

# **Romanian Construction Market Report September 2006**

by **FRD Center Romania** ([www.frdcenter.ro](http://www.frdcenter.ro))

## **Summary:**

- 1. The evolution of the Romanian construction sector before the current boom (1996 – 2004)**
- 2. The Romanian construction sector in the first semester of 2006**
- 3. Trends in the evolution of the construction field during the period September – October 2006**
- 4. The Romanian cement market (2005 – 2006)**

## 1. The evolution of the Romanian construction sector before the current boom (1996 – 2004)

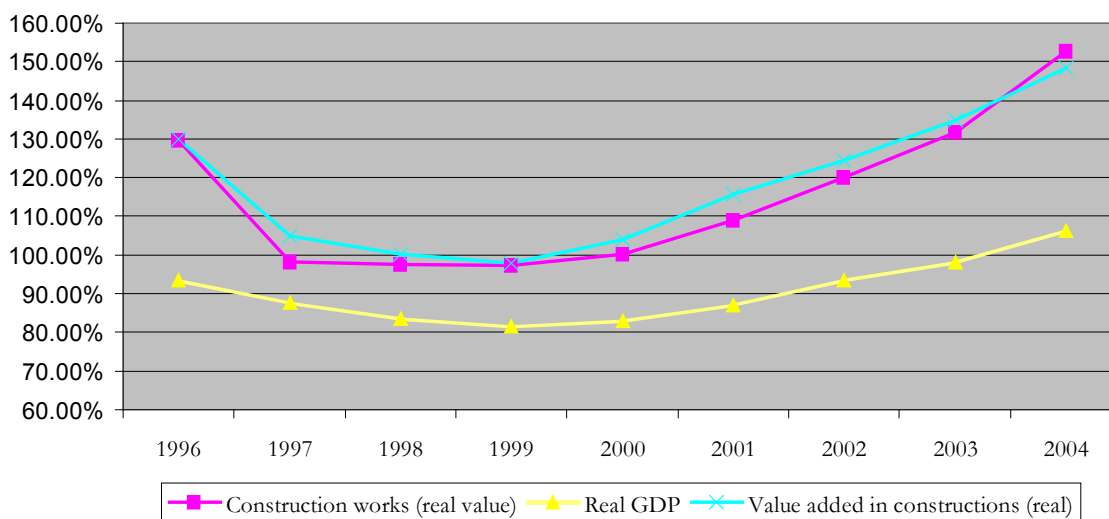
The evolution of the construction works (real value), real GDP and value added in constructions (real) during the period 1996 – 2004 (1990 = 100%) is presented below.

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004
Construction works (real value)	129.80%	98.10%	97.60%	97.40%	100.10%	109.10%	120.00%	131.70%	152.80%
Real GDP	93.40%	87.70%	83.50%	81.60%	82.90%	87.00%	93.60%	98.20%	106.30%
Value added in constructions (real)	129.90%	104.90%	100.20%	97.90%	104.10%	115.60%	124.30%	134.90%	148.40%

*Source: National Institute of Statistics*

Based on the above figures, the chart below shows that year 1996 was among the best years for the construction sector in Romania in the 1990s. The value of construction works was higher by about 30% compared to the level recorded in 1990. Year 1997 recorded a significant decrease in the level of construction compared to the reference level in 1990. This decrease was followed by a steady evolution until year 1999. After 2000 both the overall economy and the construction sector followed a continuous up-ward trend.

