The Investments Process in Romania during the Latest Years. A Macroeconomic Analysis

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Abstract

Our below contribution refers to what is actually happening in Romania, as investments. Concepts, correlations and the rest of characteristics will help the analysis of the Romanian economic entities' investment behaviour in this part. References to main currents of thinking, as published in the established literature, see themselves turning here into the Romanian analysts' current opinions, as expressed in the local press, so in a different form of expression. These latter opinions will, of course, be accompanied by statistics and extracts of, where the case. Synthetic calculus on such concrete data will be part of references, as much as opinions, including speculations made by these specialists. No polemic objections to these from the author of this text.

Key words: domestic investments, public investments, external equilibrium, gross fixed capital formation (GFCF), decision management
J.E.L. classification: E00, E03, E20, E22, E43

1. Introduction

Shortly, the issues of this paper summarize as follows:first of all, whether and how exactly investment indicators could be influenced by policies applied, e.g. monetary policies (Patat 1993), development programs or other government tools, versus whether the companies "abstinence" towards investing might be the primary reality (i.e. primary to all interventionism). Second, whether and how much investment *uncertainty* and *risks* – that are pretty obvious for the micro (companies) area – could be actually the expression of the *macroeconomic* limits of the investments on economic growth impact. Third, whether public investments really keep positive influence on the private ones, versus the "Freedman incompatibility" between. Finally, the influence in this area of facts from foreign direct and/or portfolio investments.

2. Literature review

According to Marginalists (Hardwick, coord. 1992), investments firstly meet production, its technical capital (Wicksell 1893) and this latests substitution relation with labour – and capital-labour substitution is one of controversial concepts between classics-neoclassic (there is such substitution) and currents based around JM Keynes (no such substitution) – the classics' camp only apparently believe in growth when investing in technical capital only. Then, investments deal with development (Harrod 1939; Domar 1946). Harrod & Dommar, with their well-known model on economic development, together with Keynes(1936/2009) and opposite to neoclassic, do not believe in capital-labour substitution and think that development needs investments in both production factors.

Anyway development is the one that changes the appearance of the environment that hosts (once again) production, business, but also social life. This context might be properly called the 'real economy'. Out of this, investments meet the interest rate (Böhm-Bawerk 1890, 1891, 1921), money condition and banks (Fisher, 1907; 1930) – including the banking system –, together with financial companies, as well, on the short term. Actually, the interest rate that here works on the

savings-investments meeting is either significantly multiple levels (Mankiw 1994) or indirectly influencing even the market price level (Wicksell 1901, 1903, 1907).

To this classical-neoclassical context of thinking JM Keynes (1936/2009) adds a new bunch of items further related to investments: savings feeding them while these last are fed by *national income*, in their turn, and these on the short term, once again; then, on the short term investments meet *interest rate* as influenced by, while on longer term they search for their own impact on economic *growth* – as already mentioned above.

Another 'bunch' here brought in by Keynes, as well, contains *consumption* that influences investments in another 'triangle' context with savings – these last opposite to consumption on the short term and feeding investments on the longer one. It is consumption boosting investments, through investments *multiplier,* while imports lower the same multiplier here accusing the economic openness (Keynes 1936/2009).

Thirdly, investments associate with government spending – here including *public investments* – and, together with consumption (once again) they form the *aggregate demand* – ultimately, a premise of the next period *national income* with growth incorporated. Just a premise is this due to that, though, Keynes is the one who well understands that the growth effect of investments isn't absolute, but variable and influenced by factors turning them into *inflation,* the alternative to growth – actually the inflationary effect stays proper to aggregate demand.

The point that is both interesting, on the Keynes' side, and controversial with classics-neoclassic, is that in his Macro-Model investments appear exogenous for national income and interest rate, in their interaction on the *IS-LM curve* , which means exactly the opposite to the above classic view of interest rate instrumented by banks in raising/lowering investments. To Keynes investments get able to influence the interest rate in their turn. Actually this is not to blame Keynes for, but something else – in the Macro-Model firms appear as just benefiting from investments, not as making or initiating them; not as paying taxes or as making savings the way households do either. As the result there exist to Keynes the savings and even the investments rates, but not the investment as – *gross* and *net* -- *capital formation* or investment in *tangible assets,* versus *net* investment. Investment *uncertainty* and *risks*, *private* to *public* investments correlations as well as the ones between *domestic* and *foreign direct* investments, some of these expressed as *rates,* are issues and aspects that exceed the Keynesian view. Investments as private initiative are to be found on the classic-neoclassic (liberal) side of economic thinking only.

