

# Foreign Direct Investments in Romania

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# What is FDI?

- **The investment**, in general, represents the allocation of a certain amount of capital in order to buy an asset, with the expectancy of a future wining.
- **The international investment** is the acquisition of a certain asset that is abroad.
- The international investments can be made either as **foreign direct investment (FDI)**, or as a **portfolio investment**.

# What is FDI?

- The FDI is “...an investment made to acquire lasting or long-term interest in enterprises operating outside of the investor’s home economy” – (IMF - Balance of Payments Manual).
- Portfolio investment: is the acquisition of different assets that can vary from stocks, government bonds, corporate bonds, to treasure bills etc.

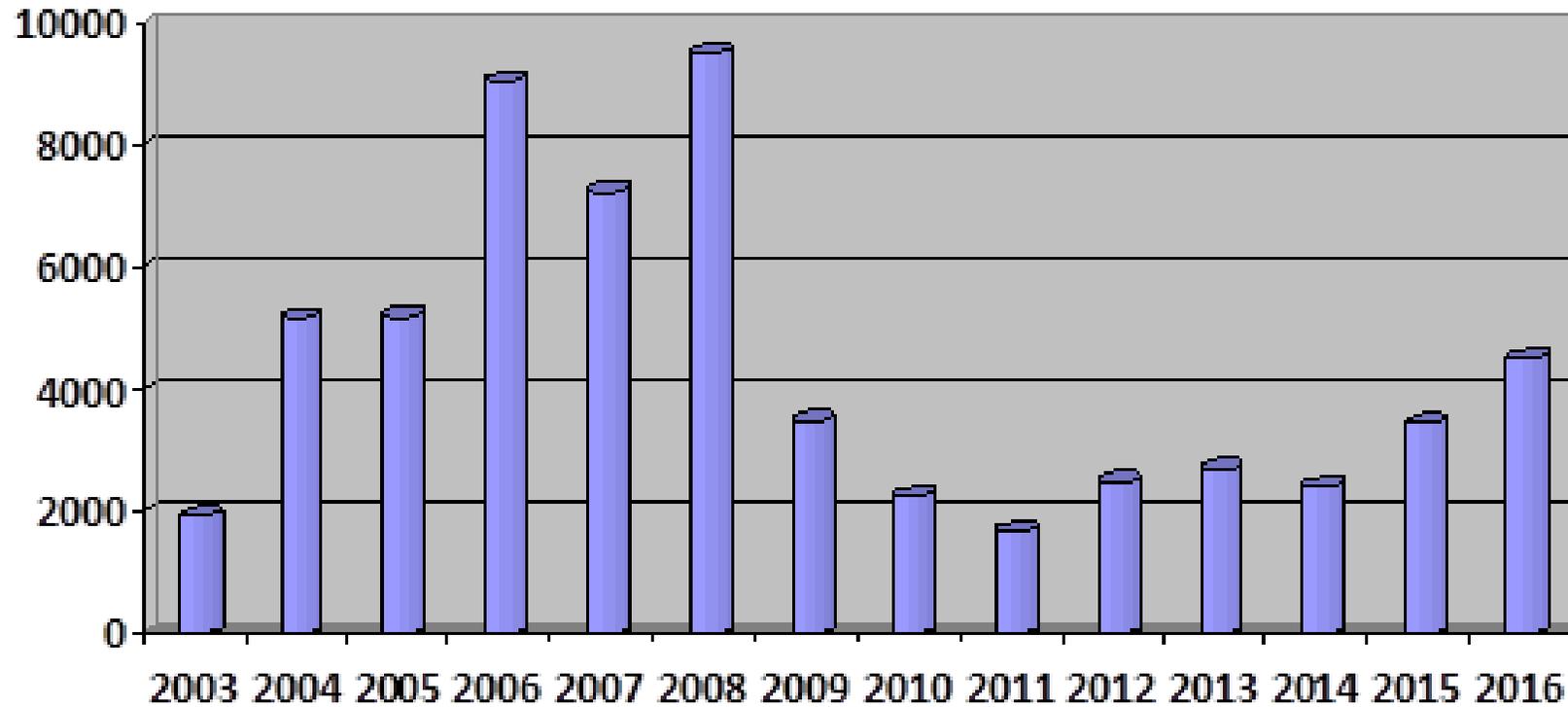
## Romania – Host country for FDI

- Historically, Romania represented an attractive destination for foreign investors, especially in the industrial and financial sector. (Ford in 1930s)
- During communism, Romania did receive some FDIs, after creating the necessary legislative framework. The investments were done only by creating joint-ventures between Romanian company (the majority of companies were state-owned) and the foreign investor. Another setback was the fact that the foreign investor could not own more than 49% of the shares.

## Romania – Host country for FDI

- After the fall of the communism, in the 90s, Romania has benefited from the foreign direct investments, as there were no more limitations, issued by the state. The newly-created legislative framework was foreign investor oriented and quite stable. As a result, Romania recorded the biggest inflow of FDIs in the region.