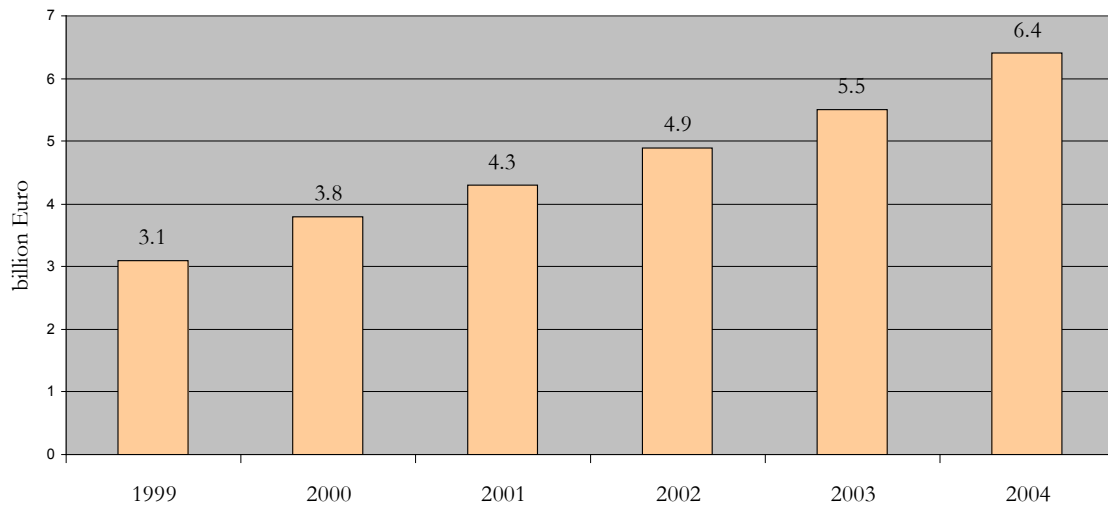
**% Evolution of Construction Works, GDP and Value Added in Constructions  
(real terms, 1990 = 100%)**



*Source: National Institute of Statistics*

The evolution of the value of the construction works during the period 1999 –2004, in billion Euro, is presented in the below chart. As shown below, the value of the construction works in Romania increased by about 106% in 2004 compared to 1999.

**Evolution of the value of the construction works in Romania, during the period 1999 - 2004**



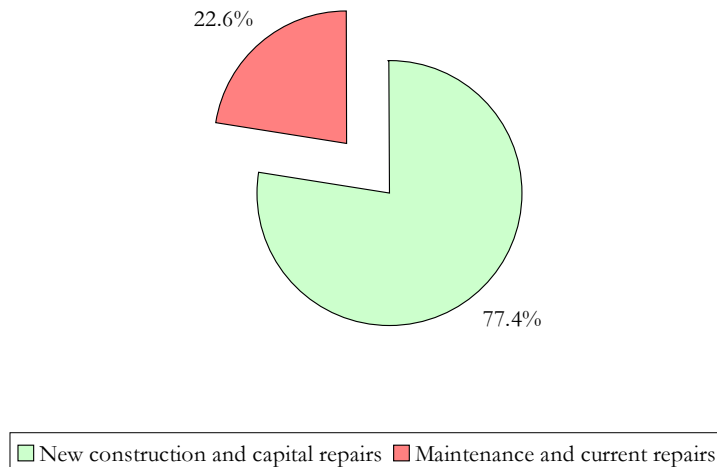
*Source: National Institute of Statistics*

The year 2004 was the best year for construction in Romania over the 1999-2004 period, according to the analysts and industry players. The building materials suppliers were very active in expanding their production capacities on purpose to seize opportunities in the market such as increased demand for building materials as well as increasing prices.

The construction works in Romania, by manner of performing during 2004, is presented in the below chart.

*Source: National Institute of Statistics*

**The construction works, by manner of performing, in 2004**



The total value of the construction works, by manner of performing, in thousand Euro, during the period 2001 - 2004 is presented below.

thousand Euro

Year	2001	2002	2003	2004
<b>Total constructions, of which:</b>	<b>4,329,322</b>	<b>4,928,478</b>	<b>5,493,008</b>	<b>6,608,647</b>
<i>New constructions and capital repairs, of which:</i>	3,182,220	3,621,209	4,051,007	5,113,978
On contract	3,160,589	3,534,129	4,006,998	5,068,567
Own management	21,631	87,080	44,009	45,411
<i>Maintenance and current repairs</i>	1,147,102	1,307,268	1,442,001	1,494,669

