LONGLIVE THE DIFFERENCE: RESTRUCTURING AND PRIVATIZATION IN CENTRAL AND EASTERN EUROPE

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ABSTRACT

The Central and Eastern European Countries, including Romania, have faced similar challenges in the process of restructuring and privatization.

Thus, the last two decades have been marked by a difficult transition from a centrally planned economy to a free market model, and experienced very different phases of development .

Most CEEC's economies have registered, in the early years of the first decade, suboptimal economic performances characterized by severe declines in the GDP, huge losses of the SOE and substantial inter-enterprise arrears. The core objective for all CEEC was to restore efficient employment of industrial assets; both capital and labor, solving the debt overhang of enterprises and the portfolio quality problem in banks.

The privatization process was started in most of the countries in the same period, but there is a clear evidence that privatization was achieved more rapidly in some countries due to influx of significant foreign investment. As countries used mass privatization programs, the actual change to ownership restructuring was made directly through privatization or IPOs. This shift to a new paradigm, underpinns the second wave of restructuring that can be noticed in the case of Romania and other countries in Central and Eastern Europe.

Given the circumstances, in a first phase the dominant place among the economic policies used was to encourage restructuring of SOE and its ultimate phase: the privatization, both aiming at speeding up the transition to a mature market economy. At this stage time was of the essence and it was imperative that immediate steps are to be taken to prevent further deterioration of SOE's operations and to preserve value that can ultimately be privatized. Most analysts criticized the reforms made in some of CEEC's economies based on "pre- privatization restructuring", ignoring the need and vocation of SOE's restructuring process that paved the way of further successful large-scale privatizations.

The large-scale privatization has emphasized a serie of challenges, that states the purpose of this article which is to create the framework for analysing restructuring and privatization as methods of high-impact on macroeconomic indicators.

Our study aims at analyzing the differences between these two processes within the territory of CEEC over the last two decades (1992-2013) in terms of: goals, patterns, institutions, methods used, outcomes etc. Results of these processes have been analyzed in correlation with the evolution of CEEC's macro-indicators (FDI, GDP, Inflation Ratio, Exports) or micro ones (Stock Exchange). Our findings underlie the necessity of further research in the field of restructuring and privatization and the necessity of assessing the important effects on post-crisis macroeconomic indicators.

Keywords: restructuring of SOE, privatization, liquidation, corporate governance, privatization, economic crisis

JEL codes: D21, D23,D24, G28, G32,G34, L33, O16.

INTRODUCTION

The purpose of this paper was two-fold:

- to improve the analysis of the differences between these two processes (privatization and restructuring) within the territory of CEEC over the last two decades (1992-2013) in terms of: goals, patterns, institutions, methods used, outcomes etc;
- to underpin the correlation between the restructuring results, followed by privatization and the impact on macroeconomic figures (FDI, GDP, Inflation Ratio, Exports) or micro ones (Stock Exchange)

Literature Review

Over the past fifteen years there has been a vast literature on FDI in Eastern Europe. This is not surprising, since foreign capital has played an important role in most countries during the twenty-year transition to market economy. A number of studies have looked into the key features of FDI in Eastern Europe – its volume, forms, origins, destination by economic activity, and case studies (see, for example, Lankes and Venables, 1996; Meyer, 1998; Estrin, Richet and Brada, 2000; Bartlett, 2008; Kolotai, 2010; Hunya, 2011,2012), as well as the determinants of FDI based on econometric research (for example, Bevan and Estrin, 2004; Bevan, Estrin and Meyer, 2002; Janicki and Wunnava, 2004; Dikova and van Witteloostuijn, 2007).

Romania - had a tenfold increase in its inward FDI stock between 2000 and 2010 - from US$ 7 billion in 2000 to US$ 70 billion in 2010. The theory of the multinational enterprise (MNE) suggests that firms engage in outward FDI when they have some resources that they can transfer and exploit, known in the literature varyingly as firm specific advantages (FSAs) (Rugman, 1982) or ownership (O) advantages (Dunning, 1993). Only certain types of firms and products are suitable for exploiting these advantages through internalization (I), namely creating subsidiaries for research, production and distribution in other countries, rather than by exporting or the use of licenses and long term contracts. Finally, the choice of location (L) is driven by firms finding the optimal place where to *combine* their FSAs with locational advantages to both exploit and explore their FSAs. This framework is known as the OLI paradigm (Dunning, 1993, Dunning & Lundan, 2009). It argues that firms expand internationally where they can redeploy their internationally-transferable proprietary resources and capabilities to both exploit and explore their resource base. The combination of the FSAs of the firm with the specific conditions found in potential host locations is essential. In other words, different types of firms are attracted to different locational advantages. The study of locational determinants of FDI represents a long-established literature that originated with Mundell's (1957) factor endowment theorem(see Brainard, 1997). The predominant empirical approach to the study of FDI flows is based on gravity models borrowed from international trade research, which posit that the main drivers of trade or foreign investment flows are a)the size of the host economy, b) the size of the source economy, and c) the distance between the two economies (Bloningen, 2005, Carr et al., 2001). While these variables have persistently shown to be an important – if not the most important – determinants of the attraction of FDI (Chakrabarti, 2001, Anderson and van Wincoop, 2003), recent literature has considerably broadened the notion of locational advantages to encompass the attractiveness of a potential host economy as both a site for production and as a market. Contemporary literature therefore additionally considers:

1. the costs of production, especially unit labour costs (or wage differentials) and locally available intermediate goods (Bevan and Estrin, 2004);

2. specifically for investment in the primary sector, the presence of natural resources (Hejazi & Pauli, 2003);

3. the institutional framework facilitating or inhibiting the operations of foreign investors, either in an aggregate form, by focusing on specific aspects such as corruption (Habib and Zurawicki, 2002), or by analyzing multiple aspects simultaneously (Bevan et al., 2004, Globerman and Shapiro, 2003, Grosse and Trevino, 2005);

4. membership of international trade and economic associations; for example Bevan and Estrin (2004) studying transition economies explored the effects of announcements of likely European Union (EU) membership.

