

Consumer demand lures foreign investors

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Though growth in Romania is forecast to slow over coming years, the country is still a favourite target for west European and north American investors, who are attracted by the consumer appetites of its large and increasingly wealthy domestic market.

Foreign investment was up 63 per cent during the first half of this year compared with the same period in 2007.

One consequence of the strong investment, though, is that almost all the leading companies have foreign owners. Unlike in neighbouring Hungary, locally-capitalised independent companies come a long way down the list.

There is a good and a bad side to this. Sergiu Oprescu, chief executive of Alpha Bank, a subsidiary of the Greek bank and a leading force in the Romanian financial services sector, says: "Having major foreign investors is very good for the foreign direct investment numbers and it is a very good way of getting know-how, but to a certain extent you lose the possibility of becoming a regional player."

Two energy companies - Petrom, a subsidiary of Austria's OMV, and Rompetrol, a refiner and retailer which was recently sold to Kazakhstan's KazMunaiGaz - head the Romanian top 10, the beneficiaries of soaring energy prices.

Rompetrol, which was Romanian-owned until last year, is an example of a company that did pursue a path of international expansion, with retail operations in France, Spain and Bulgaria. Dinu Patriciu, its chief executive, aims to become a retail force throughout the Mediterranean region.

But, in the case of Petrom, Matei Paun, partner at the investment bank BAC in Bucharest, argues that an opportunity may have been missed. "Petrom contributed a staggering percentage of OMV's profits in the last years, and a large majority of their reserves. There are few things that could have prevented Petrom becoming a player on OMV's scale. Properly managed, Petrom could have set an example, improving Romania's image abroad," he says.

Outside the energy sector, manufacturing has been one of Romania's success stories since the turn of the millennium. Dacia, the automotive maker that was bought by Renault in 1999, is now one of the country's leading exporters, with 75 per cent of its output destined for foreign markets. It has been joined by Ford, which purchased a former Daewoo car plant in the southern city of Craiova, and Nokia, which caused a storm by moving a leading handset manufacturing plant from the German city of Bochum to Cluj in western Romania.

But groups such as Vodafone and Orange are attracted by the country's consumer appetites, which have been fuelled by rising wages and rapid credit growth.

There are clouds on the horizon, however. Alarmed by the speed of credit expansion and the potential for macroeconomic instability, the National Bank of Romania has just imposed more stringent lending rules on the country's banks, hoping to rein in excessive consumer borrowing.

Mr Oprescu argues that the impact will not be felt immediately. Nonetheless, there are risks in the future. "Most of the revenue growth for Romanian

companies is based on consumption. I'd expect the new lending rules to temper credit growth ratios, which have been very high during the last period of time," he says.

But some of the most exciting development is taking place below the top tier of companies, which, despite being ill-served by Romania's weak capital markets, face no shortage of revenue-generating opportunities.

"Romania is in many ways the perfect place for a small start-up which can grow to revenues of €100m or so," says Mr Paun. "You have vastly underserved sectors, and consumption levels which are low - well below the EU average - on any measure. Whether it's the agricultural sector, the machine tools sector or the IT sector, just about every sector has thriving entrepreneurial companies. But they're small, which makes them a lot less visible."

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