- Unfortunately, until 1997, the investors were mostly natural persons, due to the fact that, during those years, the privatization process did not start yet.

# FDI inflows in Romania 2003-2016



## Romania – Host country for FDI

- Until the early 2000s, Romania did not maintain the same trend in receiving FDIs, as the inflows' value decreased to levels smaller than those recorded the early 90s.
- One possible explanation might be the fact that the business environment became more unstable, turbulent even, which drew away the foreign investors, despite the fact that the government launched the privatization process.

## Romania – Host country for FDI

- 2004-2005: Romania recorded more than 5 billion euros worth of FDIs. Part of this success is the fact that the Romanian government managed to privatize two important players in the economy: PETROM and The Romanian Commercial Bank, both companies acquired by Austrian companies.
- In 2006, Romania was preparing to become a member state of the European Union, 2007 being announced as a sure date for ending the transition process to integrate the country in the Western European economic structures.

## Romania – Host country for FDI

- 2006: more 9 billion euros, the biggest value in the region. Moreover, due to the fact that our country was going to become a member state of EU, the entire region received more FDIs than the previous years, 8.6 billion euros which represented approximately 5% of the region's GDP.
- 2007: the upward trend started the previous year, was not maintained, as the inflow decreased by almost 20%, to a total value of 7.25 billion euros. Nevertheless, Romania, still managed to maintain a high attraction rate among the other countries in the region, due to the fact that the privatization process continued for that year as well.

