

## INVESTMENTS IN THE ROMANIAN ECONOMY IN THE CONTEXT OF GLOBALIZATION

### **Abstract**

This paper presents an overview of the investments in the Romanian economy and its evolution from 2006 until now. It's also presented the dynamics of investments in total expenditure at the country level and the evolution of investments at the most important branches of the economy and it's also shows the origin of investments (local or foreign). It's also achieved a ranking of Romanian development regions which have made the biggest foreign investments and the countries that have invested the most in our country in the last years.

**Keywords:** investments, projects, public sector, private sector, foreign investments

**JEL CODES:** E22, O11

# INVESTIȚII ÎN ECONOMIA ROMÂNEASCĂ ÎN CONTEXTUL GLOBALIZĂRII

**Cristina ALPOPI**

Associate Professor Ph.D., Administration and Public Management Faculty, Bucharest University of Economic Studies

E-mail: calpopi07@yahoo.com

### **Rezumat**

În lucrarea de față este prezentată situația investițiilor din economia românească și evoluția acestora din anul 2006 până în prezent. Este ilustrată, de asemenea, dinamica investițiilor în totalul cheltuielilor la nivel de țară și evoluția investițiilor în cele mai importante ramuri ale economiei și se arată proveniența acestora. Se realizează un clasament al regiunilor de dezvoltare ale României în care s-au realizat cele mari investiții străine, precum și al țărilor care au investit cel mai mult în țara noastră în ultimii ani.

**Cuvinte cheie:** investiții, proiecte, sector public, sector privat, investiții străine.



Proceedings of the 9<sup>th</sup> Administration and Public Management International Conference  
"Governance and management in a globalized context"

## 1. INTRODUCTION

There are many cases when investment projects are facing great difficulties in the preparation and execution phases of them. These unsuccessful lead to inappropriate results in terms of completion exceeded, higher cost than budget established and so on.

The causes of these failures primarily consists of complexity of projects, uncertain environment in which those are developed and continuously perturbing influence of the external environment. The achieve of established objectives and thus the obtain of desired results may be possible through a correct management of projects, although this action it's not a guarantee.

Each investment project, it's different from others and to be solved it needs the application of methods and techniques different from one case to another. It is hoped a future efficiency of the investment project, although it isn't known which will be the moment of the future when it will be put into operation. This doubt makes difficult and complex the planning process.

A project will be considered a successful one if he proves in the future the financial and social profitability.

## 2. DIFFERENCES BETWEEN PUBLIC PROJECTS AND PRIVATE PROJECTS

There are differences between private and public projects in terms of the objectives, but there aren't significant differences between the formulation and evaluation methodology of these two types of projects (Stoian and Ene, 2003).

The main feature of private projects is getting profit. In this case is not very important social and environmental effect. It can be said that the only important thing is to maximize the profit as much as possible.

In the public projects, however, are very important economic and environmental objectives. Are also very important aspects such as their contribution to GDP growth, increasing the number of jobs, reducing the regional and trade imbalances, environmental protection and so on. Taking into account the objectives of the public projects, it is necessary to establish preliminary the strategic targets that substantiate the objective's system. Regardless of the number and complexity of the project objectives, the primary objective of any public project is the social welfare of the people, the increase the standard of living of the citizens (Stoian and Muntean, 2005).

### 3. PUBLIC INVESTMENTS IN THE ROMANIAN ECONOMY

Representative specialists of the World Bank in Romania consider that Romania has made the largest public investment in Europe, as a share of GDP in the last 10 years, but the investments were not correlated with performance, requiring coherent public policies at sectoral level to obtain a good ratio between public spending and outcomes (Business24, 2013b).

TABLE 1 – DYNAMICS OF INVESTMENTS IN THE TOTAL EXPENDITURE NATIONWIDE (MILLION)

Year	2006	2007	2008	2009	2010	2011
Total costs	25392,8	33982,3	42210,2	42074,5	41207,1	44003,8
Investments	3620,4	6943,2	7210,5	6323,5	6028,0	8334,5

Source: Ministry of Finance, 2012

The data presented in Table 1, show that compared the year 2011 with the average of the period 2006-2010, total expenditures of local budgets increased by approximately 19%, but that representing the investments increased by 38,3%.

