

Romania



ECONOMIC OVERVIEW

The stable economic growth enjoyed by Romania in recent years is largely attributable to a rise in investment, higher exports and improved labor productivity. Another important driving force behind the increase in GDP in 2003 was growth in household consumption.

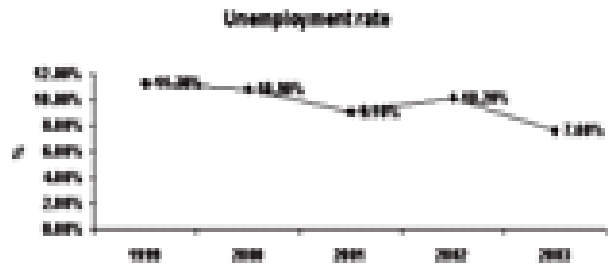
GDP AND CPI

GDP continued on a stable growth trajectory for the fourth consecutive year in 2003, rising by 4.9% in relation to 2002. The economic growth was accompanied by a fall in the CPI, from 22.5% in 2002 to 15.4% in 2003.

Key economic indicators	1999	2000	2001	2002	2003
GDP growth (%)	-1.2	2.1	5.7	4.9	4.9
CPI (%)	45.8	45.7	34.5	22.5	15.4

Source: National Institute for Statistics and Economic Studies (INSSE)

UNEMPLOYMENT



Source: INSSE

After a slow increase in 2002, Romania's average rate of unemployment dropped considerably in 2003. Steady economic growth has helped to reduce unemployment to the lowest level seen for quite some time.



Area ('000 sq km): 238.4
(US 9,600 – EMU 2,500 – World 133,700)

Capital: Bucharest

Population (million): 100.0
(US 288.4 – EMU 305.5 – World 6,200)

GDP (USD billion): 45.7
(US 10,400 – EMU 6,600 – World 32,300)

GNI per capita (USD): 1,920
(US 35,400 – EMU 20,320 – World 5,120)

Currency: Leu (ROL)

Languages: Romanian (official) and Hungarian

Main religions: Eastern Orthodox 87%, Protestant, Catholic

Government type: Republic

Romania

ECONOMIC FORECASTS

Key economic forecasts

	2004	2005	2006	2007
GDP (%)	4.9	5.1	4.9	4.5
Inflation (%)	12.0	8.9	7.3	5.8
Unemployment rate (%)	7.4	7.9	7.9	7.9

Source: EIU – Romania Country Forecast – May 2004

For the coming years, EIU experts forecast continuous solid growth, averaging at 4.9% per annum. Additionally, the stabilization of the macroeconomic climate is expected to place continued downward pressure on prices, pushing inflation down to 5.8% by 2007.

REGULATORY ENVIRONMENT

FOREIGN DIRECT INVESTMENT

In 2003, foreign direct investment totaled EUR1.3 billion, exceeding the level recorded a year earlier by 20%. Investment is expected to continue flowing into Romania in 2004; the government is anticipating between EUR1.5 billion and EUR1.8 billion.

EXPECTED IMPACTS FOLLOWING THE EU ENTRY

As with the countries that have recently joined, EU entry would be likely to have an increasingly positive impact on investment and on the economic environment in Romania.

Romania's main foreign policy goal is to join the EU in 2007 (together with Bulgaria), a target date that was strongly endorsed by EU leaders at their Brussels summit in December 2003.

The country is aiming to complete EU accession talks by the end of 2004. The deadline for completing negotiations is ambitious, given that six negotiating chapters of the *acquis communautaire* are still to be closed.

The concern expressed in the European Parliament's March 2004 report about weaknesses in Romania's accession preparations may also influence the course of the negotiations. Nevertheless, the Romanian government and the European Commission still see accession as being achievable by 2007.

Although not yet recognized by the EU as having a "market economy", Romania is making visible progress in this direction and is expected to be acknowledged as having this status soon. More importantly, this represents a prerequisite for EU membership.

PROPERTY / REAL ESTATE REGULATIONS

The Constitution and other legislation sets limits on land ownership. A foreign company or individual may own a building, but not the land on which it is built.

OTHER REGULATIONS

Property tax

A local property tax is payable quarterly by owners and ranges from 0.5% to 1% for legal entities. The tax is calculated on the book value of the building.

