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## THE TRANSITION AND PRIVATIZATION PROCESSES IN ROMANIA

Razvan HAGIMA\*

**Abstract:** *The transition to an economy that operates on market principles represents a period of profound changes based on redefining the paradigms of development.*

*After more than 20 years from the 1989 events, Romania has already completed some important steps towards an open market economy. The path to this main objective was sinuous, with frequent acceleration and stumbling. This paper offers a view of the complex process of privatization in Romania after the fall of the communist regime, with a detailed approach on the transition process as well. The accent falls on the economic development of the country during the mentioned period.*

**Keywords:** transition; centralized plan; privatization

**JEL Classification:** A10; E00; E20

### INTRODUCTION

Among the most important factors that contributed to the creation of a healthy economic environment is the transition to a market economy and the beginning of the privatization process.

The collapse of the communist regime triggered an economic crisis in all the East and Central European countries. In all the ex-socialist countries, the economic indicators registered a negative trend between 1989 and 1992. This process came along with a major increase of the unemployment rate, which was absent before the mentioned period in the respective countries, and with a strong inflation rate. After 1992, in 1993 and 1994 some countries begin to recover after the recession due to the economic reforms they have adopted.

### 1. TRANSITION PROCESS

After 1989, Romania's economy was eclipsed by a continuous decline. The following causes can be mentioned as being the most important (National Council of SME in Romania, 2006):

- The existence and persistence of centralized socialist economic structures (low level of private property, the neglecting of the market economic laws and also of the social needs, the voluntarism in the directness of the investment funds, excessive centralism, bureaucracy and the lack of efficiency in the managerial process);

- The contradiction between the dominant state property and the open character of the social and politic life;

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- The appearance of a strong legislative and institutional crisis generated by the disappearance of the mechanism that assured a certain level of discipline when it comes to the production level, without being replaced with a new legislative or work motivational environment;

- The inefficient state interference (financial, legislative, organizational and institutional matters) in controlling the reform process of the economic mechanism;

- The slow process of privatization that was seen not as an important aim;

- The delay in adopting structural reforms conducted to an important dependency in importing raw materials and energy, while the exports, strongly reduced, couldn't assure the excess of the commercial balance that was necessary to cover the value of the imports.

The transition phenomenon to a modern market economy generated for the East and Central European countries an important economic recession mainly because of the old centralized planning system which felt without having a new one in place, based on the market principles. Along this mentioned period, Romania registered a floating economic evolution where period of gentle economic growth alternated times of regression because of the decrease of production, especially the industrial one (Tarca, 2004).

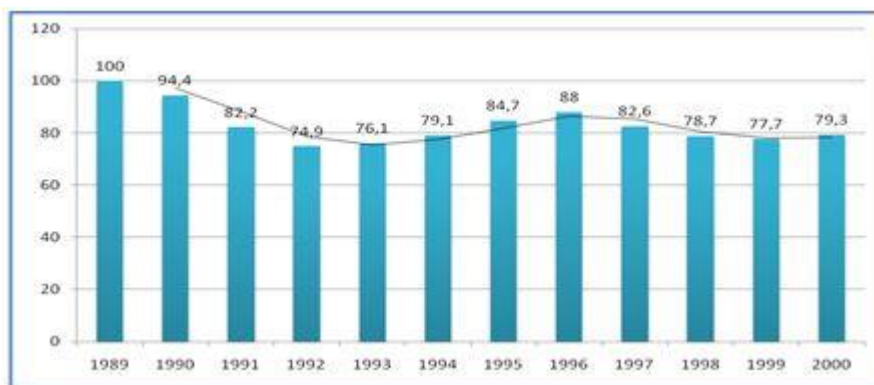
In 1989 the GDP of Romania was about 800 billion lei, meaning almost 53.6 billion dollars. In the next table, you can see the evolution of the GDP, from 1990 until 2000 (1989 was the reference year):

**Table 1 – The evolution of Romania’s GDP (1989 – reference year)**

Year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP evolution	100	94,4	82,2	74,9	76,1	79,1	84,7	88,0	82,6	78,7	77,7	79,3

Source: Voineag, Ștefănescu, 2007, p.17

**Figure 2 – The structure of gross added value from the private sector**



Source: Voineag, Ștefănescu, 2007, p.17

As per above table, Romania's GDP had a floating trend from 1999 until 2000, its volume decreased until 1992 and then grew up for 4 year in a row, and after this period the GDP size registered a downward trend until 1999.

