

## THE EVOLUTION OF THE FOREIGN DIRECT INVESTMENT IN ROMANIA AND THE EFFECT ON THE ECONOMIC GROWTH

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**Abstract:** Nowadays, the development of each country is conditioned by the existence of the capital. The public sources of investment are frequently limited depending on the different interests, so the foreign direct investment represent an important source for economic growth including in the period when the economic stability is in danger. The main objective of this paper is to evaluate the impact of the foreign direct investments in Romania and to offer a clear image on the effects resulted from the activity of the companies with foreign capital present in Romania. We will present the effects of the foreign direct investments in general trying in the same time to emphasize the results of the companies with foreign capital compared with the Romanian ones.

**Key words:** investment, economic growth, evolution, performance.

### INTRODUCTION

The economic development of any country depends on the capital abundance, and in the context in which public resources are limited and increasingly focused on such aspects as salary and pension payments, controlling the budget deficit, etc., if the investments are low then the economy is losing. [1] Thus, as public resources are limited, private funding should be encouraged. [3]

Foreign direct investment (FDI) is a healthy source of economic growth [9], even in conditions where economic stability is under threat and growth is under pressure because:

- ❖ FDI are complementary to public funding sources and provides the necessary capital for the development of an economy;
- ❖ FDI creates new jobs not only in the company where they invest but also stimulates the development of other upstream and downstream firms;
- ❖ FDI are not only a flow of capital but also technology, knowledge, organizational practices that stimulate and generate economic growth. Foreign investors impose their own way of working in the company they are developing and bring new technologies that increase employee efficiency and competitiveness. These beneficial effects propagate across the entire chain of companies involved in building a product or service that adapts to survive on the market;
- ❖ FDI are characterized by long-term stability. What defines FDI is precisely the investor's lasting interest in the company he invests in. Therefore, an investor who has set up a new company will not give up its investment so easily, even in turbulent economic times.

The objective of the paper is to highlight the impact of FDI in Romania and their role in the evolution of business. We mention that the effects of FDI are more complex than what can be measured by figures, making changes that have increased efficiency in organizing the organization, implementing good practices in carrying out activities, transferring knowledge, etc.

### MATERIALS AND METHODS

The research was accomplished from a double perspective, in which the conceptual methodological approach is correlated to a variety of references to practical actions aiming to emphasize the importance and the effects that foreign direct investment have on the trust that foreign investors have on the Romanian business environment.

The results expressed in this paper were the result of a qualitative analysis of the characteristics and the evolution of the foreign direct investments in Romania, emphasizing their contribution to Romania's economic growth and development, technological development, export increasing, know-how imports, etc.

### RESEARCH RESULTS

Foreign direct investment (FDI) grew to 75.8 billion euros at the end of last year, with a net flow in 2017 of 4.8 billion euros, according to National Bank of Romania (NBR). [11]

The equity investment of foreign direct investors in direct foreign investment firms in Romania was EUR 3.9 billion in 2017. [12] The equity capital contribution consists of equity investments in FDI of EUR 2.2 billion, plus reinvested earnings of EUR 1.7 billion. [13] Reinvested earnings are the difference between the profits after tax earned in 2017 by profitable FDI companies (worth € 8 billion), dividends distributed by FDI companies (EUR 3.5 billion) in 2017, as well as losses registered by FDI enterprises that ended losses in the year 2017 (EUR 2.8 billion). Net lending of FDI enterprises in relation to direct foreign investors and companies within their group amounted up to EUR 829 million.

The most important capital holdings last year were oriented to the construction and real estate sectors (EUR 800 million), manufacturing (EUR 471 million) and professional, scientific, technical and administrative activities and support services (406 million euros).

Reinvested earnings reached the highest level in financial intermediation and insurance (665 million euros). A high level of reinvested earnings was also recorded in trade (EUR 620 million) and in manufacturing (EUR 505 million). [7]

The flow of equity into FDI companies, in the amount of 2.2 billion euros in 2017 (part of the equity contribution) is differentiated in greenfield, mergers and acquisitions, enterprise development, and enterprise restructuring.

In 2017, greenfield and merger and acquisition investments followed the trend in recent years, registering a very low level. [8] Thus, greenfield investments contributed only 77 million euros to foreign investment flows, and mergers and acquisitions by 213 million euros.

The predominant share of the equity capital flow in 2017 is provided by business restructuring of EUR 1.1 billion, representing 52% of the holdings, and by business developments - by EUR 787 million and 35% respectively.

