relationship. 2019 will be a milestone for our countries, as we will celebrate 100 years of the establishment of our diplomatic relations. Furthermore, we are also allies in NATO and we cooperate deeply in the EU. We share similar views on the most important issues on the European and worldwide agenda, such as the Brexit, the future of the EU, migration and security, and the EU's cohesion policy, etc.

We exchange many high-level visits which show our deep mutual interest in bilateral cooperation in various aspects. Romania is regularly visited by Polish representatives: in November 2015, we had a visit from the Polish President Andrzej Duda and in August 2016 — Prime Minister Beata Szydło paid a working visit to Suceava. Similarly, high level Romanian officials frequently visit Poland: in 2015 there was Prime Minister Victor Ponta's trip and in June 2016, the Minister of Foreign Affairs, Lazăr Comănescu. In July 2016, President Klaus Iohannis paid a visit to Poland and the Chairman of the Romanian Senate, Călin Popescu-Tăriceanu, visited Warsaw twice in the second quarter of 2017.

Our bilateral trade has recorded a constantly upward trend in the last ten years. It is good to see both exports and imports growing steadily. In 2016, Poland ranked fifth among goods' providers and ninth in terms of a destination for Romanian products. According to the statistics of the Polish Ministry of Economic Development, in 2016 the commercial exchange between Romania and Poland reached a record value of €4.86 billion. That means an increase of almost ten per cent compared to 2015, and a doubling in comparison to 2007, when the commercial exchange amounted to €2.17 billion.

All sectors seem to be equally important in the development of bilateral economic cooperation. However, we can distinguish certain ones where Polish companies have vastly know-how and

experience than other markets: the food industry and packaging, the chemical industry, construction, furniture and all kinds of services (including banking, cash processing, debt collection, IT, consultancy, etc.).

According to the Eurostat, both Poland and Romania continue to enjoy high GDP growth, with Romania being at the top with 5.6 per cent in the first quarter of this year, and Poland fifth with 3.8 per cent.

The National Bank of Romania's report on Foreign Direct Investment ranks Poland as high as seventeenth, in terms of investments. At the end of December 2015, Polish companies had invested almost €500 million in Romania. Romanian companies are also searching for business opportunities in Poland and we are looking forward to attracting more and more Romanian investments to Poland.

Many Polish companies are already set up on the Romanian market and we are registering more and more enquiries from Polish investors and traders. The Romanian National Trade Registry Office estimated that in April 2017, there were 958 companies with Polish capital active in Romania. The constantly growing number of Polish companies that are active in the Romanian market is the best proof that Romania is attractive to Polish investors. We expect that the number might exceed the '1000th' threshold quite soon.

One of the biggest advantages of Romania is its market and proximity, not only to Poland, but also to the other Balkan countries. Many of the Polish investors, who are manufacturing in Romania, export their goods to other markets, so Romania is a perfect hub for them. Another important asset is the qualified, well-educated and multilingual Romanian workforce. The last, but not least, advantage for Polish investors is the Romanians' friendly attitude toward the Polish and the fact that Poland has a positive country brand. All of these benefits allow me to predict that the prospects for bilateral trade and investment are simply blooming. ●



# Romania's 140 years of UK cooperation



**DAN MIHALACHE**

*Ambassador of Romania to the Court of St. James's*

*Published on July 6, 2017*

*Great Britain represents a fantastic opportunity for our skilled professionals to learn and progress in one of the most internationally diverse, strong, well established and competitive business environments in Europe.*

Romania's diplomatic and commercial affairs with the United Kingdom of Great Britain and Northern Ireland go back 140 years, and we proudly name the UK amongst our most valued and respected strategic partners.

Throughout this time, the relations between our countries have evolved and developed in many aspects, but I would like to pinpoint two areas, which I strongly consider to be of high importance for the coming years: the Romanian immigrant labour force and bilateral investment opportunities.

Since the liberalisation of the UK's labour market in 2014, the number of Romanians crossing the borders into Her Majesty's country has risen with each passing year. Now, we have more than 250,000 Romanians, officially, working and living all over English, Scottish and Irish territories; contributing to local productivity and state budgets, paying taxes and taking their children to English schools.