The economic decline degenerated in the second half of 1990 and situation continued to aggravate until 1993 when this trend finally stopped. The value of GDP decreased in period 1990-1992 until it meant only about 75% of its value from year 1989. The decline of the economic environment was due, mainly, by the downturn of the industry (with about 37.3% lower in 1992 than in 1989), construction (-22.5% in 1992 than in 1990), transportation (-39%) and trade (-26.8%) (National Institute of Statistics, 2002). A positive aspect of this period is the beginning of structural modification in economy due to an increase of the added value in the service sector.

Another factor that contributed to the economic decline was the abrupt cancellation of the strict centralized planning system without any replacement which could take its place. This situation created a huge gap in the mechanism of the economic system which led to a strong disturbance in the whole mechanism of social production. Moreover, the foreign trade development has negatively affected the trade balance, exacerbating the economic downturn of Romania because it has led to an increase of the state debt. The decline of exports due to an abnormal structure of products and also because of a reduced competitiveness on foreign markets was accompanied by a continuous increase in imports in the first years after the revolution. Furthermore, the collapse of the CMEA, the psychological shock of transition, the loss of foreign market by the Romanian enterprises, the increasing global economic recession, all lead do a decline of the economic activity of Romania.

Since 2000 some signs of economic recovery began to appear (the GDP registered an increase of 1.6%) along with a gradual decreasing of the average inflation rate, although Romania had experienced a number problems on the financial market when two main state banks felt down: Bancorex and Agricultural Bank (Tarca, 2004). So, after year 2000, the GDP has followed an upward trend until 2009 when the economy was affected by the global financial crisis. In the next table It will be presented the evolution of the GDP between 2001-2008, the reference year being 1989 (100%).

**Figure 3 – The GDP evolution against reference year**

Year	2001	2002	2003	2004	2005	2006	2007	2008
GDP Evolution (%)	83,9	88,2	92,7	100,6	104,7	112,8	119,6	130,3

Source: Voineag, Ștefănescu, 2007, p.17

As it can be seen from the above table, between 2001 and 2008 the GDP trend followed an ascending trend highlighting the positive evolution of the economic growth, which corresponds to an average annual growth rate of over 6%. The period 2001-2006 meant for Romania 6 years of continuous economic growth while the inflation rate kept decreasing. 2006 has a special significance for Romania as it marked the end of the country's preparation to join the European Union and to start the harmonization of the national socio-economic structures with the ones of the developed countries and the EU members. On 1st of January 2007 Romania became a member of the European Union.

Regarding the main economic sectors, after 1989 the industry has followed a decreasing trend, lots of the enterprises being closed. For example, in 2008, the petrochemical industry had a production capacity of only 35% compared to the 1989. The economic crisis has affected the situation further, 90% of the chemical companies ceasing to operate. Agriculture also suffered, in 2009 being exploited only 5 million hectares from the 9.3 of the total available. The year 2009 brought a decline in GDP of 7.1% compared to 2008, this being caused by the global economic crisis. The decrease was determined by the lower volume of gross value added in all sectors, most affected segments being trade, tourism, transport, telecommunication and construction.

## **2. PRIVATIZATION PROCESS**

The process of transition to the open economy cannot be analysed without taking into consideration the privatization process that begun immediately after the fall of communism. The first stage of privatization in Romania was established by the Law no. 15/1990 that supported the transformation of state owned enterprises into companies or agencies. The process continued with the adoption of Law no. 58/1991 through which the privatization of state owned companies became the task of a new institution created called State Property Fund. In 2001 this was transformed into the Authority for Privatization and Management of State Property and in 2004 in Authority for State Assets Recovery. According to the mentioned law, the government shareholdings in commercial enterprises were transferred in proportion of almost 30% to other five regional funds of private property and the remaining of 70% where still owned by the state but managed by the State Property Fund.