One can also come to a similar estimating framework by considering the four classic motivations for FDI (Dunning, 1993); these are market seeking;efficiency seeking; resource seeking; and asset seeking. Market seeking FDI is driven by size and growth of the host economy market; for example the large inflows of FDI to China in recent years have often been argued to be explained in terms of firms seeking new or quickly growing markets for their products. Market seeking investments probably also played an important role in the investment into the transition economies, especially in the early years (Lankes and Venables, 1996; Estrin et al., 2004).

For most transition economies, the process of privatization has formed a distinct motivation for FDI. Western multinationals are attracted to enter reforming economies during privatization programmes by making acquisitions because prices are relatively low and because of highly favorable tax policies or even subsidies associated with the privatization.

Throughout the transition region, foreign capital has been an important supplement to domestic savings, and thus has greatly contributed to financial accumulation during the past twenty years. In the transition region the ratio of FDI to gross fixed capital formation has tended to be higher than the world average and has increased over time (Kalotay, 2010) Recent data suggest that FDI has contributed quite substantially to gross fixed capital formation in all the CEEC countries from 2003 onwards (Uvalic and Estrin 2013**).** The stock of inward FDI as a percentage of GDP is considered an indicator of foreign capital penetration in an economy (UNCTAD World Investment Report-26 july 2011)

FDI contribution to structural changes

FDI has played an important role in enterprise restructuring in the whole transition region during privatizations, in this way greatly strengthening the private sector and contributing to structural changes. Industrial restructuring usually tended to accelerate when privatization involving FDI was implemented, frequently creating a dichotomy between the modern, foreign owned enterprises and the traditional industries. The dominant view has been that FDI has had positive spill-over effects for the whole economy, though there have also been findings that run counter to such optimistic conclusions (see, for example, Mencinger, 2003).

Restructuring and Privatization

Frydman, Rapaczynski et all (1993) – discussed about legal and ownership structure, institutions for state regulation, overview of privatization process and the initial transformation of enterprises. Some authors refer to transition economies in the early stages of transformation as a “weakly structured market economy” (Dobrescu 1996) or a “previously centrally planned economy” (Calvo and Fenkel 1991). Grosfeld and Senik (1996) They were thinking that the change of ownership was a necessary and a sufficient condition of capitalism. The literature on financial repression and financial reform provides a thorough macroeconomic link between the development of financial markets and economic growth (Fry 1982, 1993, 1995, Roubini and Sala-i-Martin 1992, Rayon 1994, Chang 1994). The need for a closer analysis of the microeconomic roots of financial repression, however, is a new approach in the studies of financial markets in developing and transition economies (Amrit-Poser 1996, Popa 1998). Nicolescu et all (1996) – developed the” efficiency-based” restructuring concept and Crum and Goldberg (1998) – analyzed restructuring as a complex set of decisive measures in order to increase competitiveness.

The inter-enterprise arrears, as well as the bank, tax and wage arrears phenomena provide a good example of a microeconomic problem in the financial markets of Romania . The accumulation of inter-enterprise arrears can also cause inflation. Monetary control can be defeated by firms that circumvent a tight credit market by creating their own liquidity through trade credits (e.g. Daianu,1994) .Credit and liquidity constraints affect indiscriminately viable and non-viable businesses, or, even worse, create adverse selection effects – artificially sustaining large loss-makers and preventing new private firms from developing profitable investment projects (see Berglöf and Roland 1997 and 1998). As shown in Croitoru and Schaffer (2000) for the case of tax arrears, an increasing real gross arrears aggregate would be a sign that more and more firms are running into arrears. In Romania’s case, the commitment of the government to economic reforms by liquidating inefficient firms Stiglitz (1994, p. 238) would have extended mainly to state-run utility companies because they were the biggest actors in accumulating enterprise arrears (Santarossa, 2001; OECD, 2002).

Bowman and Singh (1999) classified restructuring activities into three categories namely portfolio restructuring, financial restructuring and organizational restructuring. Kornai (2000) considers that the pre-privatization restructuring serves as a useful screening device in order to interest private investors, who buy the firms.

Debande and Friebel (2004) advocates for the firmly reestablishing of the State control of SOE cause it avoids that (unproductive) managers abuse and divert capital or funds which are for restructuring.Djankov (1998) – selected a sample of Romanian companies from the period 1992-1996. He concludes that isolating programs have delayed restructuring imposing budget constraints on loss-making enterprises.on the other hand Djankov (1999) – studies the relation between ownership structure and enterprise performance in newly independent states: Georgia, Kazakstan, Kyrgyz Republic, Moldova and Russia. He concluded that non-linear analysis showed some significant relation between different types of ownership and enterprise restructuring. Fidrmucova (2000) made an analysis on channels of restructuring on a panel of Czech companies and found that investment is not a significant determinant of enterprise performance. Koh, Dai & Chang (2010) – examined the impact of lifecycles on restructuring strategies. Distress firm's access to different types of restructuring strategies is limited by the lifecycle stage they are in. Frydman, Hessel & Rapaczynski (2001) – followed the entrepreneurship and restructuring of enterprises in Central Europe (Czech Republic, Hungary and Poland) and explained the market impact of ownership on firm performance.Sterman (2002) analyzed restructuring as diverse activities such as divestiture of under-performing business, spin-offs, acquisitions, stock repurchases and debt swaps. Gibbs P.A. (2007) considers that restructuring means changes in the operational structure, investment structure, financing structure and governance structure of a company.

