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<div class="event-subscription p-3"><!--BEGIN-OF-FILE-LIST-->Published in: <!--BEGIN-OF-FROM-NAME-->?uca Zbârcea & Asocia?ii<!--END-OF-FROM-NAME--> (<!--BEGIN-OF-FROM-LINK--><!--END-OF-FROM-LINK-->)
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Article link: <!--BEGIN-OF-PDF--><!--END-OF-PDF-->
Publisher:<!--BEGIN-OF-PUBLISHER--><!--END-OF-PUBLISHER--><!--END-OF-FILE-LIST--></div><p> </p><p>Positive economic trends make Romania an attractive target for foreign investors

The economic trends in Romania since the country joined the EU can be seen as a roller coaster ride. Solid GDP growth throughout 2007 and 2008, encouraged by cheap and accessible European capital, was abruptly replaced by a steep recession as the global economic downturn battered the continent. Following severe public spending cuts and supported by the gradually improving European business environment, Romania’s economy has stabilised in the past three years and returned to growth, albeit at a more modest pace. Furthermore, while not yet out of the woods, the future looks brighter for the local economy. Robust 3.5 per cent GDP growth in 2013 (mainly generated by an excellent agricultural year and increased exports in the automotive sector) is likely to continue this year with a 2 to 3 per cent increase.

The engines expected to drive growth in Romania, propped up by legislative adjustments, provide many opportunities for foreign investors to become part of the long-awaited second wave of expansion.

Focus on transport infrastructure: the PPP Bill

One of the major barriers to Romania’s development has long been its obsolete transport infrastructure. The government has an ambitious plan to expand the highway network, mainly focusing on: (i) completing a vital portion of the IV pan-European Corridor, the main commercial route connecting the centre and west of the country with the continental highway network; (ii) completing the Transylvania highway route crossing the north of the country towards Hungary; (iii) building a highway connecting the capital Bucharest with the south; and (iv) building a portion of the Bucharest-Brasov highway. The latter project is to be realised under a public-private partnership (PPP) deal structure.

In this context, but also with other investment projects in mind, a Public-Private Partnership Bill was passed by the parliament. The bill is intended to overhaul the existing PPP Law No.178/2010, widely criticised as outdated and rendering PPP projects virtually unbankable.

Under the statute, more flexible financing structures are established to streamline the financing of PPP projects. The authorities and the business community expect the legislation to be a step forward in developing infrastructure projects.

Easier access to land

As of 1 January any EU / European Economic Area / Swiss resident (either individual or company) has been entitled to buy agricultural land in Romania. This marks the lifting of the final restriction on the free circulation of land. Residents of third-party states can now acquire agricultural land only under terms established by international treaties, based on mutually acknowledged rights.

The lifting of the ban has already generated an increase in transactions involving agricultural land and attracted the interest of major agricultural players in acquiring large areas for intensive agriculture.

Cleaning banks’ balance sheets

While the credit industry boomed throughout 2007 and 2008, the subsequent downturn thrust local banks into a completely different landscape and confronted them with soaring rates of credit default, a steep fall in the real estate market (ie the main instrument of guarantee) and numerous bankruptcies among clients. In the past couple of years, in a bid to cut their losses, many banks have focused on cleaning their balance sheets by carving out and disposing of non- and underperforming credit portfolios.

The mid-term future may see an effervescent local banking sector with opportunities for consolidation, profitable acquisitions of credit portfolios and market exits.

Big plans for the energy sector

Once regarded as a state monopoly, the energy sector has been opened up to private ownership. Areas of the industry have seen uneven development in recent years, some with massive investment, especially in renewable energy sources.

However, investments in conventional power generation, most dating from the communist era, need significant financing to increase efficiency and expand. Several projects are expected to get the green light soon: (i) the tender for the building of two more nuclear reactors in the Cernavoda complex; (ii) attracting private capital for investment in the biggest two coal-power groups in Romania; (iii) the launching of an IPO of Electrica SA, the state-owned energy distribution company; and (iv) building new capacity for hydro power.

Finally, keeping a close eye on legislative trends involving shale gas may prove useful. Romania is

among the few European countries with proven reserves and has shown signs of taking a favourable stance. While Romania is expected to follow European trends in regulating this area, if the outcome is positive it may be among the first EU countries to extract this resource. </p> <p>Horia ISPAS, Managing Associate of ?uca Zbârcea & Asocia?ii (horia.ispas@tuca.ro)
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