There are no inward classifications, but from our data, many of these people are skilled professionals, such as: doctors, financial consultants, bankers, architects and IT specialists. This means that we are talking about a high-value workforce, not just blue collar workers, which I grant you, represent a consistent number as well.

Great Britain represents a fantastic opportunity for our skilled professionals, to learn and progress in one of the most internationally diverse, strong, well established and competitive business environments in Europe. The experience that is gained here naturally translates into added value for Romania, once the workers return home with their new know-how. I hope this trend will continue, even after the Brexit negotiations are over, and

when we will have a clearer picture of how things are going to be settled within the UK market as well as its business relations with the EU member states.

Furthermore on the subject of Brexit, one of my personal goals, as a representative of the state here in Britain, is to assure that all the legitimate rights of hard-working Romanians are maintained throughout the negotiations and after they're concluded. We make up a large portion of the foreign labour force in this country and I'm sure that our rights will be respected by the UK Government in the upcoming years.

On a second topic: that of investments and commercial relations; in the last two years, Romania and the United Kingdom have reached new all-time records in terms of bilateral trade. In 2016, our trade with the UK totalled €4 billion, with an increase of over two per cent compared to the previous year. Britain holds the highest rank among our commercial partners with a positive trade balance.

However, I believe there's more to be done. Our country has rightfully earned its place in Europe as the fastest growing economy, we are definitely on the right track, but a growing economy without strategic investments is not a long-term sustainable one. That's why I think this is a great opportunity for English businesses to look closely into Romania's market and investment environment and to approach an environment such as this.

A vice versa is obviously valid: Romanian businesses need to be bolder and to be risk takers; to cross borders and to come here to the UK. We manufacture great products and high standard services, so we can find a place for them, even in a market as competitive as the UK's. ●



## CHARLES CROCKER

CEO

British Romanian Chamber of Commerce

Published on  
April 11, 2017

On a clear night in July 1990, my plane descended toward Otopeni, the main international airport servicing Bucharest, the capital of Romania. I had read up a lot on the country and the city, before visiting my parents there, and working at the British Embassy, for the first time. “The Paris of the Balkans”, a country with a rich culture, “a Latin Island in Slavic sea”, were a just a few of descriptions I found. This Romania of 1990 was just emerging from 50 years of totalitarian dictatorship.

The first thing I noticed was the lack of an orange light haze on the horizon; the normal aura of a major capital city. Only later did I learn that back then Bucharest was the only capital city in Europe not visible from space, at night. I am not sure if this was an exaggeration, but as our car was channelled into the city, on a deserted six-lane highway, it was strange to see how many signs of a metropolis — the cars, the lights, the bustle — were absent.


Over the next two weeks it was plain to see how little money the communist regime had invested in the city. Buildings, roads and general infrastructure were shoddy, pot-holed or barely functional. Only Casa Poporului, a huge white edifice in the centre of Bucharest — and second largest building in the world — showed any real signs of external care. Built to symbolise the strength of Romania, and the endurance of the Ceausescu leadership, it is hard to grasp the full cost and scale of destruction inflicted on this lovely old city, as bulldozers cleared the way for the dictator’s folly. Now one of the city’s major tourist attractions, it still divides opinion starkly.

In those early 1990’s, as across all the former communist bloc, Bucharest’s still queued for basic commodities, in the established belief that the queue itself made the product valuable. I also remember when buying a drink I had to buy the bottle as we well, and I was only able to get another drink by taking the bottle back and swapping it.

The Romanians I met then, were polite, but nervous to begin with. This was the first thing to change, as the people slowly gained the confidence that there would be no return to the dark days of totalitarian

*The first trip to see my parents turned, perhaps on reflection not surprisingly, into a quarter century of residence in Romania.*





## A country of beauty and warmth that will reward those who visit with an open mind

rule. As they opened up, I found them inquisitive, hospitable, kind and adaptable. I have always been made to feel incredibly welcome in Romania and, from my perspective, its people were and remain the best thing Romania has to offer.

As Romania found its feet through the 1990s, there was a huge hunger for everything western. This did not mean that the country's own rich, cultural identity was thrown out. Quite the contrary; its traditions and national personality are still as much a part of day-to-day life, in 2017, as they were in 1990, 1995 and 2000. What the people wanted was to feel that they now belonged in a world that had been denied to them by communism.