SEQUENCING RESTRUCTURING, PRIVATIZATION AND FDI IN CEE

The Central and Eastern European Countries, including Romania, have faced similar challenges in the process of restructuring and privatization. Thus, the last two decades have been marked by a difficult transition from a centrally planned economy to a free market model, and experienced very different phases of development. The Central and Eastern European Countries had a common general aim in the early 1990s: a transition to a more effective economic system, based on principles of market economy, enabling a growth of living standards.

The reforms of the early 1990s focused on stabilization, liberalization and the privatization of existing firms (SOE).Some countries, such as Poland and Slovenia, registered significant entrepreneurial activity, but showed that entrepreneurship levels were in fact lower in the transition economies as a group than in the other developed and developing economies.

Most CEEC's economies have registered, in the early years of the first decade, suboptimal economic performances characterized by severe declines in the GDP, huge losses of the SOE and substantial inter-enterprise arrears. The core objective for all CEEC was to restore efficient employment of industrial assets; both capital and labor, solving the debt overhang of enterprises and the portfolio quality problem in banks. The privatization process was started in most of the countries in the same period, but there is a clear evidence that privatization was achieved more rapidly in some countries due to influx of significant foreign investment. As countries used mass privatization programs, the actual change to ownership restructuring was made directly through privatization or IPOs. This shift to a new paradigm, underpinns the second wave of restructuring that can be noticed in the case of Romania and other countries in Central and Eastern Europe.

Given the circumstances, in a first phase the dominant place among the economic policies used was to encourage restructuring of SOE and its ultimate phase: the privatization, both aiming at speeding up the transition to a mature market economy. At this stage time was of the essence and it was imperative that immediate steps are to be taken to prevent further deterioration of SOE's operations and to preserve value that can ultimately be privatized. Most of analysts criticized the reforms made in some of CEEC's economies based on "pre-privatization restructuring", ignoring the need and vocation of SOE's restructuring process that paved the way of further successful large-scale privatizations.

During the transformation crisis (1990–1994/1995), CEE countries experienced a major economic recession.

Instead of the almost continuous, even if at times very modest, improvement of average income per capita that many EU countries have experienced, these countries had to deal with a huge decline in personal income, made even worse by a total collapse of their social institutions. The situation in the CEE countries was in many cases much worse than that of the leading Western economies in the 1930s as the table below shows:

Table 1 The Transition Recession

Countries	Consecutive years of output decline	Cumulative output decline (percent)	Real GDP 2000 (1990 = 100)
Bulgaria	4	16	81
Croatia	4	36	87
Czech Republic	3	12	99
Estonia	5	35	85
Hungary	4	15	109
Latvia	6	51	61
Lithuania	5	44	67
Poland	2	6	112
Romania	3	21	144
Slovakia	4	23	82
Slovenia	3	14	105
CIS	6.5	50.5	62.7
Output decline during the Great Depression 1930-34			
France	3	11	N/A
Germany	3	16	N/A
United Kingdom	2	6	N/A
United States	4	27	N/A

Source: World Bank 2002: Transition, The First Ten Years.

Subsequently, however, they followed a robust growth path (1995–2007), and were among the most dynamically developing regions of the world. From the mid 1990s to the onset of the global financial crisis in 2008, the economies of Central and Eastern Europe (CEE) established a record of growth and economic progress that few regions have matched. Emerging from decades of socialism, the nations that we consider—Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, Slovakia, and Slovenia—became standout performers in the global economy. They unleashed the inherent strengths of their economies by privatizing state-owned industries and implementing labor reforms.

The FDI inflow in the CEE economies has been a vital factor in the first stage of the privatization process during the transition period and has started to be seen as a crucial source of capital and potential catalyst for the economic and social transformation . The volume of FDI inflows has grown rapidly, as the Governments of the CEE countries have been officially encouraging FDI and developing a formal FDI promotion programs providing substantial incentives for the foreign companies. FDI helped drive productivity improvements and rising per capita GDP. Foreign direct investment has increased in the past twenty years to become the most common type of capital flow during transition period in the CEE. The most important economic reason for attracting FDI at the beginning of the transformation process was to facilitate the privatization and restructuring of the central planning economies The economic miracle of the 2000s was ended by the current global crisis in 2008.

But, time for change has come and the pre-crisis growth model, which was built largely on booming credit growth and huge inflows of cheap capital from abroad, stopped to be the basis for future growth, and foreign investment is likely to stay well below levels seen in 2005-08, at least for the foreseeable future.