3. Research methodology

This paper is a part of an extended research work , and had the objective to reveal the investment behaviour of Romanian companies, which is larger than what this paper here provides. Actually, this paper extracts the *macroeconomic* part of our research conclusions and this just for space reasons. Then, there are two parts of analysis to debate about: (i) basics of this investment behaviour, see scholar related literature that was already exposed above and relates to our direct contribution; (ii) studies undertaken on Romanian companies' data in last two years , provided by those directly involved in accessing them in detail : the Association of Financial and Banking Analysts (AFBA), for which there will be speaking below analysts like Iancu Guda, Adrian Ionescu, Elena Deacu or Alexandra Pele ; the financial consulting company ‚Sierra Quadrant', here also basing its conclusions on its large client-companies portfolio. Also, studies made by organisms like National Institute of Statistics (NIS), National Bank of Romania (NBR) and National Office of Trade Register (ONRC) are here indirectly involved. A synthesis of such contributions on the investments domain has been made by us , based on related literature that will be added to the opinions of economic analysts; interesting aspects and conclusions here resulting from ultimately.

4. Research and findings

The Association of Financing-Banking Analysts or Romania (AFBAR) analysts are likely to prefer their conclusions associated to regularly National Bank of Romania (NBR) studies and reports. It is in such a context of facts that investments in Romania are viewed as affected by factors like: political instability, structural reforms' inconsistency, tensions on the labour market,

here including unpredictable wage behaviour, tax evasion and unfair competition -e.g. ‚black' and/or ‚grey' economy, (Ionescu N.A. , 2018)

In 2018 the Romanian companies' investments, together with public investments, just halved, as compared to 2009 (the story below is strictly related to current analyses reported by the Romania's specialized press, research centres and well-known individual researchers. Analyses and conclusions entirely belong to these persons and are cited as its are, without any of our interference) – actually, the 37 billion Ron investments amount of 2018 was about 52% of the real amount as such corresponding to that about a decade earlier. Or, the immediate cause of this seemed to be the specific resources' scarcity in this same private sector. Plus, wherever such resources though happen to be available the investment trust is the one that misses. It is certain that the State is re-confirmed as the , engine of investments in the sense that, at least in this country, it is not the private business area here expectable to provide investment resources and/or initiative, says the author here quoted. As in more detail, companies prefer to invest more in their livelihood, than in their renewal. About ¾ of the accounted value of the companies' assets – i.e. 5% of the total of 8% -- actually comes rather from land's and buildings' market reassessment, than from capital investments' growth. In other words, Romanian companies did prefer so far to preserve the level of *tangible assets* of the last decade.

4.1. Tangible assets. The cumulated value of Romanian companies' tangible assets actually went down from 769 billion Ron in 2016 to 707 billion Ron in 2017 year end and respectively 703 billion Ron in the next 2018. Long term investments for the assets' renewal (capital expenditure) in 2018 were 37 billion Ron, after just 8 billion Ron in 2017, while previously in 2016 these had been 85 billion Ron, which was more than the amount of the two next following years. The share of fixed assets in the total of assets in 2018 was 47% for firms of less than 1 million Euro revenue. On the contrary, investments in *intangible assets* amounted to about 25% of total investments in Romania, as compared to 36% that was the EU corresponding average.