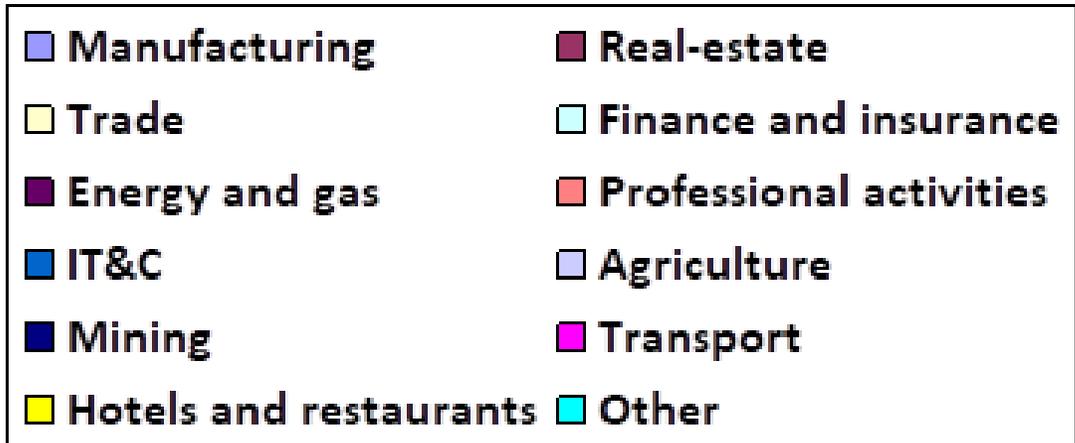
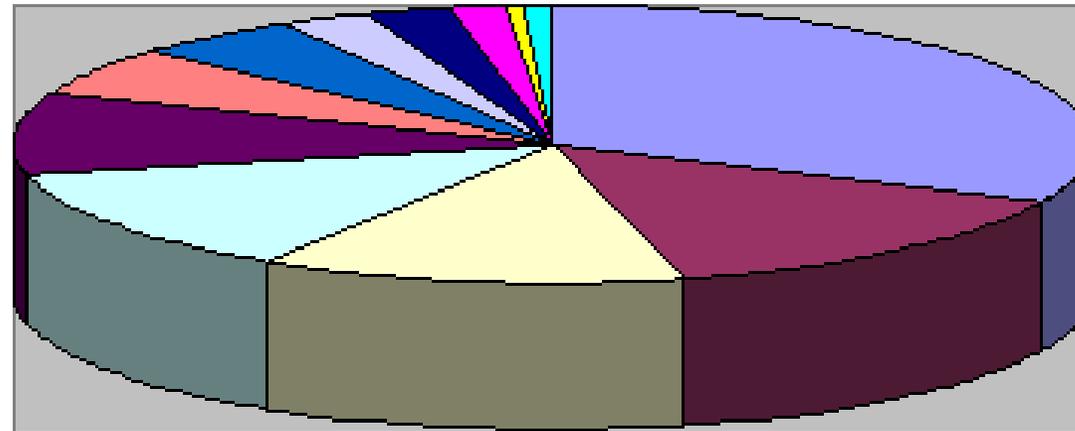
## Romania – Host country for FDI

- 2008: Romania continued to strongly attract foreign investors and it recorded the highest value of inflows, almost 9.5 billion euros. This year is considered the best year in history.
- 2009: the Romanian economy took the biggest hit after the fall of the communism: the crisis had erupted. All the foreign companies that invested here in the previous years tried to minimize or totally reduce their investments from the net income. That meant that Romania received only 3.48 billion euros, a 63.3% drop from the values recorded the previous year.

## Romania – Host country for FDI

- 2012: the inflows' values began to increase, the value was 2.4 billion euros which translates into an increase of 46%.
- 2016: the best year after the economic crisis: 4.5 billion euros => 30.5% increase from the previous year and 165.7% compared with 2011, the worst year in the post-communist era.

# Romania – Host country for FDI



## Romania – Host country for FDI

- FDI by activity: in 2016, most of the FDIs are concentrated in the industrial sector, in manufacturing industry, 32%, while the real-estate attracts only 14% => automotive industry.
- FDI by geography: most of the investments done in 2016 were concentrated in the Bucharest-Ilfov area, 59.9%, while the center of the country with only 9.1% is the second option for the investors.
- FDI by origin of capital: in 2016, almost 90% of the capital comes from Europe and out of that, 24.3% is Dutch. The next two major countries are Germany (13.2%) and Austria (11.9%).

# Conclusions

- Throughout the years, Romania has proven that it can attract foreign direct investments due to its geographical positioning, the low cost labor force and an important market potential.
- The integration within the European Union was an important step in Romania's economic development, especially in relation with foreign investments. Being an EU member state means an easier access to foreign capital through EU's financial instruments. As a result, Romania can develop its economy in key sectors, mostly infrastructure, environment, which will make the foreign investors more interested in this market.

# Conclusions

- Another benefit of being an EU member state is the gain in image, as a country with a more stable economy, more suitable for business.
- Although Romania has been one of the performers in the region in terms of attracting FDIs, it is important for the government to set up a promotion strategy for the country and implement it through specialized agencies.