Enterprise restructuring is the process through which an enterprise adjusts its behavior to changes in its circumstances arising from actions of rivals, changes in market conditions, technological changes, institutional reforms or economic policies. These changes provide the enterprises with an opportunity to change their operations in order to expand their market share (often at the expense of their rivals). Enterprises which do not react to changes in their circumstances will ultimately suffer the consequence and may be driven out of the market. However, the competitiveness of nations and industries rests on the back of their enterprises - whose ability to compete in turn depends on their behavior. From here it follows that enterprise restructuring holds the key to competitiveness of enterprises, industries and national economies. Enterprise restructuring is part of the wider concept of economic restructuring which also includes changes in the relative size of different sectors of the national economy, development of new forms of inter-enterprise networks and changes in the structure of production at the level of industry . Restructuring measures are often necessary **to** enable the privatization of an SOE. Where the purpose is to make anl enterprise at least potentially viable as a going concern once it is privatized, restructuring measures will focus mainly on the management and finances of the SOE. If the SOE is governed by public law, it will probably have to be converted into a company established under private law. In other cases, more radical action may be deemed preferable, including breaking up the SOE or liquidating it completely. Decisions on prior restructuring are often complex and difficult. Those in charge should be committed to the privatization process and have broad powers to take the measures that may be needed. Such responsibility could be vested with the supervising ministry, the privatization agency, the management of the enterprise itself, or a special entity set up for the purpose, such as the public enterprises restructuring agency. In transition countries and other countries that need to radically restructure their parastatal sectors, a separate body is often designated to manage the public enterprises during the preprivatization period ;Albania, Romania, and Slovenia have set up separate SOE management and restructuring agencies. Though they avoid the problem of overburdening a single agency with too many responsibilities and often conflicting goals, parallel agencies may increase the likelihood of battles over power and influence with the privatization agency, as illustrated by the pre-1995 situation in Hungary .

In many respects, the East German experience has important implications for the restructuring process in other post-socialist countries; in particular, the countries approaching EU-membership (Poland, the Czech and Slovak Republics, Hungary, Romania, Bulgaria, Slovenia, Lithuania, Latvia, Estonia). Basically, two patterns can be identified so far:

1) the "classical" approach with a central agency, controlling privatization, formally, but lacking control over its large number of enterprises;

2) the mass-privatization approach of diversifying and diluting ownership and control, favoring informal holding companies and insider control.

The privatization process was started in most of the countries in the same period, but there is a clear evidence that privatization was achieved more rapidly in some countries due to influx of significant foreign investment. As countries used mass privatization programs, the actual change to ownership restructuring was made directly through privatization or IPOs. Most of the Central and Eastern European countries were members of the Warsaw Pact and almost all took part in the COMECON, implying that the Central and Eastern European countries not only had domestically planned economies but also took part in economic planning at a regional level. With the exogenous shock of the Soviet collapse, the Central and Eastern European countries had the opportunity to fundamentally restructure their economic and political institution.

Some Central and Eastern European countries chose shock therapy to privatize, others succeeded in implementing more gradual reforms.

Privatization methods in CEE

Different privatization methods have created different profitable investment opportunities for the penetration of foreign firms. Studies present various major types of privatization methods like:

i. employee ownership programmes and management buy-outs (***insiders*** privatisation);
ii. ***voucher*** (mass) privatization;
iii. sales to local and foreign ***strategic*** investors;
iv. privatization initial public offerings (***PIPO***s);
v. ***restitution*** (return of assets to either the original owners or their heirs). *Mass* or *voucher privatization.* Eligible citizens can use vouchers that are ***distributed free*** or at nominal cost to bid for stakes in SOEs or other assets. This method has been used only in the transition economies of CEE. Problems: establishment of irresponsible quasishareholders and transfer of state assets to few political “cronies” without entrepreneurial and managerial skills, lack of finance resources.

Privatization through sale of state property. Government trades its ownership claim for an ***explicit cash payment*** through *direct sales* (or asset sales) of state-owned enterprises (or some parts thereof) to an individual, an existing corporation, or a group of investors. .

Privatization initial public offerings (PIPOs). Some or a government's entire stake in an SOE is sold to investors through a public share offering. PIPOs are structured ***to raise money*** and to respond to some of the political factors mentioned earlier.

Privatization through restitution. This method is appropriate when land or other easily identifiable property that was expropriated in years past can be returned to either the ***original owners*** or to their heirs. The major difficulty with this method is that the records needed to prove ownership are often inadequate or conflicting.

Table 2 Privatization Methods by Country

Country	Classification of privatization	Year of privatization	Primary method	Secondary method
Bulgaria	Full	1993	Direct sales	Vouchers
Croatia	Mixed	1992	MEBO	Vouchers
Czech	Mass	1992	Vouchers	Direct sales
Estonia	Full	1993	Direct sales	Vouchers
Hungary	Full	1990	Direct sales	MEBO
Latvia	Full	1992	Direct sales	Vouchers
Lithuania	Mass	1991	Vouchers	Direct sales
Poland	Full	1990	Direct sales	MEBO
Romania	Mixed	1992	MEBO	Direct sales
Slovak	Full	1995	Direct sales	Vouchers
Slovenia	Mixed	1998	MEBO	Vouchers

Note: Year of privatization was established based on EBRD information on Primary Method of privatization and its privatization chronicle. Date of privatization is consistent with primary method of privatization.