In 2012 relative to 2011, investments in the Romanian economy grew up 12,3%. Thus, in that year, investments in new construction works represented 47,5% of the total, while those in machinery and transport equipment accounted 43,4% of the total, up from the previous year. According to National Institute of Statistics (NIS), the largest investments volume was recorded in industry and commerce/services (Business24, 2013a).

Net investments on the main activities of the national economy in 2011 compared to 2010 are presented in Table 2.

TABLE 2 - NET INVESTMENTS OF PRINCIPAL ACTIVITIES OF THE NATIONAL ECONOMY IN 2010-2011

Branches of the national economy	2010 (%)	2011 (%)	Percentage variation (%)
Industry	37,6	37,7	↑0,27
Constructions	12,8	14,4	↑12,5
Agriculture, forestry, fishing	3,7	3,7	-
Services	45,9	44,2	↓3,8

Source: NIS, 2013a

It is found that in the both years, the investments in agriculture were maintained at the same level and in the industry have increased slightly, by about 0,27%. The largest increase of the investments was recorded in the construction sector, where the growth was 12,5%. In the service branch has been a decrease of investments by about 3,8%, but in this economic sector it was invested the most.

In the same period (2010-2011) the evolution of net investments in terms of their origin (funding sources) was as follows (Table 3):

TABLE 3 - NET INVESTMENTS ON FUNDING SOURCES

Funding sources of net investments	2010 (%)	2011 (%)	Percentage variation (%)
Own sources	63,4	66,6	↑5,04
Internal credits	6,1	6,2	↑1,6
External credits	9,3	3,2	↓65,6
State budget and local budgets	10,0	9,9	↓0,01
Foreign capital	2,1	2,3	↑9,5
Another sources	9,1	11,8	↑29,7

Source: NIS, 2013a

It is found that was increased the investments from own sources, internal credits, foreign capital and other financing sources too and was decreased those from external credits and those of state budget and local budgets.

Net investments are that costs for creating new fixed assets, but also for the development, modernization and reconstruction of existing ones. Investments comprise the following component elements: construction works, machinery, transport vehicles and other investment expenses.

At the end of 2012, respectively in the fourth quarter, the situation was as follows: net investments in Romanian economy increased with 5% compared to the same period of the last year, due to the increased at the equipments, including transport means (with 15,9%) and other expenses (with 11,2%), but a decrease with 6,7% at the new construction works (see Table 4).

TABLE 4 - NET INVESTMENTS IN THE ROMANIAN ECONOMY IN 2011-2012 (FOURTH QUARTER)

Component elements of investments	Structure (%)		Percentage variation of absolute value of investments (fourth quarter 2011-2012)
	Fourth quarter 2011	Fourth quarter 2012	
New construction works	46,6	41,7	93,3
Equipment (including transport vehicles)	42,7	47,2	115,9
Other expenses	10,7	11,1	111,2
Total	100	100	105

Source: NIS, 2013c

In the following Table 5, it can see that on overall 2012 compared to 2011, investments increased percentage with 12,3%, due to the increase of the investments at all the structure elements: at the new construction works with 5,9% and to the equipments, including transport means with 20,8%, and an increasing too of the other costs with 5,5%. In the structure of investments there were decreases at the structural elements - new construction works and other expenses, but there was a little increase at the equipment including transport vehicles.

TABLE 5 - NET INVESTMENTS IN THE ROMANIAN ECONOMY IN 2012-2013

Component elements of investments	Structure (%)		Percentage variation of absolute value of investments (2011-2012)
	2011	2012	
New construction works	49,5	47,5	105,9
Equipment (including transport vehicles)	40,8	43,4	120,8
Other expenses	9,7	9,1	105,5
Total	100	100	112,3

Source: NIS, 2013c

Branches of the economy in which was most invested in 2012 were: industry - 42%, trade/services - 32,1% and constructions - 19,5%, then agriculture – 4,1% and other branches – 2,3% (see Figure 1).