In 1993 there were 209 companies with both state owned and foreign capital and 512 private Romanian companies. Moreover, in the period 1993-1996 companies were sold through the MEBO method (process by which a company's assets are sold to workers, employees) (Romanian Encyclopedia, 2014) about 837 companies, representing about one third of all privatizations.

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Between 1995-1996 there was established a mass privatization program called “cuponiada” through which there were distributed free of charge to the public privatization vouchers with a value of 975000 lei (Ținteanu Moldoveanu, Zaharia, 2009). This was the final stage of privatization. In fact, the program mentioned was the second “cuponiada” held in Romania. The first attempt in this direction was in 1992 through the Law 58/199. Following this law, every Romanian citizen aged over 18 received five coupons worth 25000 lei. Although the amount seems an impressive one, in fact, until people were able to capitalize, coupon value was eroded by inflation or purchased at a low price by different people (Ținteanu Moldoveanu, Zaharia, 2009).

In 1997 there were some legislative changes that brought a certain extent of decentralization to the privatization process. Thus, although the institution created by the government – State Property Fund – continued to exist, more and more of its attributions were transferred to other central, local or public administrative authorities.

The FDI volume and their distribution in different periods can be seen in the table below. Between 1991 and 2011, we can observe different stages of evolution of FDI in Romania that can be correlated with economic reforms as well as external factors – association, adherence and post-adherence to the EU (Zaman, Vasile, 2012).

**Figure 4 – Number and value of companies with foreign capital in period 1990-2011**

Time	No of companies		Amount of subscribed capital	
	No companies	% of total	Million euros	% of total
<i>Period 1991-2011</i>	<i>179407</i>	<i>100,00</i>	<i>32480,0</i>	<i>100,00</i>
Subperiod pre-association 1991-1995	38843	21,66	2263,9	6,97
Subperiod association 1995- 1999	28525	15,89	2224,4	6,85
Subperiod pre-adherence 2000-2006	64586	35,99	10871,0	33,47
Subperiod post-adherence 2007-2011	47453	26,46	17120,7	52,71

Source: The Romanian National Trade Register Office, Commercial Societies with foreign capital participation, (2012)

The period 1991-1995 was characterized by one of the lowest rates of foreign direct investment per capita in Central and Eastern Europe, a sharp decline in GDP in the first three years of transition, and variation in the volume of FDI, from euro 817.9 million in 1991 to a minimum recorded in 1995 for 183 million euros. The mentioned period was followed by EU association in 1995-1999, when foreign investments totalled approximately EUR 2224.4 million euros.

During the pre-adherence period 2000-2006 the total foreign capital reached 10,871.0 million, annual variations are quite significant: from EUR 243.5 million in 2005 to 833.9 million euros at 2002. The high value of FDI can be correlated with the beginning of privatization of banking and manufacturing sectors as well as GDP growth which, in 2004-2005, was equal to the value reached in 1989. Post adherence period 2007-2011 can be characterized by significant increases in FDI, volume in this period being more than 50% of the total recorded between 1990 and 2011. Several economic sectors have been fully privatized, many of them with the contribution of foreign investors, foreign capital amounting almost 70-85% in some privatized companies. Moreover, the period mentioned was marked by the economic crisis that affected Romania since 2009 but has not been an impediment to foreign investors. However, despite the increase in FDI, the financial crisis has affected Romania harder than it did in the other new EU members. Thus, it can be said that FDI did not help in dealing with this phenomenon, but on the contrary, in some cases helped to spread the crisis (see case Nokia).

It can be concluded that FDI did not play the role of barrier to economic crisis on the Romanian economy, as despite the high level of FDI, the growth rates recorded a negative trend, in 2009 this being of -6.6%.

## CONCLUSIONS

For Romania de transition period meant the essential condition of revitalizing the economic activities, to ensure the general welfare. Moreover, the command economy, centrally planned, provided to be inefficient because its mechanism, based of socialist ownership, was not able to ensure freedom of action for the economic agents.

The transition process, along with the privatization one, ensured a more stable economic environment which attracted foreign investors. Furthermore, Romania's integration to European Union couldn't be possible without an open economy, one which assured the private property. So, those two main processes helped Romania in many perspective, but the main benefit, in the opinion of many specialist, si an stable economic environment judged by the rules of market.

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