

CORPORATE GOVERNANCE IN ROMANIA (I – STRUCTURAL DEVELOPMENTS IN THE COMPANIES AND FINANCIAL SECTOR IN ROMANIA)

Bădulescu Alina

University of Oradea, Faculty of Economics, Str. Universităţii nr. 1, 410087-Oradea, E-mail: abadulescu@uoradea.ro, Phone: 0259-408472

Abstract: The companies' sector in Romania experienced a positive development after 1990, especially concerning their number, as a result of private initiative and privatizations. The prevalence of SMEs in the companies' sector is obvious, and their number increased 3.4 times after 1992, to a amount of 431135 at the end of 2005. The banking system reform was started in 1990 with the creation of a two-tier bank system. The drastic structural changes that took place between 1998 and 2000 reflected two major events: the crisis and eventual collapse of several state-owned and private banks and the privatisation drive, both resulting in a cleaner and more solid banking system. In 1996, the mass privatization program contributed at the appearance of a large number of individual shareholders to all state companies and consequently was achieved the settlement of a over the counter market called.

Key words: Corporate governance, Romania, companies and financial sector

Developments in the companies' sector

The companies' sector in Romania experienced a positive development after 1990, especially concerning their number, as a result of private initiative starting with the first months of 1990 and then on the background of privatizations, splitting and creation of new companies. Thus, according to the data presented in the Statistical Yearbook 2006, at the end of 2005 there were registered 928,255 economic operators in Romania, from which 450666 companies, 381468 private entrepreneurs and for the rest public and private administrations. However, a certain number of economic operators are inactive. If we exclude inactive operators, private and public administrations, the number of active economic operators in industry, constructions, trade and other services is 433030. Their number practically doubled between 1993 and 2005, as we see in Chart 1:

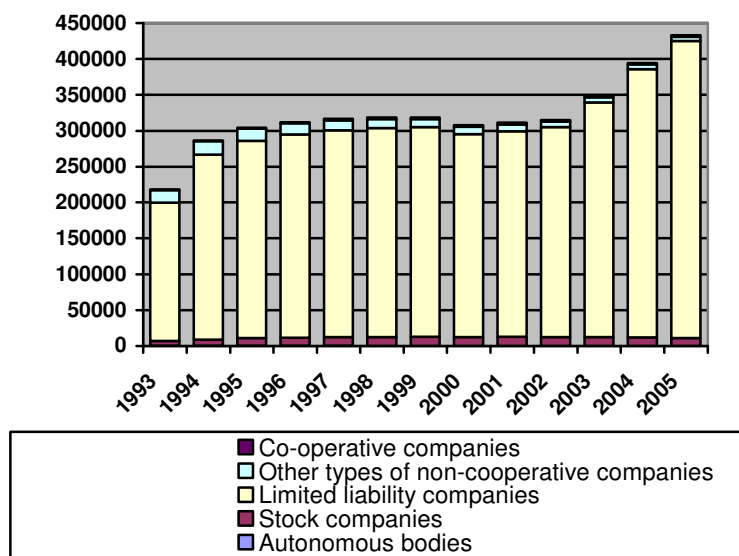


Chart 1. Active economic operators in industry, constructions, trade and other services, by legal type

We notice that among all active economic operators in industry, constructions, trade and other services, the large majority (95,6%) are, by legal type, limited liability companies, and only 10923 (2,5%) are stock companies. So, as we see, the large majority of the companies are closed companies.

Another feature of the active economic and social operators reveals the large proportion of very small companies: 94% of the overall operators have less than 10 employees and 99% have less than 50 employees (see Chart 2).

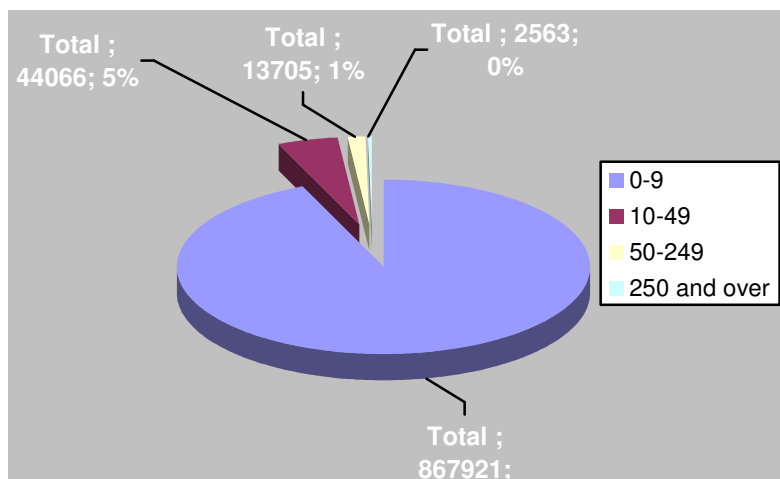


Chart 2. Active economic and social operators, by size class (number of employees)

Concerning the companies' sector, among the 433,030 companies, 89% have less than 10 employees and 98% have less than 50 employees (see Chart 3).