Sale of government or SOE assets, European Bank for Reconstruction and Development (EBRD) provides a complex tool to measure the privatization by weighing seven key variables: 1) privatization revenues (cumulative, in percent of GDP); 2) private sector share in GDP (in percent); 3) private sector share in employment (in percent); 4) budgetary subsidies and current transfers (in percent of GDP); 5) the share of industry in total employment (in percent);6) the change in labour productivity in industry (in percent); and 7) investment/GDP (in percent). The data cover two privatization indicators: privatization of small-scale industries (EBRD-Small) and privatization of large-scale industries (EBRD-Large). Most privatization techniques have been borrowed from private commercial practices, where mergers and acquisitions are common Other methods, however, are specific to SOE privatization and may have to be included in the privatization law if the government intends to use them. Privatization by free distribution of shares to the population, or by issuance of privatization vouchers or coupons, are perfect examples.

THE DIFFERENCE BETWEEN PRIVATIZATION, RESTRUCTURING AND FDI: THE ROMANIAN CASE

We will focus on the Romanian case of sequencing of restructuring and privatization processes. Romania started in 1993 the Restructuring Process that dominated the transformation of Romanian economy in the last twenty years. This process can be structured in two waves with two stages each as follows:

The FIRST WAVE (FW) started in 1993 known as the "Large-scale corporate and financial restructuring process" and consisted in two stages:

- a first stage of two exercises: a pilot program of 30 companies followed by a more systematic exercise that included in excess of 400 companies and regies autonomes focused on a "top-down" model of restructuring that was finalized with notable results 1993-1995;
- second stage (for accurate quantification of restructuring results purposes) known as "LARGE-SCALE PRIVATIZATION"(OWNERSHIP RESTRUCTURING" 1996-2000;

The SECOND WAVE (SW) started in 2001 and consisted in two stages as well:

- first stage 2001-2009 dedicated exclusively to the ownership restructuring (privatization) of SME's and few large-sized companies through direct sale and initiated sale throuh IPO on the Bucharest Stock Exchange;
- second stage 2010-2013 that included three main categories: SOE for Stock Exchange listing (Nuclearelectrica, Romgaz, Transelectrica, Fondul Proprietatea,Transgaz etc., SOE for privatization and Special cases (Hidroelectrica,Oltchim,CFR Marfa etc)

Naturally, starting even with the second stage of the FW and in both stages of SW the restructuring process was based on a new paradigm, that ignored the involvement of the state institutions in the micromanagement of the process and focused on a unique element of a standard restructuring = the ownership restructuring.

THE IMPACT OF RESTRUCTURING,PRIVATIZATION AND FDI ON MACRO AND MICRO AGGREGATES:

We focused in this paper ,too, on the Romanian case of sequencing of restructuring and privatization processes in relationship with FDI. Romania started in 1993 the Restructuring Process that dominated the transformation of Romanian economy in the last twenty years.

This segregation in waves and stages on the one hand and of the results of restructuring(in immediate -short-term and long-term as result of the finalization of the restructuring process through ownership restructuring in the second stage of the FW, on the other hand gives us the possibility to better quantify the effects of the restructuring process in Romania.

A key result is that the effects of restructuring in both waves are positive, which provides evidence in support of the structure-conduct-performance hypothesis, while at the same time some relevance of the efficient-structure hypothesis cannot be rejected.

Based on the segregation that we stated, we computed correlations with: Real GDP, FDI and exports, BET index and EBRD: large scale privatization index, small scale privatization index, government and enterprise restructuring index.

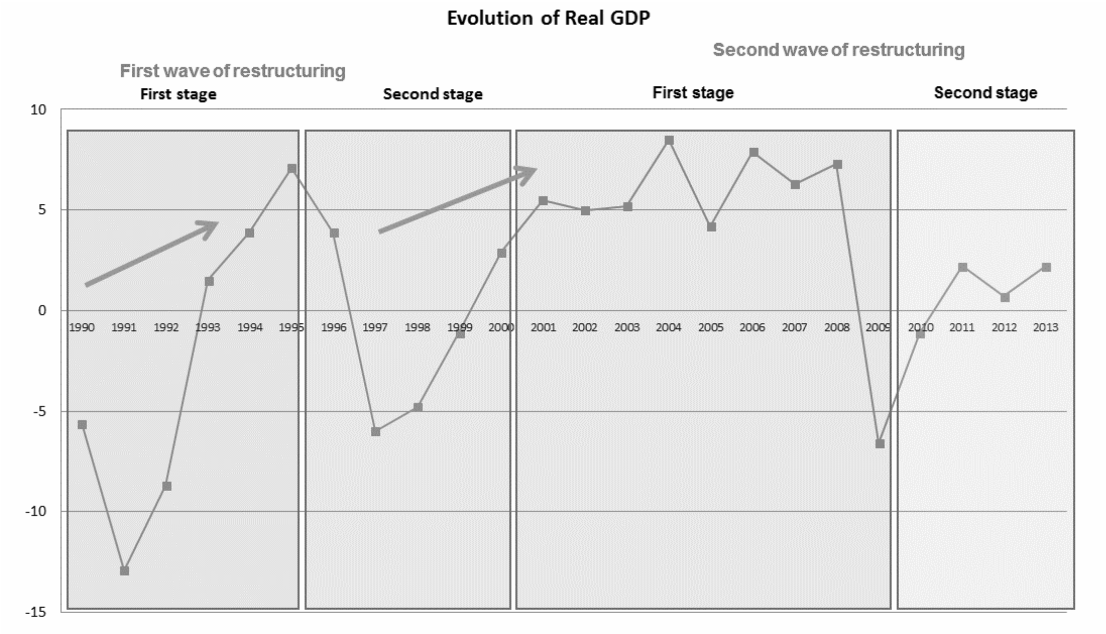
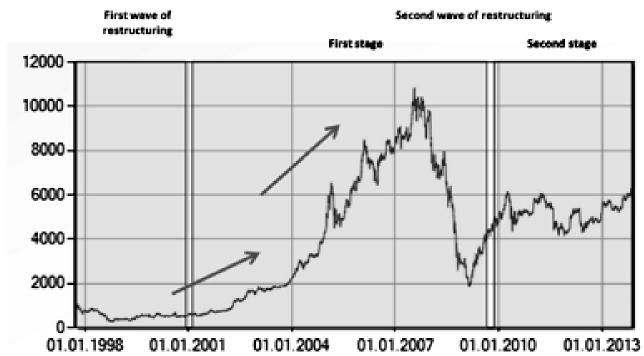
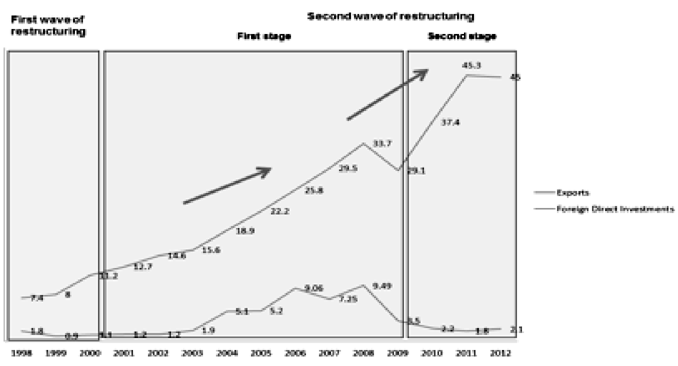