Romania took advantage of international funding from the World Bank and EBRD in the 90's to improve its basic infrastructure and, although perhaps too slowly for many, this has continued over the last 25 years.

The Romania of today boasts the fastest urban broadband in the EU and 4G mobile coverage that most Western European countries would be envious of. Most major cities host modern shopping malls that are filled with internationally recognised brands. The country has become an international hub for technology companies. A very rich pool of technically qualified talent is leaving its universities with excellent language skills. Romania continues to ensure companies have access to the talent that fuels the growth of their businesses. In 2016, Romania's was the fastest growing economy in Europe.

A decade on from its entry into the EU, in 2007, Romanians are now finally finding their democratic voice through a thriving civic society and a population that demands their politicians are accountable for delivering better public services and institutional reforms.

It is sometimes hard to step back and see what has been accomplished since 1990. It is difficult, if not impossible, to list all of the tremendous achievements and positive changes Romania and Romanians have accomplished in these past 27 years. It is all the more impressive when one considers the specific scars that Ceauşescu's communism and personality cult inflicted on the country and its people.

I have seen this transformation first hand. That first trip to see my parents turned, perhaps on reflection not surprisingly, into a quarter century of residence in Romania. Indeed, I often hear similar expat stories. A visit to the country for some chance reason captivates so many — maybe the contrast between what they expect and what is discovered, if they scratch beneath the surface and see the full potential here.

It is true there is more work to do, as there is in any modern emerging market- However, I am convinced that this amazingly beautiful country and its people have the capabilities and will to overcome the immediate and future challenges they face. I would only add that, in my capacity as chief executive of The British Romanian Chamber of Commerce for nearly 20 years, we are proud to have played our part in helping to build and support the bilateral trade, commerce and cultural relationships between the UK and Romania. ●



Written by

ANDREW  
WROBEL

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March 22, 2017

Princess Marina Sturdza (source: personal archives)

## Princess Marina Sturdza: things are bound to improve for Romania

*The future is in the young people who are very motivated and they love their country as we all do. Romania is a very seductive place.*

It's a Monday afternoon in a French brasserie in Knightsbridge. I am meeting Princess Marina Sturdza on the last day of her three week visit to London, before she flies back to New York.

"I don't know how much you know about my background," the Princess starts, after a little small-talk about the recent demonstrations in Romania, as two weeks earlier over half a million of her nationals made it onto the streets.

I should have expected this question. In the end, I am speaking to an internationally renowned journalist who has done thousands of interviews with the likes of Karl Lagerfeld or Giorgio Armani. I know she finds it "incredibly careless" when someone comes to interview her unprepared.

Then, I think this is not a regular interview as the Princess is also interested in Emerging Europe and its mission, so I treat it more as an opportunity to discuss the history and the potential of the Central and Eastern Europe region rather than a pure interview.

### Early days

Of course, describing Princess Marina Sturdza solely as a journalist would be disingenuous. She has been vice-president for Oscar de la Renta, worked for UNICEF, organised major international

investment summits and has been a patron of multiple international charities. She also speaks frequently about Romania and its unlimited potential, and it is her relationship with the country that is most inspiring for me. Despite being banished from her native land, she is one of the most enthusiastic advocates for Romania that I have met.

"I have read quite a lot about you but I'd like to hear more from you," I say and I start by asking her about her earliest recollections of her native country.

"It was when I was three years old," she says looking through the window and scanning her memory. "I remember my grandmother. I remember not seeing my parents very much. We didn't in those days anyway as we all had Fräuleins and nannies. I remember being handed around to many people because we didn't really have a stable place to live in anymore."

Princess Marina's family fled the country in 1948. Both her mother and father were members of the reigning family, whose origins can be traced back to the 1540s. Her mother divorced her father and married the biggest industrialist in Romania.

"So really the combination of the three [individuals] could scarcely have been worse. The commercial attaché at the Swiss

Embassy was a very close friend of my family and he helped my parents leave the country. They were escorted to the border and given new identities: David and Annie Blumenthal.”

The three-year old Marina stayed with her grandmother. The plan was that the commercial attaché would take the child to Switzerland afterwards and the family would be reunited in Zurich.