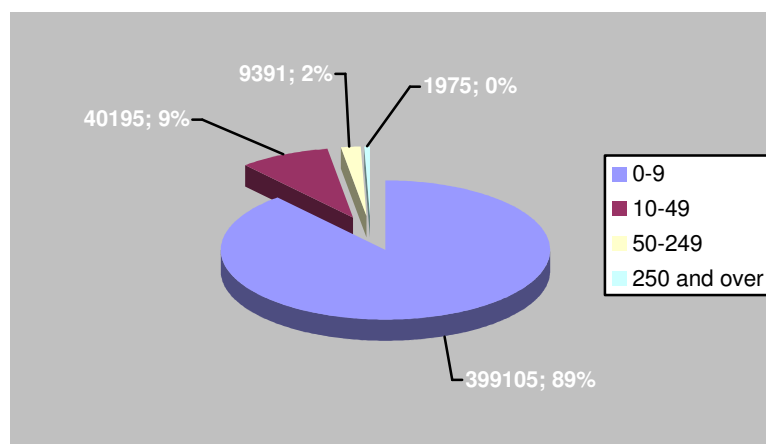


Chart 3. Distribution of the number of companies, by size class (number of employees)

By nature of the social capital, 431,972 out of 433,030 active companies are majority private owned, and their number increased over time, as a result of numerous privatizations. If in 1998 0.95% were majority state owned companies, in 2005 only 2.4% were state owned (see Chart 4).

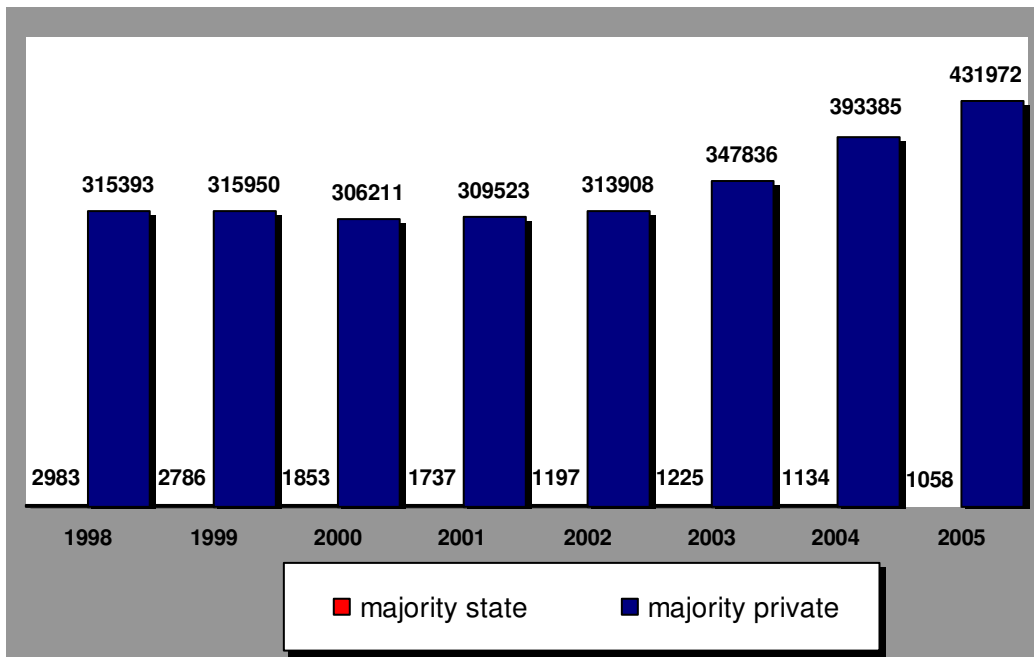


Chart 4. Active companies in industry, constructions, trade and other services, by type of ownership (by nature of social capital)

The prevalence of SMEs in the companies' sector is obvious, and their number increased 3.4 times after 1992, to a amount of 431135 at the end of 2005 (see Chart 5).