Fig. 1 Evolution of GDP during the waves of restructuring and privatization



Evolution of BET index during the two waves



Evolution of exports and FDI during the two waves

Fig.2 Evolution of BET index, exports and FDI during the restructuring and privatization

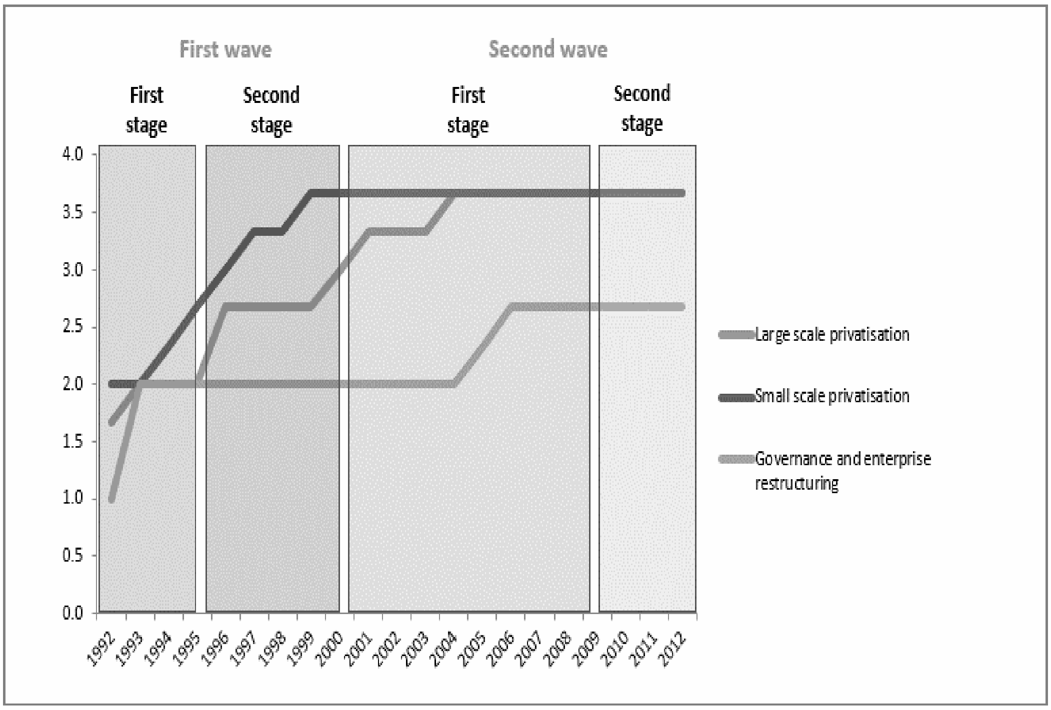


Fig. 3 EBRD indexes during the two waves

CONCLUSIONS

Our study analyzed the differences between these two processes within the territory of CEEC over the last two decades (1992-2013) in terms of: goals, patterns, institutions, methods used, outcomes etc. Results of these processes have been analyzed in correlation with the evolution of CEEC's macro-indicators (FDI, GDP, Inflation Ratio, Exports) or micro ones (Stock Exchange)

The large-scale privatization has emphasized a serie of challenges, that states the purpose of this paper which is to create the framework for analysing restructuring and privatization as methods of high-impact on macroeconomic indicators.

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FDI has played an important role in enterprise restructuring in the whole transition region during privatizations, in this way greatly strengthening the private sector and contributing to structural changes..

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A change of restructuring paradigm: switching from "pre-privatization restructuring" to "ownership restructuring" starting with the second stage of FW.

This segregation in waves and stages on the one hand and of the results of restructuring(in immediate -short-term and long-term as result of the finalization of the restructuring process through ownership restructuring in the second stage of the FW, on the other hand gives us the possibility to better quantify the effects of the restructuring process in Romania.