Source: National Institute of Statistics

The value of the construction works on contract, by categories of objects and type of works, in 2004, is presented in the below table

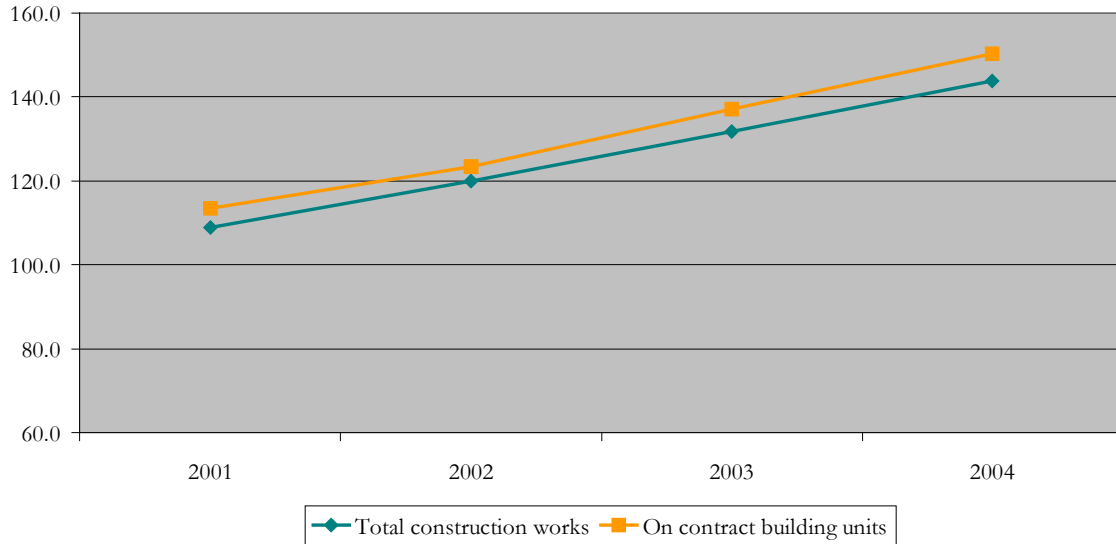
Source: National Institute of Statistics

thousand Euro

<b>Total constructions, of which:</b>	<b>6,546,153</b>
<i>Residential buildings, of which:</i>	<b>951,934</b>
Individual buildings	542,180
Collective buildings (block type)	331,979
Residential buildings for communities	77,775
<i>Non residential buildings, of which:</i>	<b>2,900,745</b>
Hotels and similar buildings	72,831
Administrative buildings	567,395
Retail and wholesale buildings	208,987
Traffic and communication buildings	28,126
Industrial buildings and warehouses	690,976
Recreation, education buildings, hospitals and clinics	216,169
Other non residential buildings	1,116,261
<i>Transport infrastructures, of which:</i>	<b>1,409,295</b>
Highways, streets, roads	1,094,774
Railways	57,752
Airport runways	2,307
Bridges, suspended highways, tunnels and undergrounds	63,895
Navigable channels, harbour construction, other hydrotechnical construction	190,567
<i>Pipes, electric and communication lines, of which:</i>	<b>309,939</b>
Long distance pipes, electric and communication lines	166,700
Local pipes and wires	143,240
<i>Complex construction in industrial area</i>	164,657
<i>Other works of civil engineering, of which:</i>	<b>809,583</b>
Sport and recreation construction	80,514
Other works of civil engineering not classified elsewhere	729,069

The indices of the construction works during the period 2001 – 2004, for total construction works and on contract building units are presented in the below chart.