There is also a land tax, which is fixed at set amount per square meter. For land situated within a town, the tax varies according to location and zone, while land outside towns is taxed at ROL10,000 per hectare, irrespective of all other considerations.

Competition

Romanian competition regulations have been largely harmonized to be consistent with EU law in terms of undertakings (restrictive agreements and concerted

practices, abuse of a dominant position, mergers), state aid and specific sectors. New competition regulations have been issued recently, to bring Romanian legislation into line with EU block exemption regulations for certain categories of vertical agreement, such as the regulations on supply or distribution agreements or on motor vehicle distribution agreements. There are also block exemption regulations for certain categories of horizontal agreement, such as the regulations on technology transfer agreements, specialization agreements, research and development agreements, and other types of agreement, e.g. those in the insurance industry.

The Competition Council is the Romanian autonomous administrative authority in the competition field. The Competition Council observes the enforcement of the legal provisions on anti-competitive practices (restrictive agreements and abuse of dominant position) and controls economic concentrations (mergers and acquisitions) in order to protect, maintain and stimulate competition and a normal, competitive environment, with a view towards promoting consumers' interests. The Ministry of Finance has prerogatives for establishing and adjusting regulated prices for natural monopolies or economic activities, unless other authorities are designated to this purpose by special laws.

Agent contracts

Legislation on permanent commercial agents was adopted in August 2002 to implement the provisions of Council Directive 86/653/EEC of December 18, 1986 on the coordination of the laws of the Member States relating to self-employed commercial agents.

Romanian law establishes also specific conditions under which agent agreements fall within the scope of competition regulations on vertical restraints.

Protection of consumers

In the field of the consumer protection, as part of the legislative harmonization process, a law was published in 2003 that will supplement the legal treatment of consumer protection as it is currently regulated. The new law takes effect on January 1, 2007.

The scope of this law is narrower than that of the existing legislation on consumer protection. Thus, while existing legislation aims to inform consumers on the essential features of products, to protect consumers against abusive practices and encourage consumer participation in the relevant decision-making processes, the new law is designed to ensure the conformity of goods (including goods made to order) with the terms of sale-purchase agreements. The new law also renders guarantees compulsory.

The National Consumer Protection Authority will sanction any violation of this law.

Retail trade rules

On January 1, 2003, the Romanian Government started enacting specific rules on retail sales of products and services. There are now specific rules on market practices, promotional activities and sales structures (i.e. small, medium and large). Also, various types of traders now need permits and product packaging and labeling must comply with certain requirements. These rules are not applicable for sales of pharmaceutical products or fuels, which are subject to separate conditions.

Retailers are free to set opening and closing hours at their own discretion, however they should observe Romanian labor legislation.

DEMOGRAPHICS AND CONSUMER BEHAVIOR

POPULATION

Population evolution

	1992*	1997	2002*
Population (million)	22.81	22.55	21.70

Source: INSSE (*) Census

Population by age group

As in other European countries, the Romanian population figures reflect a clear trend of ageing. While the number of children is decreasing due to the negative birth rate, the population of over-65s continues to grow at a constant rate.

Romania

	1992*	1997	2002*
Under 14 years (% of total population)	22.39	19.41	17.62
15-64 years (% of total population)	66.50	68.03	68.32
Above 65 years (% of total population)	11.11	12.56	14.06

Source: INSSE (*) Census

Urbanization of the population

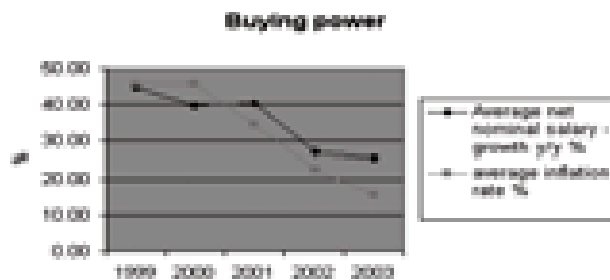
Population by area (%)	1992*	1997	2002*
Urban	54.3	55.0	52.7
Rural	45.7	45.0	47.3

Source: INSSE (*) Census

The urban population has decreased between the two censuses from 54.3% to 52.7%, due to a migration from urban to rural areas. This migration process was triggered by layoffs resulting from the restructuring of state-owned companies; the unemployed chose to return to rural areas to work the land. In the coming years this process is expected to reverse since there is now a labor surplus in rural areas. At present, more than 35% of Romania's active population of 3.6 million people is employed in the farming sector. This compares with an average of 5% for EU-member countries.