“When my grandmother received the message that my parents had arrived in Zurich, the attaché got on the train in Bucharest and my grandmother was supposed to put me on that train close to the border, not being certain whether he was on the train or not. I had been drugged so I would not speak Romanian. He did find me and took me to Zurich.”

### On the move

The family lived in Switzerland for two years, then went to France for some time, then to Italy and finally, with the help of the Red Cross, they went to Canada on a year-long programme of heavy agricultural works.

“We arrived at a pig farm in Alberta. My stepfather, who had really never done heavy manual work, looked after the pigs. I went to a one-room school house where, I think there were 12 grades. Then, after seven or eight months the health authorities were told that the conditions there were very bad and they declared that we didn’t have to complete our year. So we set off for Toronto with the little money that we had. We did all the things that refugees do. We had really drawn a line under Romania. We didn’t anticipate that anything would change and that we would ever be able to return so we built a new life.”

She never told her story to other children in Canada, as she felt different and exotic, compared to her peers.

“I was “the foreign kid”, strange; my clothes were different. I wasn’t allowed to do the things they all did. I was raised in a very restrictive manner. I wasn’t allowed to go to certain parties, to play after school, and more colloquial language would be punished. I didn’t tell my story to anyone there because it was inappropriate and it was a situation when you want to look exactly like the others; to be exactly like them and not isolated,” the Princess said in an interview a few years ago.

Marina’s stepfather eventually became a trade attaché at the Belgian Embassy. In 1970, the Princess got married and moved to Montreal, where the couple lived for eight years. They later moved back to Toronto, where the princess’s husband became editor of the Toronto Star, after having worked as the executive editor of the Montreal Gazette.

“I had wanted to be a diplomat, but I became a journalist and worked for about 35 different publications over the years. I began travelling a great deal. I was able to do interviews in different languages. That led to doing a lot of television and becoming an all-around journalist.”

### Coming back home

The couple got divorced, which led the Princess to think that there were things that she had always wanted to do and that perhaps that could be the time. She travelled extensively, interviewed famous fashion designers and even organised a large charity event with Oscar de la Renta, after which he offered her a job as his vice-president in New York.

“After about two years, I realised it wasn’t a place for me. It was very mean and odious, back-biting and wrong. I think I had reached a point when I wanted to do something more for humanity than just earn money. Money per se has no value if it is not connected

with achievement and accomplishment.”

At the beginning of the 1990s Princess Marina applied for a job at the United Nations and became a marketing manager, responsible for half the globe and then the entire world.

At the time, over four decades had passed since she left Romania. She first saw the country in 1992, three years after Nicolae Ceaușescu, the country’s admired, and feared and despised Communist leader and his wife Elena were executed on Christmas Day of 1989.

Princess Marina says Romania had the most repressive communism. Half of her family was annihilated and their names were taken out of the history books, so many Romanian never really knew their history or who had shaped the country.

“I had always resisted the idea of going back. I thought we’d



Princess Marina Sturdza (source: personal archives)

spend years explaining what had happened in each other’s lives. I was somewhat intimidated because for decades I had heard about the wonderful lives that everybody would have and I knew it didn’t exist anymore. In 1992, I went there with my aunt, Mica Ertegün, the wife of Ahmet Ertegün, the co-founder and president of Atlantic Records. We went from Turkey to Romania. She was rebuilding the Brâncuși Monument together with the World’s Monument Fund. She was the one who kept saying you have to see the country; you have to go back.”

However, by that time, Marina’s perspective on Romania had changed. After the revolution of 1989, the Princess’s European



*Princess Marina Sturdza (source: personal archives)*

friends, especially those from France, taking the common Latin origin of their languages into account, were so open to the country that her resistance softened.

“I am the only woman in the family and I have 17 cousins. When I went back, we met, and it felt like we’d seen each other a few days earlier. It was much easier than I had anticipated but my family had great delusions about what the life of a refugee is like. All they knew was that we were free.”

#### **Youth power**

When she left the UN, a lot of people told her that the International Herald Tribune was planning to organise an investment summit in Romania; the first economic summit held after the country had had a democratic election.

“I immediately wrote to the Herald Tribune. That was my very first cold call letter to anybody. I wrote that I was Romanian. I would like to help my country. I have the skill set.”