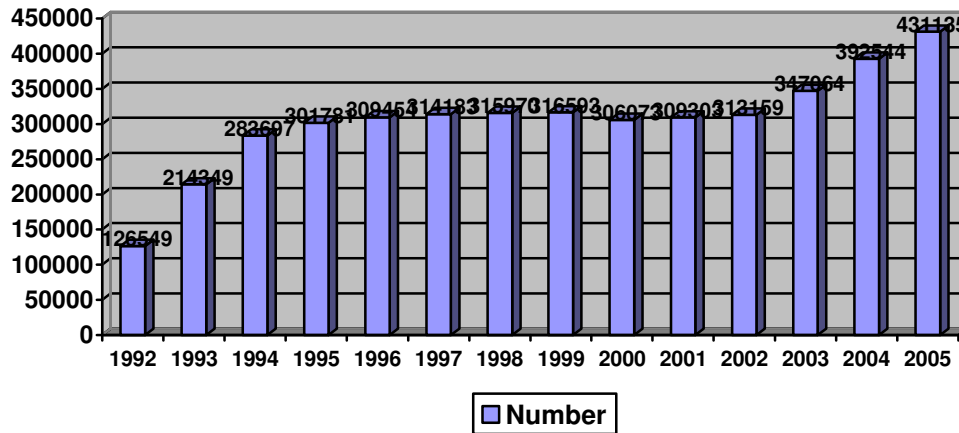


Chart 5. Active SMEs in industry, constructions, trade and other services

Consequently to their number, the weight of SMEs' personnel in overall personnel of all companies grew from 12.3% in 1992 to 60.7% in 2005 (see Chart 6) and the weight of SMEs' turnover in overall turnover of all companies reached 57.6% at the end of 2005, from 30.9% at the end of 1992.

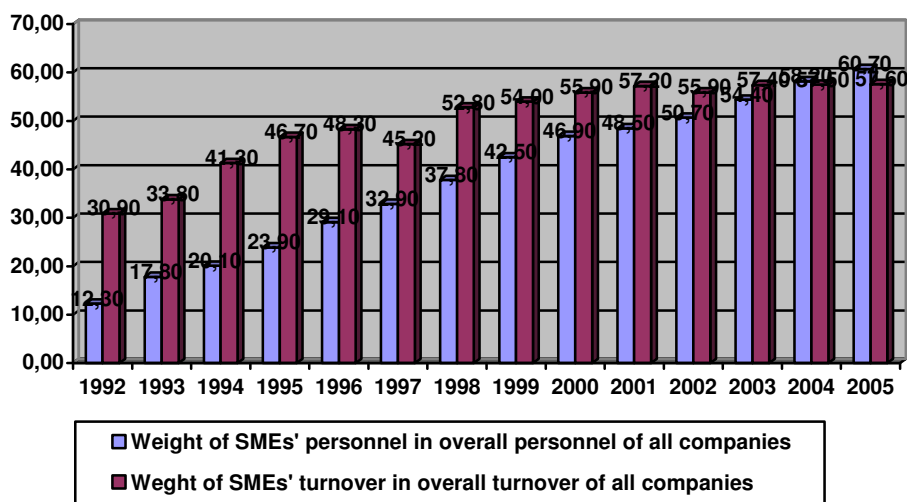


Chart 6. Weight of SMEs' personnel and turnover

The private sector contributes with 69.9% to GDP, 90.3% to overall turnover, 82.5% to gross investment, 97.8% to direct exports, 84.7% to gross value added and 98.2% to the profits. It is interesting to remark that till 2003, the private sector offset the losses produced by the large state companies.

Some key indicators are presented in next table:

Table 1. Main economic and financial indicators of companies, by size class and by type of ownership:

Size class	Turnover	Gross investment	Direct exports	Gross value added at factors costs	Gross result of the exercise
Total	512614	73668	59778	104859	28474
- of which: private majority ownership	462874	60773	58477	88823	27964
250-499 employees	41768	4665	6568	8831	1920
- of which: private majority ownership	39233	4319	6479	7930	1874
500 and over	175942	37435	34625	46319	8380
- of which: private majority ownership	131298	25461	33528	31942	7595

Source: Statistical Yearbook 2006, chapter 15

Developments in the financial system

In Romania, the most significant component of the financial market is the banking sector, which accounted for 83.8 percent of total financial assets in 2006 (NBR, RSF 2007).