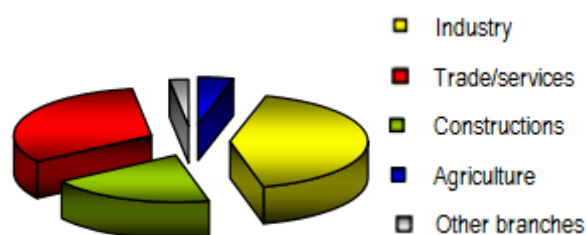


FIGURE 1 - STRUCTURE OF NET INVESTMENTS IN BRANCHES OF THE ECONOMY IN 2012

Source: NIS, 2013c

Net investments in the romanian economy registered a slight increase in the first quarter of 2013 compared to the same period of the last year, by about 0,5%, according to the Table 6 from below.

TABLE 6 - NET INVESTMENTS IN THE ROMANIAN ECONOMY IN THE PERIOD 2012-2013 (FIRST QUARTER)

Component elements of investments	Structure (%)		Percentage variation of absolute value of investments (first quarter 2012-2013)
	First quarter - 2012	First quarter - 2013	
New construction works	47,2	39,1	84,8
Equipment (including transport vehicles)	44,1	51,2	115,3
Other expenses	8,7	9,7	110,9
Total	100	100	100,5

Source: NIS, 2013b

Thus, there were increases in structural elements: equipments (including transport vehicles) with 15,3% and to the other expenditures with 10,9% and to the new construction works it was a decrease with 15,2%.

Besides local investments, foreign ones have an important role in reviving the economy of Romania. For example, in 2009, of the overall foreign investments, manufacturing has attracted about a third. Their orientation was to the oil processing industry, chemical products, rubber and plastics, to the sectors of electricity, heat and gas, to the mining and metallurgical industry and to the transport industry, food

industry, beverage and tobacco, cement, glass, ceramics, constructions and telecommunications (Business24, 2010).

#### 4. FOREIGN DIRECT INVESTMENT (FDI)

According to a study realised from the National Bank of Romania and National Institute of Statistics in 2013, the final balance of FDI at the end of 2012 was 7,2% higher than 2011. The orientation of FDI on economic sectors was mostly to manufacturing and its branches best represented were: oil processing, chemical processing, rubber and plastics processing, transport equipment industry, metallurgy, food industry, beverage and tobacco industry and cement, glass and ceramics industry. Besides industry, FDI were oriented too towards: financial intermediation and insurance, trade, construction and real estate and so on, as results from Table 7.

TABLE 7 - DISTRIBUTION OF FOREIGN DIRECT INVESTMENT ON THE MAIN ECONOMIC ACTIVITY AT THE END OF 2012

Types of economic activities	Percentage (%) of total FDI
► Industry, of which:	46,5
● Mining	5,5
● Manufacturing, of which:	31,3
- Processing crude oil and other products derived	6,7
- Transport machinery	5,4
- Metallurgy	4,9
- Food, drinks and tobacco	3,7
- Cement, glass, ceramics ecc.	2,8
► Financial and insurance	18,5
► Trade	11,4
► Construction and real estate	9,2

Source: RNB and NIS, 2013

In terms of territorial location, the most important foreign investments have been made in the Bucharest-Ifov region, where it was invested money even more than 30 times higher than the rest of the developing regions of our country, as shown the table 8.

TABLE 8 - DISTRIBUTION OF FDI BY REGION

Developing regions	Percentage (%) of total FDI
Bucharest-Ifov	60,6
Centre	7,8
West	7,6
South – Muntenia	7,2
South – East	5,5
North – West	4,8
South – West	3,5
North – East	3,0
TOTAL	100

Source: RNB and NIS, 2013

The countries that made the largest investments in Romania, since 2009 to present are: Netherlands, which at the end of 2012 owned 22,4% of foreign direct investment, followed by Austria with 18,5%, Germany 11%, France 8,9% and Italy with 5%.

## CONCLUSIONS

Romania is the European country where the level of public investments was the highest in Europe, as a percentage of GDP in the past 10 years, but the investments was not correlated with performance, requiring public policies at the sectorial level, to support investment activities in order to obtain a best report between public expenditures and results.

In the future it will allocate money in the main branches of the national economy for the economic recovery. This money will be allocated from EU funds, the EIB, the EBRD, the state budget for a number of major investments that will be made in the coming years. There are five strategic areas for the current investment policy. These are: energy, mineral resources, agriculture, industry and infrastructure (road and rail).

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