Soon after that she was on the plane to Romania where she was thrown into organising an enormous investment summit which seemed like one of the biggest challenges she had faced, but she

was in her element.

“The congress took place at the end of October 1997 and I had told the Hilton Hotel manager [where the conference was held] that if ever there was a real problem he had to call me no matter what. One night in Geneva, I get a phone call saying I think the emergency is now; you’d better come. What had happened was that there were 23 trucks stuck at the border.”

With a little trick the Princess was able to overcome that challenge too. Always, along the way, she was surrounded by young people, be it a “young and very bright” minister of trade and investment, or her team of young inexperienced people.

“I had about five months to get them up to speed but I decided they were better than the old regime.”

This event turned out to be a success, together with a couple of other summits she organised. In 2003, Princess Marina organised the Expanding European Investment Frontier Summit in Bucharest, together with the European Bank for Reconstruction and Development (EBRD).

“The premise of it was that the region would be well-served

if they aligned some of their policies, so that the multinationals could work across borders with greater facility. It was well ahead of its time, probably about eight years ahead. And we did it.”

### **Citizen of the world**

Over the last two decades, Princess Marina has been deeply involved with charities. She says her entire life has been unpredictable because no one could foresee certain events, for example, the communist regime in Romania or that she would become a refugee.

“But I became adaptable, and I seem to have a philosophy of getting over hard stuff. I try to find solutions and to make changes, if necessary.”

When asked where she'd like to be buried she says her ashes will be scattered in several places.

“I am 95 per cent at home pretty much anywhere. I am Romanian but I am also Canadian. I live in the UK and in the US. I have a privileged overview of the whole progression of Romania. It is an interesting perspective. To some degree I think that my global aspect is helpful for the country. If I lived there too much I would begin to participate because you know how things work and you don't fight back any more. I do fight back and I can be quite articulate.”

When I say that Romania didn't have a very positive image when joining the European Union, she admits that perhaps the country entered the Block a bit too early, but the enlargement has definitely accelerated progress in the country.

“Romania didn't have much of a profile before. I really think that Romania has arrived at a place where things are inevitably going to change. I think the future is in the young people who are very motivated and they love their country as we all do. Romania is a very seductive place. There is sweetness and authenticity and I am very positive that things will progress. It is a country that I care about profoundly and I will give it all the support I can.”

Princess Marina's enthusiasm and belief in the country's favourable future can be quite infectious. Two hours into the interview and we are still talking.

Did we manage to establish “a more profound dialogue and a level of trust” which the Princess aimed at when doing her own interviews? I believe we did, at least on my end, as I look forward to continuing the inspiring discussion when she comes to London next. We might even think of another interview, as “sometimes, the best interview is not when we meet for the first time, but the second or third,” the Princess says. ●



*Princess Marina Sturdza (source: personal archives)*



**PHILIP  
COX**

*Vice-President of  
APEV Romania, the  
Wine Exporters' and  
Producers' Association  
of Romania*

*Published on  
July 2, 2017*

# Romanian wine is making a comeback

*Over 25,000 hectares of vineyards have been replanted since 2010, with quality vineyards and this is already increasing the quality and diversity of wines produced.*

Though not very well known on international markets, Romania is an important wine-producing country with a long tradition that pre-dates the Roman invasion.

During the country's recent turbulent past, the communist government greatly developed the wine industry –at one point reaching over 300,000 hectares, during the 1980s, which was both a blessing and a curse, as at that time the impetus was definitely on quantity and not quality.

Since joining the European Union in 2007, things have changed dramatically, with EU funds being available for vineyard replacement, which is encouraging local and foreign investors to re-launch the quality wine industry in Romania. Right now it is no exaggeration to say that Romania has one of the most modern levels of winery technology in the world, with over 100 new wineries having opened in the past five years and many existing ones have been fully modernised.





Over 25,000 hectares of vineyards have been replanted since 2010, with quality vineyards and this is already increasing the quality and diversity of wines produced.

There is some debate about the overall amount of vineyards, with official statistics showing 180,000 hectares although more than half of those are in the hands of very small producers, with under 0.25 ha each, and they do not participate in the fiscalised wine market. 51,082 hectares are registered as vineyards of controlled origin (DOC) and geographical indication (IG). The total production was 4.07 million Hl in 2015, of which 552,000 Hl was certified as DOC/IG.

