

ANALYSIS OF THE EVOLUTION OF THE PRIVATE SECTOR IN ROMANIA AFTER 1990

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***Abstract:** The economic structure specific to each country - determined by its level development, the historical typology of its evolution and its specific way regulation of social life (with impact on public services) – influences the evolution and importance of the private sector at some point. Romania has become a member of the European Union, but it is problematic property is not fully clarified. The privatization process has not ended. At the same time, Romania is now among the countries with the highest flows of foreign investments, which a priori modifies the structure of the social capital. That is why an estimate of the future evolution of the private sector contribution to creating gross domestic product, correlated with the expected changes in the structure the social capital is likely to highlight the convergence of the Romanian economy with structures in the other EU Member States and from this point of view. In the late 1980s, in our country, the state sector was quasi-majority, the private sector accounting for only 12.8% of gross domestic product in 1989. The privatization process began in 1990, and it turned out to be much more complex and difficult. In the early period it had a slow pace characterized by the absence of political will, the Romanians' mentality, inherited from the old regime, institutional problems, slow establishment of the necessary legal framework.*

***Keywords:** the evolution of the private sector, forms of ownership, economic development*

JEL Classification: J01, J43, J80

Introduction

The transition to the market economy¹ implied the restructuring of the economic activity and changes in all branches of the economic field. The transition to the market economy has forced the choice of a model to define the steps to be taken in economic reform. Romania has mapped the European model book because it has been considered that there have always been greater similarities with the countries of Europe.

The economic reform involved solving some problems related to the prices instability, covering the trade deficit, non-payment of external debts, efficiency of products and labor in all economic sectors, and redefining the role of the state.

The transition also involved economic and social costs, monetary and non-monetary. The World Bank recommended to the former socialist countries that they should go through the stages for transition:

- macroeconomic stabilization;
- liberalization of prices and market reform
- the development of the Privat sector and the restructuring of the enterprise;
- redefining the role of the state in achieving legislative reforms, modernizing the information system and modifying the social protection system.

The first transition strategies were adopted by the government in 1990-1992; some of the most recent strategic strategies are the “medium-term economic development strategy” of 2000, which has the following objectives:

- achieving sustainable economic development;
- strengthening the class of small receptionists;
- providing larger and stable average income for the largest part of the population;
- allocation and efficient use of national resources;
- reducing the role of the state in regulating the necessary framework for the functioning of the market distortion;
- correcting market failure situations;
- redistribution of revenues through fiscal and fiscal policy, aiming at reducing taxes and directing expenditures towards social protection.

¹ Radu Gheorghe, *Metode și tehnici de cercetare socială și politică*, Editura Pro Universitaria, București 2012.

2. Evolution of the private sector in Romania

The economic structure specific to each country - determined by its level of development, the historical typology of its evolution and the specific way of regulating social life (impacting on public services) - influence the evolution and importance of the private sector at some point. Romania has become a member state of the European Union, but the issue of property is not fully clarified. The privatization process² has not ended. At the same time, Romania is now among the countries with the highest foreign investment flows, which a priori modifies the structure of social capital. Therefore, an estimate of the future evolution of the private sector's contribution to the creation of gross domestic product, correlated with the expected changes in the social capital structure, is likely to highlight the convergence of the Romanian economy with the structures of the other EU Member States and from this point of view.

This study provides for the first time a systematized and correlated assessment of the past evolution of the private sector's share of social capital and gross domestic product¹ as well as a medium-term forecast. In the late 1980s, the state sector was quasi-majority in our country, with the private sector accounting for only 12.8% of gross domestic product in 1989. The privatization process began in 1990, and proved to be more complex and difficult. In the beginning, it had a slow pace, characterized by the absence of political will, the Romanian mentality inherited from the old regime, institutional problems, slow establishment of the necessary legal framework, etc.

In the evolution of the private sector in the Romanian economy there are several stages:

- In 1996, the private sector became the majority of gross domestic product by 55%. Regarding the structure of social capital in the economy, the share of private social capital was reduced, being the consequence of a small social capital necessary for the establishment of a trading company, while the state-owned companies started from the start with a high value of the social capital. At the same time, the private sector, unlike the state sector, has made a profit, thus contributing to the growth of private VAB. It should be noted that the leap of the private sector, as a share of gross domestic product, was largely

² Anghelache, C. (2015). *România 2015. Starea economică pe calea redresării*, Editura Economică, București.

the result of the transfer of ownership. Another feature of this period is that the volume of foreign direct investment was very small, their level throughout the period 1991-1996 (about 1 billion euro) accounting for about 93% of the net flow of 1997.