A key result is that the effects of restructuring in both waves are positive, which provides evidence in support of the structure-conduct-performance hypothesis, while at the same time some relevance of the efficient-structure hypothesis cannot be rejected.

Delayed results of privatization that crystallized by the end of first wave did not deny the principles that governed the first wave of restructuring process;

Significant improvement of macroeconomic results (GDP, FDI and exports) and stock exchange (BET index) in the second wave of restructuring.

The restructuring process must be seen on long term basis, as its effects are correlated with the macroeconomic results.

We analyzed also,the correlation between the restructuring results, followed by privatization and the impact on macroeconomic figures (FDI, GDP, Inflation Ratio, Exports) or micro ones (Stock Exchange)

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Table 3 – Growth in real GDP

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Central eastern Europe and the Baltic states													
Czech Republic	5.9	4.2	-0.7	-0.8	1.3	3.6	2.5	1.9	3.6	4.6	6.5	6.4	5.5
Estonia	4.5	4.4	11.1	4.4	0.3	10.8	7.7	8.0	7.1	8.1	10.5	11.4	8.5
Hungary	1.5	1.3	4.6	4.9	4.2	5.2	4.1	4.4	4.2	4.8	4.1	3.9	2.5
Latvia	-0.9	3.9	8.4	4.7	3.3	8.4	8.0	6.5	7.2	8.5	10.2	11.9	9.0
Lithuania	3.3	5.1	8.5	7.5	-1.5	3.9	7.2	6.9	10.3	7.3	7.6	7.5	7.2
Poland	7.0	6.2	7.1	5.0	4.5	4.3	1.2	1.4	3.9	5.3	3.6	6.1	6.5
Slovak Republic	5.8	6.1	4.6	4.2	1.5	2.0	3.2	4.1	4.2	5.4	6.0	8.3	8.5
Slovenia	4.1	3.7	4.8	3.9	5.4	4.1	3.1	3.7	2.8	4.4	4.1	5.7	5.5
Average [1]	*5.5*	*4.8*	*5.1*	*3.9*	*3.5*	*4.3*	*2.5*	*2.6*	*4.2*	*5.3*	*4.9*	*6.2*	*6.0*
South-eastern Europe													
SEE-3													
Bulgaria	2.9	-9.4	-5.6	4.0	2.3	5.4	4.1	4.5	5.0	6.6	6.2	6.1	6.0
Croatia	6.8	5.9	6.8	2.5	-0.9	2.9	4.4	5.6	5.3	4.3	4.3	4.8	5.5
Romania	7.1	3.9	-6.1	-4.8	-1.1	2.1	5.7	5.1	5.2	8.5	4.1	7.7	6.5
SEE-5													
Albania	13.3	9.1	-10.9	8.6	13.2	6.5	7.1	4.3	5.7	6.2	5.6	5.0	6.0
Bosnia and Herzegovina	20.8	86.0	37.0	15.6	9.6	5.5	4.3	5.3	3.0	6.0	5.5	6.2	6.0
FYR Macedonia	-1.1	1.2	1.4	3.4	4.3	4.5	-4.5	0.9	2.8	4.1	4.1	3.2	5.5
Montenegro	6.2	13.9	4.2	4.0	-6.7	3.1	-0.2	1.7	1.5	3.7	4.1	6.5	7.0
Serbia	6.1	7.8	10.1	1.9	-18.0	5.2	5.1	4.5	2.4	9.3	6.3	5.7	6.0
Average [1]	*6.0*	*2.1*	*1.3*	*0.6*	*-2.2*	*3.7*	*4.7*	*4.9*	*4.7*	*7.0*	*4.8*	*6.4*	*6.1*

Source: Transition report 2007 – European Bank for Reconstruction and Development