Although last year's foreign investors focused on restructuring and development, the FDI balance in greenfield enterprises is close to 60% of the FDI balance, or 44.8 billion euros. [10]

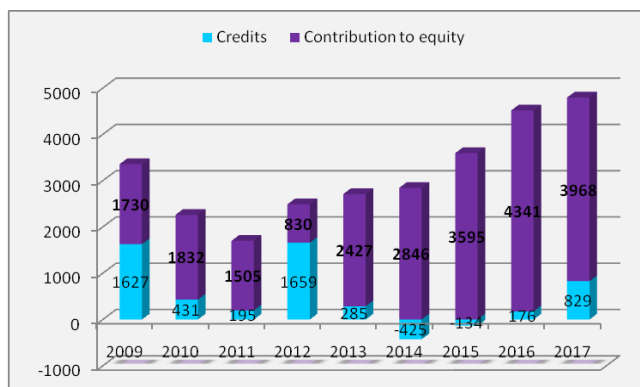
**Table 1**

**The evolution of foreign direct investments flux in Romania in 2009-2017 period**

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Credits	1627	431	195	1659	285	-425	-134	176	829
Contribution to equity	1730	1832	1505	830	2427	2846	3595	4341	3968
Total flux	3357	2263	1700	2489	2712	2421	3461	4517	4797

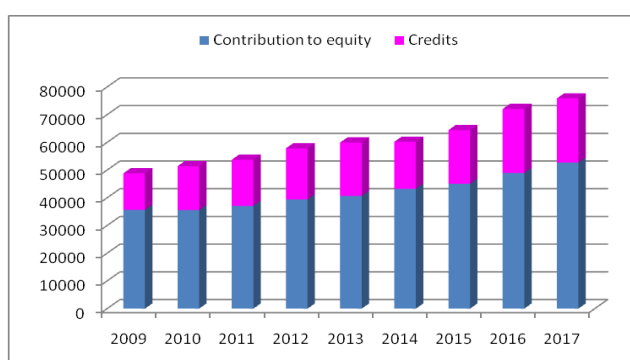
Source: realized by the author based on data from National Bank of Romania [3]

Another characteristic of the FDI balance, which indicates according to the National Bank of Romania, a significant degree of stability of foreign direct investment, is the fact that 45.7% of the total FDI stock has been invested in tangible and intangible assets.



**Figure 1. The evolution of the Foreign Direct Investment flux in 2009-2017 period (EUR million)**

Source: Realised by the author used the data from Table 1



**Figure 2. The evolution of the Foreign Direct Investment balance in 2009-2017 period (EUR million)**

Source: Realised by the author used the data from Table 2

The top five countries, ranked by the FDI balance at the end of 2017, are the Netherlands (25.9%), Germany (12.8%), Austria (12.6%), Italy (6.2%) and France (6.2%). With regard to the order of the first five countries of direct investment, it is noted that over the previous year, Italy outperformed France and Cyprus, occupying the fourth place. [4]

**Table 2. The evolution of foreign direct investments balance in Romania in 2009-2017 period**

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Credite	13181	15834	16642	18458	19258	16955	19335	23105	23105
Aport la capitalurile proprii	35646	35580	37081	39393	40700	43243	45098	48964	52746

Source: National Bank of Romania, Foreign Direct Investments in Romania in 2017, 2018, p. 25;

Net revenue earned by foreign direct investors in 2017 was 5.6 billion euros. [5] Compared to 2016, the turnover of FDI companies increased by 11.1%, [14] exceeding € 164 billion, and the average number of employees increased by about 3.6% to 1.3 million employees.

The activity of direct foreign investment enterprises as a whole has a positive impact on Romania's foreign trade. [6] Their contribution to exports of goods is 73.4%, while for goods imports it is 66% and the share in exports and imports of services is 53% and 48%, respectively, of total exports, respectively imports of services.

From the analysis of the balance of international trade of goods by the FDI companies in the various economic activities it is found that the manufacturing industry is the main activity with commercial surplus (EUR 8.2 billion), mainly due to the means of

transportation subdomains (surplus of 4.4 billion), machinery, equipment and equipment (surplus of € 1.5 billion), metallurgy (surplus of € 1.5 billion), manufacture of wood products including furniture (1.1 billion surplus) textiles, clothing and leather goods (surplus of EUR 938 million), as well as computers, other electronic, optical and electrical products with a surplus of EUR 571 million.

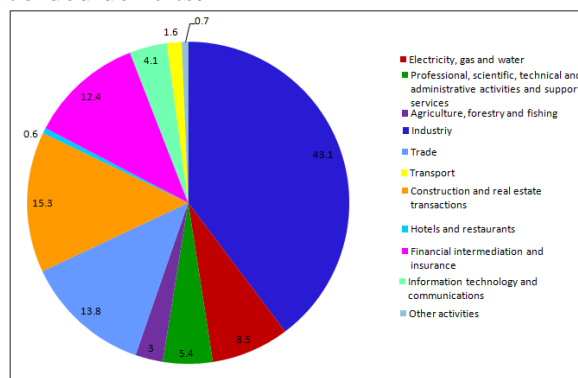
**Table 3.**

**The evolution of turnover in the FDI companies**

Anul	FDI companies I degree	FDI companies II degree	Total FDI companies
2009	109 907	6 515	116 422
2010	112 851	9 307	122 158
2011	123 974	13 524	137 498
2012	125 473	14 137	139 610
2013	129 615	12 587	142 202
2014	131 820	9 685	141 505
2015	133 076	10 792	143 868
2016	137 832	10 532	148 364
2017	152 217	12 588	164 805