INCOME / BUYING POWER

Buying power



Source: The National Institute for Statistics and Economic Studies

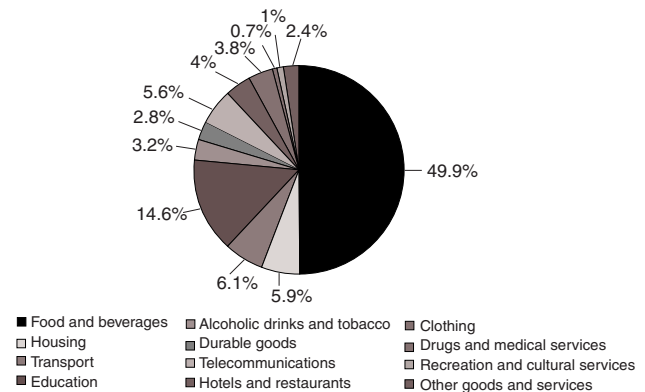
The average net salary stood at approximately EUR130 per month in 2003, with real year-on-year growth coming in at 8.7% in relation to 2002.

CONSUMER BEHAVIOR

Average household spending patterns

The weightings of various products and services as a proportion of total household spending changed between 2001 and 2002. Although food still accounted for almost half of total household spending, its weighting decreased by 3%. House-related expenditure registered the sharpest rise and now accounts for 14.6% of total expenditure, versus 13.5% previously. Durable goods have also increased from 2.9% to 3.2%. INSSE has yet not published the figures for 2003.

Breakdown of average household consumption (2002)



Note: The figures in the graphs represent % of household expenditure.

Source: INSSE

According to the research company GfK, total household consumption in the year 2003 was the highest in the last six years. Spending on beverages, non-food and food all increased significantly in 2003 (by 33%, 20.1% and 12.9% respectively).

The increase in consumption in 2003 is attributable to the rise in personal revenues and, to a larger extent, on credit. The drop in interest rates against a backdrop of healthy economic growth, led to a rise in the number of requests for credit in 2003. In particular, loans for durable goods soared last year.

Brand / Price sensitivity

Both brand name products and retailers' own-label brands are gaining notoriety and market share. Romanians are no longer just interested in buying a given product – they are increasingly looking for a particular brand. The level of sophistication is higher among the urban population, especially the young and middle age segment.

Despite the rise in non-food spending, household budgets are still predominantly absorbed by the purchase of food and basic services, such as housing, electricity, heating and water. As a result, most Romanians remain highly price sensitive.

RETAIL & CONSUMER SECTOR PERFORMANCE

MAJOR CONSUMER GOODS PLAYERS

Major food companies

The rapid developments that have taken place in the retail market have had an impact on all the sectors interacting with it, especially the consumer goods manufacturing segment.

According to an EIU report issued in December 2003, Romania's food and beverage industry is the second largest in central and eastern Europe after Poland. In terms of volumes, official statistics show that this industry registered a year-on-year increase of 14% in 2003, thereby outperforming the industry average. This also constitutes a fourth consecutive year of outstanding expansion.

Top food companies

Company name	Category of products	2002 Sales (EUR million, excl. VAT)	2003 Sales (EUR million, excl. VAT)
Aldis	Food	20	40
Best Foods	Food	5	N/A
Brau Union	Beer	149	N/A
Coca-Cola HBC Romania	Beverages	150	200
Compania de Bere Romania (SABMiller)	Beer	61	N/A
Cris Tim	Food	72	79
Danone	Dairy	32	37
Dorna Apemin	Beverages	22	N/A
Dorna Lactate	Food	11	N/A
Elite Romania	Coffee	51	N/A
European Drinks Group	Food and beverages	600	N/A
Excelent	Chocolate and sweets	26	24
Friesland Romania	Dairy	29	32
Ifantis	Food	5	N/A
Interbrew	Beer	77	93
Kraft Foods Romania	Chocolate and sweets	50	N/A

Romania

Company	Category of products	2002 Sales (EUR million, excl. VAT)	2003 Sales (EUR million, excl. VAT)
Nestle Romania	Chocolate and sweets	37	39
Orkla Foods	Food	18	N/A
Quadrant – Amroq Beverages	Beverages	54	N/A
Romanian Flour Mills Loulis	Food	15	N/A
Tabco Campofrio	Food	22	N/A