- The 1997-2000 period was characterized by a slower evolution of the private sector in gross domestic product, but also by an acceleration of capital transfers from the state to the private sector. If in 2000 the share of the private sector in GDP was about 10 percentage points higher than in 1996, in only three years, the share of private capital increased from about 8% to almost 42%. By correlating the two developments, it turns out that the focus was on the privatization of companies with a lower contribution to gross value added.

- After 2000, there are no big jumps from year to year in the private sector in gross domestic product. Concerning the majority private capital, the evolution is increasing year on year, reaching over 77% at the end of 2006, as a result of the high level of foreign investments, especially after 2004.

At branch level, the private sector evolution was largely similar to that of the national economy, although there are some differences:

- In agriculture, the evolution was more spectacular, with high leaps since the early years of transition;

- In industry, the private sector represented about 5% at the beginning of the transition period, with annual evolutions being modest as a consequence of the pace of the privatization process, only in 1999 this sector becoming the majority in this branch;

- In construction, the private sector had minor contributions (around 2%) in the early 1990s, but further developments were significant, due to the strong development of private activity in this area of activity;

- In the services sector, the starting point was low (2%), but annual developments were significant, with the private sector becoming the majority (58%) in services in 1995.

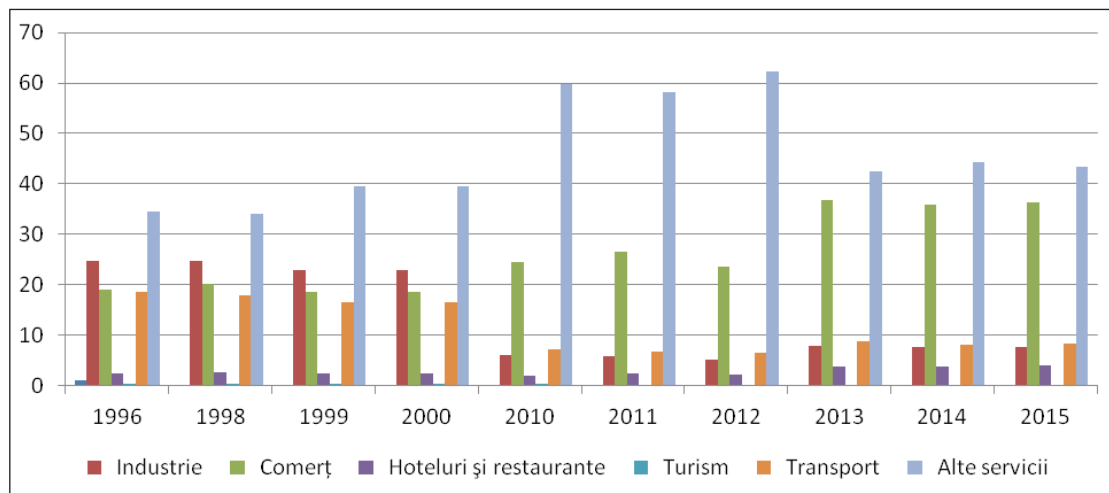
By correlating the privatization programs with the estimation of the level and dynamics of private investments, in 2010, the private sector's weight ranged from:

- 79% of Gross Domestic Product;
- 87% of the social capital in the economy;
- 92% of turnover.

Evolution of the private sector in gross domestic product

Despite all the delays in the privatization process in Romania³, the contribution of private sector units to the creation of gross domestic product increased year on year, reaching 70.42% in 2014, compared with only 16.4% in 1990.

Private entrepreneurs by activity (total share of activity)



The privatization process started in agriculture, more precisely in the agricultural cooperative system. Analyzing the distribution by sector of the private sector, the highest level is recorded in agriculture, where it supplies more than 95% of the gross added value of this branch, the consequence of the fact that the land was returned to the owners and the farms and other state agricultural units, have abolished in the early years of the transition period.

In industry, although the privatization process has taken on some areas (eg the energy sector), there has been an important leap and only 5.7% in 1990, in 1999 the private sector became a majority with 53.7 % to reach over 80% of gross value added in industry in 2014. Constructions are the second area of activity in which the private sector tends to become quasi-majority. The magnitude, after 1990, of the private-sector construction activity has led to a large increase in the gross added value of the branch, from about 2 percent in 1990 to 51, 6% in 1994 and around 95% in 2014.

³ Ludosean (Stoiciu), B.M. (2012). Recent trends in foreign direct investments in Romania, Finance - Challenges of the Future, Volume (Year): 1 (2012), Issue (Month): 14 (December), pp. 131-142.