The most widely planted varieties are local varieties — Feteasca regala and Feteasca alba, although there are large plantations of Cabernet Sauvignon and Merlot too. Sauvignon Blanc seems to be the varietal with the fastest growing number of plantations in the last few years, together with Feteasca Neagra which is a local red variety that probably has the best potential of all.

Feteasca Regala and Feteasca Neagra are the biggest sellers on the local market and Sauvignon Blanc, Pinot Noir and Pinot Grigio on export markets, which represents a small part of Romania's wine sales – less than ten per cent of production.

The country's most important wine production regions, by volume are: Vrancea, in the east of the country; Dobrogea, by the Black Sea coast and Muntenia, north of Bucharest, although plantations have other significant plantations are grown in Banat (west Romania) and Oltenia in the far south.

What makes Romania different from its neighbours in Eastern Europe is that it has a large domestic wine market, with over 19 million citizens and a strong wine drinking culture. This means Romania consumes more wine than it produces and that makes it less important for companies to export, although with hundreds of new wineries having been launched recently, this situation may change in the near future.

The popularity of Romanian wine is growing and we are seeing that growth ourselves. Our winery at Recas, in western Romania, has more than doubled in size in the last four years, to become one of the top three producers in the country. Today it is the largest exporter, with over 6.4 million bottles exported in the last 12 months. Around half of the sales are on the domestic market, and half to external markets with the UK, Germany and Netherlands being the most important. ●

Written by

**JERRY  
CAMERON**

Published on  
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## Romanian wine – a growing opportunity

*The natural landscape, soil, and climate in Romania is unique and, being on the 45th latitude, it is ideal for the continued development and growth of the Romanian wine industry.*



Romanian wine is a hidden gem, waiting to be discovered by many export markets, says Paul Murden, managing director of Halewood Wines & Spirits Romania. He spoke to Eva Keller about opportunities in the Romanian wine production sector.

**Halewood first arrived in Romania 30 years ago. What changes have you seen in the wine sector over the last three decades?**

I must admit that the evolution of the wine market in Romania has really surprised me, in the past 30 years, particularly the fast pace of this process compared to other economic sectors in the country. Obviously, for such a long period, we are referring to many factors, but we should particularly mention the development of modern retailing, the internet and, last but not least, the foreign investment in this sector.

One noticeable aspect is the evolution of consumer interest in wine. After several years,



when there was a negative international perception of the Romanian wine market in terms of wine quality, and consumers were less-educated in terms of wine consumption, we are now facing a more educated consumer and an improved wine quality, as confirmed by the international markets. This results in a highly dynamic and competitive market.

**So, Halewood has invested €10 million in Romania. What opportunities do you see for foreign investors in the wine sector in Romania?**

Well, Romanian wine is a hidden gem waiting to be discovered by many export markets. We already export substantial volumes to the UK, Germany and China, to name but a few. As more and more consumers become aware of the quality price ratio demonstrated by Romanian wines then I am sure this demand will increase exponentially.

The natural landscape, soil, and climate in Romania is unique and, being on the 45th latitude, it is ideal for the continued development and growth of the Romanian wine industry. There is also the opportunity to develop wine tourism within a country that is one of the most beautiful and naturally preserved parts of Europe.

The population is innovative, professional and passionate about wine. There is a huge knowledge base and experience of wine making in Romania, in fact wine has been produced here for more than 6,000 years.

**So, tell me, what challenges is the sector currently facing?**

I would say there is a constant pressure on production costs, on the producer's margin and a high consumer sensitivity towards price changes.

**What prospects do you see for the Romanian wine sector and the company in the future?**

In the past years, we have worked very hard. We made massive investments in developing the Tohani region and this year we will continue to invest in our winery in Ploiesti, a city we are very closely tied to.

We will continue investing in upgrading our production facilities and modernising the wineries and the equipment, in order to ensure a premium quality for all our wines. We will continue investing on the domestic market through both an innovation of our sales force and through targeting consumer marketing. We are in a complete process of portfolio expansion so we may best assure our clients' business development. We are preparing new brand launches in the wine category that will address market opportunities. These new launches will reflect both the heritage that Halewood has in Romania, as well as the quality of our wines, which has often been endorsed by international contests.