Source: Internet Securities and Romanian Trade Registry

Major non-food companies

Company	Category of products	2002 Sales (EUR million, excl. VAT)	2003 Sales (EUR million, excl. VAT)
Beiersdorf	Cosmetics	19	N/A
British American Tobacco	Tobacco	268	310
Colgate Palmolive Romania	Cosmetics	34	N/A
Henkel Romania	Cosmetics and detergents	37	50
L'Oréal	Cosmetics	13	N/A
Philip Morris	Tobacco	220	N/A
Procter & Gamble	Cosmetics and detergents	119	140
Unilever South Central Europe	Cosmetics and detergents	108	N/A

Source: Internet Securities and Romanian Trade Registry

MAJOR RETAIL PLAYERS

Retail sales

The continuous expansion of the hypermarkets, supermarkets and other modern retail formats in Romania's large and medium-sized cities has led to a dramatic change in the retail landscape in recent years.

Official statistics show that the retail sector has expanded steadily over the past three years. It is now worth more than EUR11 billion.

The market players expect strong growth in Romania's retail sales over the coming period, in terms of both value and volume.

	1999	2000	2001	2002	2003
Retail sales EUR billion (incl. VAT)	9.8	10.7	11	11.6	N/A
% change y/y of retail trade in volume	-6.4	-7	1.9	7.9	N/A
% change y/y of turnover in real terms	-6.4	-3.8	0.4	0.8	5.7

Note: Value of sales is in current prices.

Source: National Institute of Statistics

Romania

EIU projects volume growth to accelerate to 4.7% in 2004 and then to average at just above 4% per year thereafter, reflecting the anticipated increase in consumer spending.

	2004	2005	2006	2007
Retail sales volume growth (%)	4.7	4.1	4.1	4.1

Source: EIU Industry Wire - Forecast

Major food retailers

International retail chains have shown increasing interest in the potential offered by Romania over the past year. Some chains have reinforced their operations in the country in a bid to consolidate their positions and move into new locations (e.g. Carrefour, Mega Image, Metro, Profi, Selgros, XXL). Meanwhile others have decided to enter the market (e.g. Cora).

The amount invested by the major retailers in Romania since 1996 exceeds EUR700 million. The investments are expected to continue growing over the next couple of years.

Company	Parent company	Store brand	Retail formats	Number of stores (2003)	2002 Sales (EUR million, excl. VAT)	2003 Sales (EUR million, excl. VAT)
Billa Romania/1999	Eurobilla (Rewe)	Billa	Supermarket	13	103	N/A
Gimrom Holding SA/1999	Fiba	Gima	Supermarket	2	60	N/A
Hyproma /2001	Hyparlu/Carrefour	Carrefour	Hypermarket	2	83	107
La Fourmi/1993	Foreign individuals	La Fourmi	Supermarket	8	14.5	17
Mega Image/1995	Delhaize Group	Mega Image	Supermarket	15	35	N/A
Metro Cash & Carry Romania/1996	Metro	Metro Cash & Carry	Cash & carry	19	631	778
Profi Rom Food/1999	Louis Delhaize	Profi	Discounter	16	12	N/A
Rewe Romania/2001	Rewe	XXL Mega Discount	Discounter	4	21	N/A
Romania Hypermarche /2003	Louis Delhaize	Cora	Hypermarket	1	-	N/A

Romania

Company	Parent company	Store brand	Retail formats	Number of stores(2003)	2002 Sales (EUR million, excl. VAT)	2003 Sales (EUR million, excl. VAT)
Selgros Cash & Carry/1999	Rewe	Selgros Cash & Carry	Cash & carry	6	94	N/A

Source: Internet Securities, Companies annual report

Other important retailers include three local companies: Angst (19 outlets), Artima (six supermarkets) and Univers'all (three supermarkets).

Three new arrivals are expected in 2004: Tengelmann – most probably with the Plus supermarkets; local MiniMax Discount, targeting large as well as medium and small sized cities above 30,000 inhabitants; and Kaufland (part of Schwarz group), with the hypermarket format.

Retail food channels

A recent GfK study shows that the population spent more money in modern retail stores in 2003 than in previous years. As a result, the weight of modern retailers in the population's FMCG expenditure reached 30% in Bucharest in 2003, compared with 14% in 2001. In other big cities the proportion has reached 26%, compared with 14% in 2001.