The banking system reform was started in 1990 with the creation of a two-tier bank system. The drastic structural changes that took place between 1998 and 2000 reflected two major events: the crisis and eventual collapse of several state-owned and private banks and the privatisation drive, both resulting in a cleaner and more solid banking system. At the end of 2006, there were 39 credit institutions, from which 37

banks with majority private capital and 33 banks with majority foreign capital. The ratio of assets of banks with majority private capital to total assets was 94.5%, and the ratio of assets of banks with majority foreign capital to total assets was 88.6%.

The capital market system is composed mainly by the Bucharest Stock Exchange (21.5% share in GDP at the end of 2006) and the over the counter market RASDAQ (3.1% share in GDP at the end of 2006). On The Bucharest Stock Exchange resumed operations in 1995 as a selfregulated body under the supervision of the Securities Commission. The Bucharest Stock Exchange has all the traditional departments of similar institutions: trading, listing and membership. A company is listed on the BSE upon request, provided that it meets certain criteria.

The Bucharest Stock Exchange index (BET) increased by 22.23 percent in 2006, while market liquidity – measured as turnover velocity (yearly turnover/market capitalization) – slightly decreased compared to the previous year to 13 percent. According to the Federation of European Stock Exchanges (FESE) Romania ranked tenth out of the 22 countries represented in terms of index growth, after Spain, Norway, Sweden, Austria, but ahead of Hungary or the Czech Republic. (RSF 2007).

Now there are 99 companies listed on BSE as follows: 1 at International category (Erste), 21 companies at the Tier 1, 39 companies at Tier 2, the rest non-traded (BSE, Monthly Report, February 2008). The first tier companies can be considered the ‘blue chips’ of Romania. Unfortunately, among the listed companies on the first and second tier there are only 1 (Alro) from Top 10 big companies (according to turnover) and 2 (Petrom and Rompetrol Rafinare) from Top 10 Performers (best companies according to profitability).

Table 2. Selected indicators about capital market in Romania, comparison with other NMS, 2006

Country	Stock exchange capitalization (billion euros)	Stock exchange capitalization to GDP (%)	Transactions value (million euro)	Transactions value to capitalization (%)
Cyprus	12.3	84.5	3343	27.3
Czech Republic	34.7	30.8	30015	86.5
Estonia	4.6	35.7	766	16.8
Hungary	31.7	35.5	24625	77.7
Latvia	2.0	13.1	88	4.3
Lithuania	7.7	33.1	1607	20.8
Malta	3.4	70.9	205	6.0
Poland	112.8	42.2	43235	38.3
Slovakia	4.2	9.6	70	1.7
Slovenia	11.5	39.1	1452	12.6
Bulgaria	7.8	32.2	1176	15.0
Romania	22.9	23.7	2802	12.2

Source: BSE Annual Report 2007

In 1996, the mass privatization program contributed at the appearance of a large number of individual shareholders to all state companies. In the context of the urgent necessity for a operational market able to sustain the transactions of this titles and with USAID support was achieved the settlement of a over the counter market called RASDAQ (the Romanian Association of Securities Dealers Automated Quotation). However, the great majority of the companies listed on RASDAQ are traded occasionally. Some figures about RASDAQ are presented below:

Table 3. Selected figures on RASDAQ

Indicatori	Anul					
	2001	2002	2003	2004	2005	2006
Total turnover - mil. EUR (mil. RON)	105,47 (271,84)	132,57 (421,44)	109,67 (411,05)	146,12 (590,71)	296,92 (1.076,22)	241,11 (847,88)
Number of companies	5.084	4.823	4.442	3.998	3.683	2.420
Market capitalization - mil. EUR (mil. RON)	1.188,53 (3.368,28)	1.764,90 (6.107,42)	1.943,72 (7.919,51)	2.064,32 (7.993,26)	2.241,33 (8.207,07)	3.126,44 (10.707,44)
Rate of traded value (<i>TR</i>)	9,92%	9,18%	5,8%	8,24%	13,56%	9,26%
Market PER (<i>PER</i>)	2,95	3,03	4,17	6,58	2,50	11,62*
Market price/nominal price (<i>P/BV</i>)	0,37	0,49	0,58	0,93	0,95	1,38

* Calculated on the basis of net profits of the year 2005 for the companies traded in 2005

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