In services, although the contribution of the private sector has increased considerably, the field with the lowest level remains compared to the other branches. The growth of the private sector's share in the services was the result of the development of business, tourism and hotel services, real estate transactions, financial-banking and insurance services, etc. It should be noted that the share of the private sector in the gross value added in services is lower than in the other branches due to the fact that for some categories of services (public administration, education, health) the public sector is the majority. Significant changes also occurred in the contribution of the branches to the realization of the gross added value in the private sector.

There has been a major change in the structure of gross private sector value added. In 1990, agriculture had an overwhelming contribution (83%), while in 2014 its contribution was only 14%, industry increased its contribution considerably from 14.2% in 1990 to over 30% in 2014. To note also the huge leap made by the service sector from only 3.2% in 1990 to over 55% in 2014 and even the construction, which from almost negligible value in 1990 reached over 15% in the year 2014.

The slow progress of the privatization process in our country has made and made Romania, in this process, to follow other countries in the region. Thus, in some Central and Eastern European countries, the share of the private sector in GDP at the level of 2014 exceeded that of Romania. This is the case for Slovakia (83.6%), Hungary (71.7%) and the Baltic countries. It is worth noting the share of the private sector by activity in Slovakia: 85.2% in services and 75.9% in industry.

Structure and evolution of social capital in the private sector

The analysis of the economic and financial situation based on the balance sheet data centralized by the Ministry of Public Finance highlights the evolution in time of the phenomena, the correlations that exist between them, as well as the factors that contributed directly or indirectly to the phenomenon variation. An aggregate of all companies that have activity and deliver balance sheets reflect an overview of the performance in the economy. Thus, for the correct assessment of the importance of the private sector in the Romanian economy, but also for its future evolution, it is necessary to analyze the economic results obtained by the private sector with the weight of this sector in the social capital of the economy.

Enterprises with financial, banking and insurance activity by ownership forms

	Total	State Majority	Private Majority	Total	State Majority	Private Majority
	1996			2015		
Total	471	14	457	6745	2	6743
Commercial banks	77	8	69	96	2	94
Investment companies	14	1	13	31	-	31
Securities companies	66	-	66	81	-	81
Insurance, reinsurance companies	54	3	51	65	-	65
Other types of companies with financial activities	260	2	258	6472	-	6472

The important role played by the private sector in delivering GDP has led to a high contribution of the sector to GDP formation, thus reinforcing the recent trend and increasing the sector's share from 55% in 1996 to over 75% in 2014. The sector private sector had the most difficult word to say in most economic areas, its contribution to GDP almost entirely in the retail, construction and tourism sectors. In industry, the share of the private sector amounted to more than 80%, as a result of the acceleration of structural processes in the economy, which helped the private sector to significantly increase its participation in industrial production.

The increase in the share of the private sector in the Romanian economy was due, on the one hand, to the increase in the volume of activity, to the private investments made and, on the other hand, to the privatization process, which focused mainly on the sale of state-owned shares. An evolution of the share capital between 1991 and 2014 reveals that until 1997-1998 the social capital of the private sector had a small share, being a consequence of the small social capital necessary for the establishment of a trading company and low investments. However, starting in 1997-1998, the share of the private sector started to increase, except for the year 2000 (when there was a revaluation of the share capital) as a result of the privatization of state-owned companies,

the increase of the necessary social capital for the establishment of a company private investments as well as increasing investment volume.

As regards the evolution of the private capital, it increased year-on-year to more than 80% of the total share capital in the economy, over 65% of wholly private equity, over 20% of the mixed capital most of them. The wholly private companies increased their share in the share capital by 3.6 percentage points, while their share in the turnover increased by only 1.7 percentage points. At the same time, companies with full state-owned capital reduced their share in the share capital and turnover equally. While the majority private equity reached more than 80% of the total capital of the economy, turnover accounted for almost 92% of the economy's turnover.

Conclusions

The development of the private sector is reflected by the balance between functions complementary to the state and the private sector, with a different balance compared to the specificity and level of development of each economy. In a recent study, The World Bank said that private sector development means “rethinking the judiciary of the role of the state, and not a random privatization. policies healthy government that provides room for maneuver for the initiative private sector and which establishes a regulatory framework that channeled the initiative private in a way that benefits society as a whole, are essential. “

It can be appreciated that every economy is characteristic of the term environment, an optimal, possible level of achievement, of the share of the private sector, so the effects on development are maximal. The example of France, like other countries where the public sector assumed, during the economic evolution, its predominant role in vital sectors of business society (transport, energy, public services, post), shows that the transfer of these activities to the private sector are lasting.

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