Non food retail channels

Specialized retailers have also seen rapid development in recent years. As a result, they have been steadily increasing awareness of their brands and positioning themselves as "best choice in their particular market segments". According to The National Readership Survey, over 70% of Romania's urban population of 14 to 64 year-olds purchased non-food goods from specialized retailers in 2003.

Home appliances & electronics

The home appliances & electronics sector is mainly controlled by local operators. During the last period, the home appliances & electronics landscape started to change. Retailers are opening larger stores in prime locations, such as shopping malls and hypermarkets, in order to meet higher standards and benefit from a larger number of customers.

Representative chains are: Flanco, Domo, Altex, Amadeus, Ana Electronic, Mondo, Cosmo and Romanel.

Furniture

Furniture retailers are also trying to benefit from the large number of customers attracted by hypermarkets by opening large stores nearby.

Representative chains: Mobexpert, Elvila, Adorama and Neoset.

DIY

Since their entry in Romania in 2002, both Bricostore and Praktiker have expanded their business there, keeping up with the pace of expansion of hypermarkets and cash & carry-type of stores and placing their stores in close proximity.

Representative chains: Bricostore (2 outlets) and Praktiker (3 outlets).

Clothing and shoes

Clothing and shoe chains are nowadays opting for new modern locations inside large commercial centers such as malls and hypermarkets.

Representative chains: Kenvelo, Steillman, Collins, La Strada and Leonardo.

Cosmetics

Dumarex, Ina Center, The Beauty Shop and Body Shop.

E-commerce

Internet usage has increased significantly in recent years, reaching 16% of the total population at the end of 2003.

Internet users

	2000	2001	2002	2003
Internet users	700,000	1,500,000	2,100,000	3,520,000
Internet users as % of total population	3.1%	6.8%	10%	16%

Source: *Internet Securities*

Although there are a number of very popular virtual shops, only 4% of Internet users buy online, according to a study released by the Ministry of IT&C in 2003. Until

recently, the payment of goods purchased from Romanian websites was carried out off-line. A number of banks now offer virtual stores solutions for fast and secure e-trades using the 3D Secure solution.

RETAIL & CONSUMER CHALLENGES, OPPORTUNITIES AND EMERGING TRENDS

CHALLENGES

Increasing pressure on prices

As the newly arrived hypermarkets continue to develop, they are expected to put significant downward pressure on prices of food and non-food products. A number of new players will enter the market in 2004 (Tengelmann, Kaufland, Lidl). Competition will intensify in the areas surrounding the discounters and margins will be lower.

M&A

The increased productivity of the retail sector is attracting large suppliers who are able to generate economies of scale. As a result, both the food and beverage sectors and the other non-food consumer goods sectors are expected to consolidate. There are signs that this process already started. Last year the food and beverages sector ranked first, in terms of M&A activity, accounting for 18% of all transactions taking place in Romania.

OPPORTUNITIES

The main players will be looking to better control costs due to potential margin shrinkage. This will lead to increased investments in logistics for retailers, distributors and even FMCG manufacturers.

Also, as foreign retailers accelerate their development on the Romanian market, local players will seek ways to survive, either finding a niche (e.g. small cities) or through rapid development and alliances.

EMERGING TRENDS

Retail market growth outside Bucharest

The retail sector in Romania is expected to expand substantially over the coming year. Industry specialists believe that the hypermarket and supermarket segments - not the cash & carry segment which is more developed due to its early entry - are likely to accelerate their development, especially outside Bucharest.

Although the most attractive regions in Romania (Bucharest and surrounding areas, Western, North-Western and Central) have already been targeted by investors, there is still a lot of room for growth here. On the other hand, less attractive regions like (North - Eastern, South - Western etc) can also offer some advantages for late entrants, being underdeveloped and less competitive.

Shopping habits

The steady expansion of the modern retail chains has clearly had an impact on the shopping habits of the Romanians.

Romania

There are clear signs that consumer spending patterns are starting to converge with those typical of a modern economy. Malls attract mostly the younger generation looking especially for entertainment, and the middle-class looking for better quality products. Meanwhile, hypermarkets are attracting all categories with their low price offers and diversity of products. Moreover, the time constraints imposed by modern living is leading consumers to want shopping and leisure possibilities in a single location.

Romania