4.2. Public investments. Recalling all of the above, *public investments* set the tone for total investments in Romania – i.e. in 2018 they fell to 2.3%, as compared to 4.8% of GDP in 2008, a decade earlier . It is also true that here there are two different analyses with a little differentiation of amount results -- i.e. the other of these mentions about 2.6% of GDP in 2018, as compared to 5.2% of GDP in 2009 – but the idea is quite the same. In context, public investments were 24.4 billion Ron in 2018 . More worrying is that 1/3 of total public investments go to the defence, invisible to the business environment, Iancu Guda estimates . The president of the Association of Financing-Banking Analysts or Romania (AFBAR), associates this public investments lowering to the larger context in which the State budget is likely to spend as much as 33% on wages, 13% on goods and services, 6% on interests paid and finally as low as just 4% on investments – of which,of course, 1/3 goes to defence modernizing.

4.3. Investment financing. Let us imagine that 39% of a total amount invested of 77 billion Ron in 2016 was made by delayed payments to suppliers. This was not so far from the 37 billion Ron, the bank credits to private companies the same year. Besides, companies' own resources were 10 billion Ron, of which 7 billions Ron were re-invested profit and the rest of 3 billion Ron was rising social capital .

4.4. Gross fixed capital formation (GFCF). The Gross fixed capital formation weight in GDP meets the most abrupt collapse of the whole EU area here, in Romania. And this brought to that the persistent economic growth be based on consumption, as the specific 'label' of the Romanian economy of these last years.

The productive assets acquisition – the main part of GFCF – went down, in its turn, from 37.4% of GDP in 2007 to 22.6% of GDP in 2018 – i.e. a minus of 15 percentage points. Or, such evolving is rather worrying from the perspective of the economic growth on medium term. Just noticing that public debt risen even while GFCF did not.

Another result of this contest of facts sees the *average working life of assets* approaching the 15 years time level – i.e. this is the highest such average of the last decade. 'It is too much for the current paces of *innovation* and of new products induced by new technologies', says Iancu Guda, who concludes that such an indicator reflects a low competitiveness degree on the Romanian companies' side.

It is no wonder, from another point of view, that the *economic supply* was not able to meet the corresponding domestic *consumption demand*. So, the last one drags imports into with the natural consequence of external *trade* and *payments balance* disturbance. And while the external balances and imports effects, the *exports* total amount was as high as 2,938 Euro per capita in 2018 – i.e. this is the second last in the EU, after Greece and 4 times lower than the EU average (11,160 Euro per capita). As for another example, in the neighbouring Hungary total exports concomitantly were 92 billion Euro, meaning 9,414 Euro per capita.

5. Conclusions

Another shortcoming of this investments sector is the one regarding *long term* investments. But this is exactly the above mentioned facts that lead directly to the non-adaptation of productions to the domestic demand – i.e. consumption demand, in excess with 10% in 2017, with 7% in 2018 and the same trend for the next following 2019. Or, also recall from above that such a *demand* exceeding over domestic *production-supply* naturally requires its taking over by *imports* – i.e. with the similarly natural consequence on the *trade deficit,* and that was so growing by 38%, in the first semester of 2018, as compared to the same period of the previous 2017. It was concomitantly that the Romania's GDP was growing by 5.5% and inflation by 4.1%.

This is also about another double decreasing capacity: the one of economic *restructuring* and the other of offsetting negative shocks from investments' specific revenue declining between 30% in 2008 and 20% ten years later, in 2018, of course, both effects concomitantly. As the concrete result, *revenues from investments* went down by as much as 80% in 2018, as compared to the 70% decreasing that had been ten years earlier, in 2008. "And all these directly due to a series of financial decisions taken along these recent years as not truly in favour of production and exports – while, on the other hand *consumption* was getting as oversized as up to boosting imports in its favour". (Guda I.) Then , investments in Romania are basically risky. They use rather short term specific resources – i.e. about 40% --, instead of highly substantial ones. Then, usually, investments prove time-delayed profitability, stay guided by 'what everyone else does' and keep low *multiplier effect* in the economy. Besides, the Romanian companies' current investments see themselves affected by phenomena like: wage rising expenses, unfair competition – e.g. tax evasion and 'black-grey' economy – and the harsh competition from imports.

Last, but not least, the same investments focus on *industrial sectors* like: constructions (see residential) and real estate transactions, whilst, on the dynamic part, the highest paces of investments are to be observed in sectors like: consumption goods industry, tourism and social assistance – i.e. and these last being examples for low multiplier effect of investments in the economy .

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