Regarding the spirits' portfolio, and given that Halewood Wines & Spirits UK is the largest independent spirits producer and that there is a new focus on the spirits mixology, we are continually developing our portfolio with crafted products, such as crafted gin, whiskey, vodka and beer. All these launches are designed to strengthen our position within the market, as we expect the market growth in Romania to outperform other markets. ●

# What was first on the Romanian table?



## IULIA DRAGUT

*President  
Euro-Est Alternative  
Cultural Association*

*Published on  
July 2, 2017*

For me, food is not just a basic human need but also a cultural act, and the way it is prepared expresses the identity of the people who eat it.

Romania has been long been at the intersection of many customs and traditions and its food has been influenced by other nations. In the Daco-Roman period, the Romans brought the pie, or plăcintă. The Turks brought meatball soup and cabbage rolls. The Greeks came with their well-known musaca and the Bulgarians taught us how to cook vegetables in a wide variety dishes, for instance vegetable stew. The Austrians gave us the recipe for schnitzel and the Hungarians lent theirs for gulaş. We must also not forget other cuisines such as German or Serbian and Italian. But there is one dish that was and remains typically Romanian.

Romanians were shepherds but the Roman invasion forced the population to retreat and move to the mountains and hills, in order to be able to defend themselves and to not become Roman slaves. In the mountains they bred sheep, ate lamb and drank sheep milk. They had to find an alternative to wheat — and so discovered millet, which grows in regions with poor soil. From the millet flour they made bread and porridge, named mămăliga, which is a word of Dacian origin — mam-mulo, meaning satisfy hunger.

With more than 1,000 years of presence on the Romanian table, mămăliga is one of the most typical traditional dishes in Romania and Moldova, and it is similar to the Italian polenta. It is said that the reason why “mămăliga” became so popular in Romania is because the Ottomans put taxes only on wheat and the corn, so it remained the most nutritious alternative for the people.

Soon after America was discovered, and maize was found there and brought to Europe, it replaced millet. It is widely known that maize requires heat and humidity to grow and the Danube Valley in Romania was, and still is, one of the most ideal European regions for the crop. In the 17th and 18th centuries, it even saved the country from an economic crisis. The “mămăliga” phenomenon was confirmed in 1873, in the Larousse encyclopaedia: “mămăliga s. f. boiled corn meal, in the Danubian principalities.”

Today, Romania is among the top ten world producers of corn, together with Ukraine, Spain, and Russia and it is just behind the US, China and Brazil. In the European Union, Romania ranks first with a total area of 8.6 million hectares, accounting for some 30 per cent of the EU’s production.

But let’s come back to mămăliga. Traditionally, it is cooked by

boiling water, salt and corn meal in a special iron pot called a ceaur or tuci. Since mămăliga can be used as an alternative to bread the Romanian and Moldavian cuisines both have dishes that are based on mămăligă or that include it as an ingredient or side dish.

“Mămăliga” can be cooked in many different ways. In the peasant style, it is used as a bread substitute and is much thicker than the regular Italian polenta, because it has to be cut into slices, like bread; it is cut into slices with a string and eaten, held in the hand, like a normal slice of bread. It can also be cooked much softer, sometimes almost with the consistency of regular porridge, or pan-fried as slices in oil or fat. One can add butter, cheese, sour cream or other ingredients.