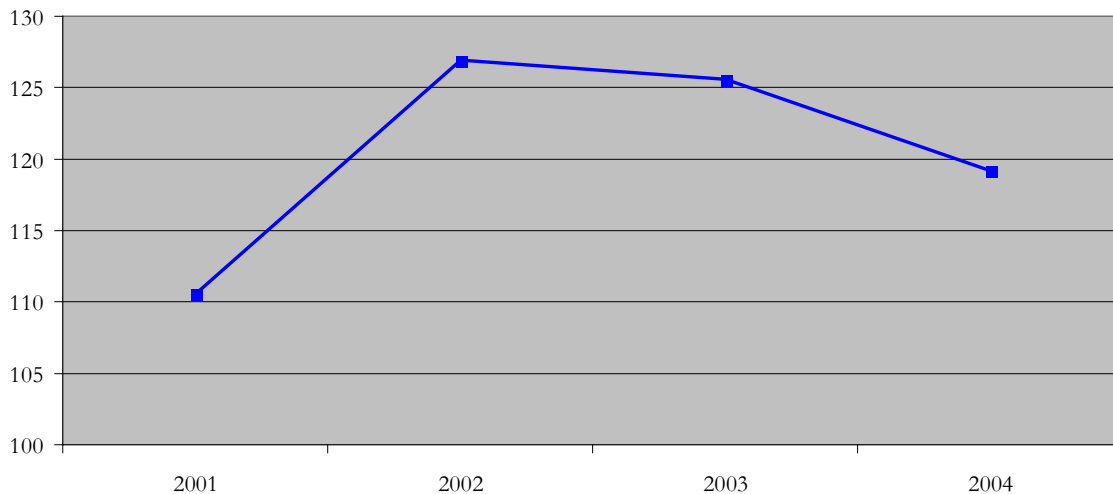
**Indices of construction works during 2001 - 2004 (2000=100%)**



*Source: National Institute of Statistics*

The indices of the labour productivity per employees, on construction units, during the period 2001 – 2004, are presented in the below chart.

**Indices of the labour productivity per employees, on construction units, during 2001 - 2004 (2000=100%)**



*Source: National Institute of Statistics*

## **2. The Romanian construction sector in the first semester of 2006**

According to the National Institute of Statistics, the GDP estimated for the first semester of 2006 was increasing in real terms by 7.4% as against the same semester of 2005. The increase was mostly determined by the size of activity volume and consequently, of the gross value added in industry (+6.5%), construction (+16.5%) and services (+7.2%), whose contribution to the GDP was estimated to 83.4%. The achievements in the first semester of 2006 in the construction field were of about 1,961 million RON.

The investments in new construction works in the first semester of 2006 amounted to 1,969 million Euro, by 15.5% more, compared to the first semester of 2005.

In the first semester of 2006, the number of finished dwellings amounted to 11,914, increasing by 1,915 dwellings as against the same semester of 2005. 630 dwellings were carried out from the budgetary subsidies. The number of dwellings finished from the population funds was by 1,839 higher than in the first semester of 2005, this category representing 89.9% of the total finished dwellings. On 30 June 2006, 94,845 dwellings were under various execution stages of construction works, 40.1% of them being under an advanced finishing stage.

The value of the construction works increased, during January – July 2006 by 16.5% as against the same period of 2005 and by 15.7% in July 2006 as compared to July 2005. In July 2006 alone, 5,194 permits for residential buildings were released.

## **3. Trends in the evolution of the construction field during the period September – October 2006**

According to August 2006 estimates by the National Institute of Statistics, the construction activity will continue to register a growing trend for the production volume during the period September – October 2006 (short-term balance +25%), correlated with that of the stock of contracts and orders (short-term balance +20%).

In terms of the number of employees, an upward trend is also foreseen, both per total sector (short-term balance +13%) and by size groups of enterprises.

The prices of the construction works will increase (short-term balance +29%), but at a lower pace compared to the forecast of the previous month (short-term balance +39%).

According to the National Prognosis Commission, the growth of the construction market will lead to a growth of industrial production, especially in the construction materials industry, the extractive industry and the metallic construction industry. The entrepreneurs prefer local construction materials to build industrial constructions, while imported materials are preferred for building homes.

According to the Association of Construction Companies, the construction market could increase this year to a 7 billion-Euro level. In 2006 the market of construction materials is expected to grow due to extensive infrastructure works to be initiated and this growth will continue in the 2007 - 2008 period. The major driving force behind the construction market this year will be the public works, big infrastructure projects such as highways, as well as local infrastructure projects, road upgrading, rehabilitation of water networks and bridge repair works.