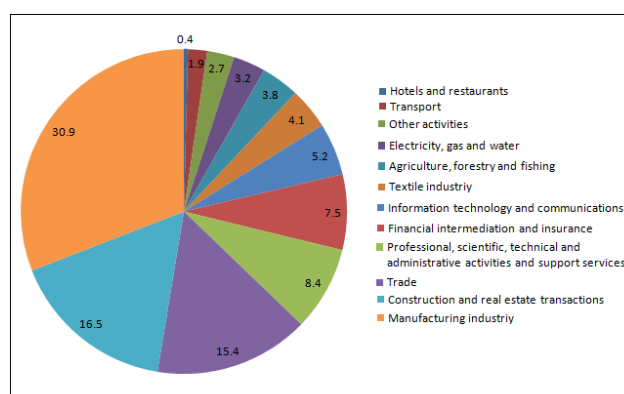
Source: National Bank of Romania, Foreign Direct Investments in Romania in 2017, 2018, p. 15;

Most industrial activities recorded surpluses in commodity trade, and in most of the other activities were recorded deficits.



**Figure 3. FDI distribution on the main activities (total economy)**

Source: relized by the authors based on the data from National Bank of Romania, Foreign Direct Investments in Romania in 2017, 2018, p. 19;



**Figure 4. FDI distribution in greenfield companies**

Source: relized by the authors based on the data from National Bank of Romania, Foreign Direct Investments in Romania in 2017, 2018, p. 19;

The investment position for Romania [15] refers to the stocks of foreign financial assets and liabilities at a given moment, is revised on a quarterly basis and for the 2018 year and the first quarter of 2019 the evolution of Romania's international investment position is presented in the table below.

If we refer to the largest investors, the top three foreign investors in Romania cumulated 51.3% of foreign direct investment (FDI) from the end of last year, up to 38.917 billion euros, an increase of 12, 3% over the previous year, according to a study presented by the National Bank of Romania. [8]

Table 4.

## Romania's International Investment Position

	Q1/2018	Q2/2018	Q3/2018	Q4/2018	Q1/2019
<i>EUR million - end of period</i>					
<b>NET POSITION</b>	-86.915	-87.734	-90.541	-90.190	-89.473
<b>ASSETS</b>	69.109	67.544	68.081	69.570	71.013
<b>A. Direct investment</b>	7.233	7.691	7.602	7.811	8.318
- Equity and Investment Funds shares/units*	359	365	364	364	358
- Debt instruments	6.873	7.326	7.237	7.447	7.960
<b>B. Portfolio investment</b>	3.829	3.936	3.942	4.014	4.606
- Equity and investment fund shares	1.417	1.365	1.436	1.293	1.495
- Debt instruments	2.411	2.570	2.506	2.720	3.110
<b>C. Financial derivatives</b>	40	40	49	44	14
<b>D. Other investment</b>	19.696	20.528	21.662	20.899	22.209
<b>E. Reserve assets</b>	38.309	35.348	34.824	36.800	35.865
- Monetary gold	3.583	3.582	3.403	3.735	3.835
- Foreign exchange reserves	34.725	31.766	31.421	33.064	32.029
<b>LIABILITIES</b>	156.024	155.279	158.623	159.761	160.486
<b>A. Direct investment</b>	84.297	85.297	88.335	89.274	90.065
- Equity and Investment Funds shares/units*	54.986	55.036	56.572	57.446	57.327
- Debt instruments	29.311	30.261	31.762	31.828	32.737
<b>B. Portfolio investment</b>	27.781	26.805	27.055	28.448	28.826
- Equity and investment fund shares	3.795	3.463	3.418	2.865	3.308
- Debt instruments	23.985	23.342	23.637	25.582	25.517
<b>C. Financial derivatives</b>	42	39	34	32	36
<b>D. Other investment</b>	43.903	43.135	43.198	42.006	41.558

Source: <https://www.bnr.ro/International-Investment-Position---BPM6-11352.aspx>

In the top of the FDI balance on 31 December 2017, the first country is the Netherlands - with a weight of 25.9%, up from 24.3% in the previous year, as a result of the 15.1% increase in the value to 19.638 billion euros, according to a statistical survey conducted by the National Bank of Romania in collaboration with the National Institute of Statistics (NIS). Germany remained second with a weight of 12.8%, down 13.2%, although the investment balance rose by 4.8% to 9.7 billion euros.

### CONCLUSIONS

Romania has captured the interest of foreign investors who have made new greenfield investments here - offering jobs, supporting consumption and increasing production capacity - including during times of crisis.

Companies with foreign capital make more than twice as many investments for each employee and at the same time have double expenses with each employed person, compared to those with Romanian capital. Therefore, the wages and working conditions offered are better. Not by accident, the productivity of an employee is twice as high as in companies with foreign capital.

In order to attract and maintain FDI, with the maintenance and amplification of positive effects, we consider that two possible directions of action are possible and desirable, namely: Increasing the absorption capacity of the economy and Developing and implementing a strategy to attract FDI.

It is difficult to measure the effects of FDI, but we consider that the FDI present in Romania so far has made an essential contribution to economic growth and development and that multiplying efforts to attract them and creating a favorable business environment is justified for amplification of the positive effects that foreign capital can have in Romania's economy.

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