Tabel 4– Foreign Direct Investments

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection	Cumulative FDI inflows 1989-2006	Cumulative FDI inflows per capita 1989-2006	FDI inflows per capita 2005	FDI inflows per capita 2006	FDI inflows 2005	FDI inflows 2006
Central eastern Europe and the Baltic states						(in US$ million)								(in US$ mln)	(US$)	(US$)		(in per cent of GDP)	
Czech Republic	2,531	1,280	1,259	3,575	6,220	4,942	5,474	8,282	1,814	3,941	11,630	4,667	5,200	57,922	5,650	1,135	455	9.3	4.2
Estonia	199	111	130	574	222	324	343	153	763	703	2,252	569	600	6,790	5,048	1,672	423	16.1	3.5
Hungary	4,772	3,335	3,715	3,070	3,060	2,151	3,573	2,722	479	3,542	5,412	3,055	3,000	45,738	4,545	537	304	4.9	2.7
Latvia	245	379	515	303	331	400	114	250	256	596	603	1,487	1,100	5,807	2,531	261	648	3.8	7.4
Lithuania	72	152	328	921	478	375	439	714	142	510	689	1,585	1,000	6,467	1,902	201	466	2.6	5.3
Poland	3,617	4,445	4,863	6,049	7,239	9,327	5,804	3,901	4,284	12,259	7,013	10,037	10,000	81,665	2,142	184	263	2.3	2.9
Slovak Republic	194	199	84	374	701	1,897	1,520	4,130	737	1,403	1,951	3,797	2,600	17,544	3,255	363	705	4.1	6.7
Slovenia	161	167	303	221	59	71	226	1,508	-174	281	-88	-377	1,012	2,652	1,333	-44	-189	-0.2	-0.9
Total	*11,790*	*10,068*	*11,196*	*15,086*	*18,309*	*19,486*	*17,492*	*21,659*	*8,300*	*23,234*	*29,462*	*24,819*	*24,512*	*224,583*	*3,082*	*404*	*341*	*5.4*	*4.0*
South-eastern Europe																			
SEE-3																			
Bulgaria	98	138	507	537	802	998	803	876	2,070	2,879	3,938	5,331	5,389	19,225	2,497	510	692	14.5	16.9
Croatia	101	466	348	842	1,393	1,075	1,188	580	1,932	732	1,551	3,170	3,845	13,623	3,067	349	714	4.1	7.5
Romania	417	415	1,267	2,079	1,025	1,051	1,154	1,080	2,156	6,368	6,587	11,430	5,131	35,550	1,636	303	526	6.7	9.4
SEE-5																			
Albania	89	97	42	45	51	143	207	135	178	344	277	360	450	2,098	656	87	113	3.3	3.9
Bosnia and Herzegovina	0	0	0	100	90	146	119	266	382	608	550	420	1,500	2,680	705	145	111	5.4	3.7
FYR Macedonia	10	11	30	128	32	175	441	78	96	156	97	350	170	1,628	814	49	175	1.7	5.6
Montenegro	na	na	na	na	na	na	10	84	44	63	474	650	750	1,326	2,009	719	985	22.8	28.7
Serbia	na	0	740	113	112	25	165	475	1,360	966	1,481	4,400	3,000	9,837	1,312	197	587	6.1	15.3
Total	*715*	*1,127*	*2,933*	*3,844*	*3,505*	*3,614*	*4,088*	*3,574*	*8,218*	*12,116*	*14,956*	*26,112*	*20,235*	*85,966*	*1,684*	*293*	*512*	*8.1*	*11.4*

Source: Transition report 2007 – European Bank for Reconstruction and Development

Tabel 5 – Inflation

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 Estimate	2007 Projection
Central eastern Europe and the Baltic states													
Czech Republic	9.6	8.9	8.4	10.6	2.1	4.0	4.7	1.8	0.2	2.8	1.9	2.5	2.7
Estonia	29.0	23.1	11.2	8.1	3.3	4.0	5.8	3.6	1.3	3.0	4.1	4.4	6.0
Hungary	28.2	23.6	18.3	14.3	10.0	9.8	9.2	5.3	4.7	6.8	3.6	3.9	7.8
Latvia	35.9	25.0	17.6	8.4	4.7	2.4	2.6	2.5	1.9	2.9	6.2	6.5	8.0
Lithuania	39.6	24.6	8.9	5.1	0.8	1.0	1.5	0.3	-1.2	1.2	2.7	3.7	4.4
Poland	27.8	19.9	14.9	11.8	7.3	10.1	5.5	1.9	0.8	3.5	2.1	1.0	2.4
Slovak Republic	9.9	5.8	6.1	6.7	10.6	12.0	7.3	3.3	8.5	7.5	2.7	4.5	2.5
Slovenia	13.5	9.9	8.4	8.0	6.2	8.9	8.4	7.5	5.6	3.6	2.5	2.5	3.2
Median [1]	*28.0*	*21.5*	*10.1*	*8.3*	*5.5*	*6.5*	*5.7*	*2.9*	*1.6*	*3.3*	*2.7*	*3.8*	*3.8*
Mean [1]	*24.2*	*17.6*	*11.7*	*9.1*	*5.6*	*6.5*	*5.6*	*3.3*	*2.7*	*3.9*	*3.2*	*3.6*	*4.6*
South-eastern Europe													
SEE-3													
Bulgaria	62.0	123.0	1,082.0	22.2	0.7	9.9	7.4	5.9	2.3	6.1	5.0	7.3	8.0
Croatia	2.0	3.5	3.6	5.7	4.0	4.6	3.8	1.7	1.8	2.1	3.3	3.2	2.3
Romania	32.3	38.8	154.8	59.1	45.8	45.7	34.5	22.5	15.3	11.9	9.5	6.6	7.0
SEE-5													
Albania	7.8	12.7	33.2	20.6	0.4	0.1	3.1	5.2	2.4	2.9	2.3	2.5	3.0
Bosnia and Herzegovina	na	na	na	-0.3	3.4	5.0	3.2	0.3	0.6	0.4	4.0	7.0	2.5
FYR Macedonia	16.4	2.3	2.6	-0.1	-0.7	5.8	5.5	1.8	1.2	-0.4	0.5	3.2	2.5
Montenegro	97.0	80.2	23.4	32.4	67.6	97.1	22.6	18.2	6.7	2.2	2.6	3.0	3.0
Serbia	78.6	94.3	21.3	29.5	37.1	60.4	91.1	21.2	11.3	9.5	17.2	12.5	7.0
Median [1]	*32.3*	*38.8*	*23.4*	*21.4*	*3.7*	*7.9*	*6.5*	*5.6*	*2.4*	*2.6*	*3.7*	*4.9*	*3.0*
Mean [1]	*42.3*	*50.7*	*188.7*	*21.1*	*19.8*	*28.6*	*21.4*	*9.6*	*5.2*	*4.3*	*5.6*	*5.7*	*4.4*

Source: Transition report 2007 – European Bank for Reconstruction and Development