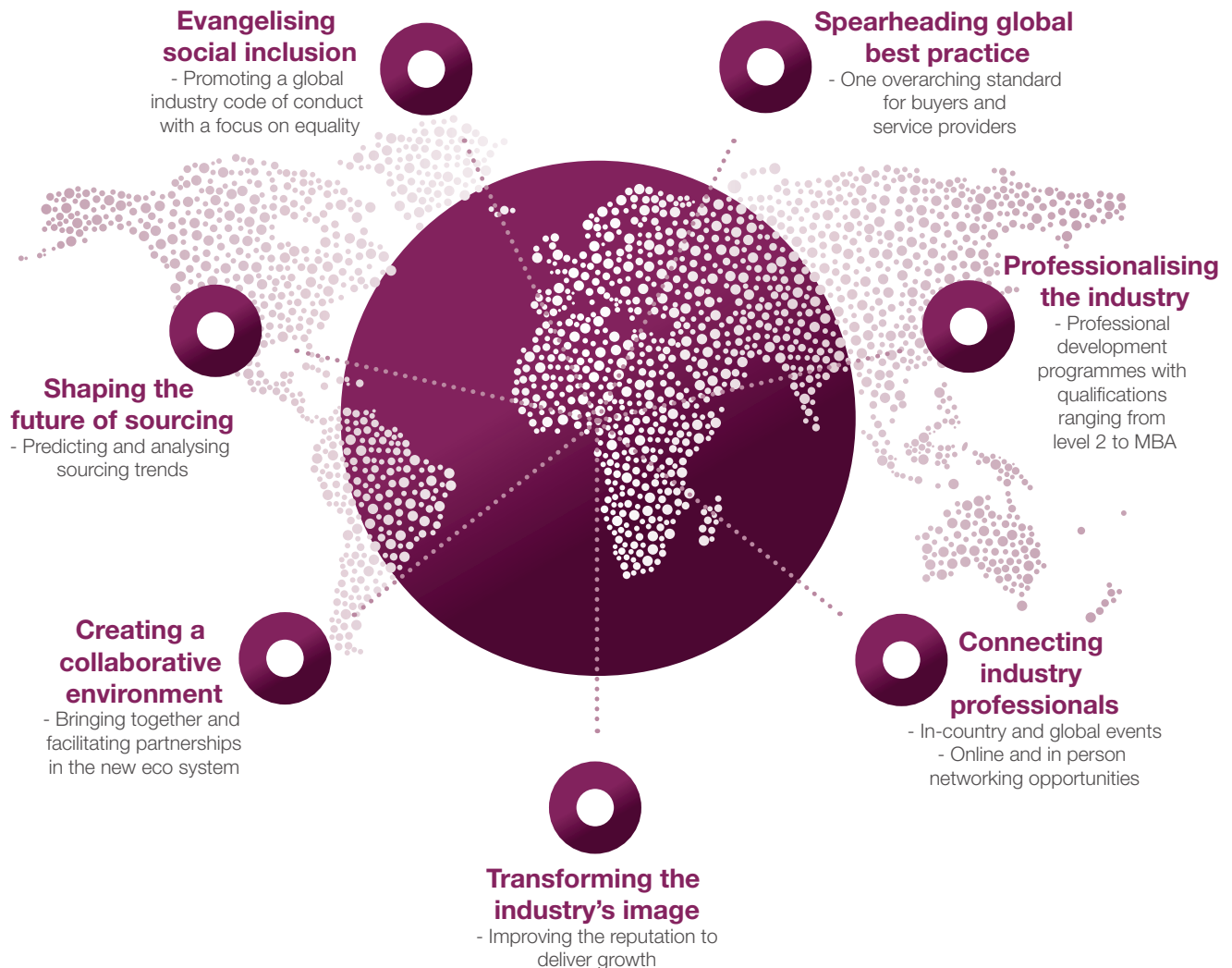
The most popular dishes are based on mămăligă, or which are served with it, are: sarmale (a type of cabbage roll with minced meat) which is served with mămăligă, sour cream and chilli peppers (fresh or pickles); bulz: “mămăligă” with butter, sour cream and “branza de burduf” roasted in the oven. Brânză de burduf is a salty type of cheese made from sheep’s-milk. It has a strong flavour and a slightly soft texture; the mixture of cheese is placed in a sheep’s stomach, that has been carefully cleaned, or in a tube made of pine bark. It may be served with eggs, bacon or ham. Finally, there is balmos, an old Romanian shepherd’s speciality dish with butter, sour cream, different types of cheese and mălai (maize flour) boiled in sheep’s milk. However, today only a few people know how to cook it.

Mămăliga is a fat-free, cholesterol-free and high-fibre food that can be used as a healthy alternative to more refined carbohydrates such as white bread, pasta or hulled rice.

In order to understand Romania one has to understand mămăligă — food that is so simple, so readily available, and so affordable that even the poorest person in the country can afford it. We even have an expression that says: one is really poor if one doesn’t even have mămăligă to eat. ●



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