Gross average earnings in the construction sector will reach 500 Euro as late as 2010 - 2011, according to the field specialists. This value is significantly below the level of wages in the countries with a developed construction segment. At the present, a skilled worker in the construction sector earns around 1.7 - 2 Euro per hour. Beside the low level of earnings, the construction market is also recording the strong migration of skilled labour force to foreign markets.

#### **4. The Romanian cement market (2005 – 2006)**

The cement market increased by 30% in terms of value during the last year, reaching an approximate 400 million Euro, according to the market estimates. The market growth was recorded due to the increase of the cement consumption and of the average price to around 60 - 65 Euro per tone, from the average of 50 - 52 Euro during the previous years.

According to the market information, the cement consumption in Romania was of about 275 - 300 kg per capita in 2005, up from 225 kg in 2003 and from 256 kg registered in 2004. The rising utility tariffs were the main factor behind the increase in cement prices.

The cement market amounted last year about 6.1 million tones of cement, up 10%. A similar growth is forecasted for 2006.

Floods that hit Romania last year boosted the cement and construction materials orders. Due to the floods, the cement producers had difficulties in covering the demand for July - September 2005.

On the Romanian cement market there are three major global producers: Lafarge (France), HeidelbergCement (Germany) and Holcim (Switzerland). The net cumulated profits of these three major cement producers amounted to about 100 million Euro in 2005 compared to about 80 million Euro in 2004.

Lafarge Romcim owns three plants located in Medgidia, Hoghiz and Targu Jiu, while HeidelbergCement has plants in Fieni, Bicaz and Deva. Holcim own plants in Campulung, Alesd and Turda.

In 2005, **Lafarge Romcim**, the biggest player on the Romanian cement market, posted a 10% growth in turnover to about 176 million Euro, according to the company's representatives. The group estimates for 2006 a turnover of about 190 million Euro. Lafarge Romcim exports annually 1 million tones of cement, accounting for approximately 30% of the total volume of production. The French group is present on the Romanian market since 1997 and has invested over 300 million Euro in cement, concrete, aggregates, plasterboard and roof systems, of which 20 million Euro were invested in 2005. The projection for this year's consolidated growth of cement, aggregates and concrete, plaster and associated systems business lines is much more optimistic. This is because of the growth expected on the plasterboard market, as well as in the volumes of plasterboard plates and systems, which are benefiting from boosted production capacities in 2006, according to the company's representatives. The company intends to invest around 100 million Euro during the period 2006 - 2012, for the environment protection - alignment to environment norms imposed by the European Union and for the improvement in production and services quality.

**HeidelbergCement** is one of the most important German investors in Romania, with activities in the production of cement, ready mixed concrete and aggregates. HeidelbergCement posted a net profit worth 34.6 million Euro from its operations in Romania on the cement, aggregates and concrete market during the last year. HeidelbergCement estimates a 10% turnover increase to 213 million Euro for this year. Carpatcement Holding is the local division of the company on the cement market and invested about 230 million Euro on the local market.

**Holcim Romania** recorded in the first half of the year 13.9 percent higher sales on the Romanian market compared to the corresponding period of the last year. The cement sales were bolstered by the construction market's 20% surge in the first half and particularly by the private sector. According to the company's representatives, the cement demand was homogeneous countrywide, mainly in cities such as Bucharest, Timisoara and Constanta, which are witnessing strong economic development. The company estimates a turnover growth by 14% this year, to 190 million Euro. Early this year, Holcim announced that it



would earmark approximately 70 million Euro to further develop the projects started during 2005. The company's biggest project is ongoing in Campulung, where Holcim will invest 105 million Euro by 2008, to set up the biggest grey cement production line in Romania.

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- market opportunities assessment
- identification and selection of local partners and suppliers
- identification and selection of JV and franchising opportunities
- investment assessment
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