INVESTMENTS AND ECONOMIC RECOVERY

ADELA BREUER, NĂTĂLIȚA-MIHAELA LESCONI-FRUMUŞANU, JEANINA BILIANACIUREA [*]

ABSTRACT: *The present paper approaches the notion of investment in order to demonstrate the necessity and importance of investments in an economy of transition, as it is the case in Romania and in a period of crisis, as it is the case of the current global economy. Through the evolution of investments in Romania and at the level of EU in the last years, we demonstrate that a high level of investments leads to economic prosperity, generally, in Romania the foreign investments having the effect of economic recovery. The performed research brought us definite arguments for the stimulation of foreign investments which would lead to the reduction of unemployment, inflation, to the increase of the products and services quality, i.e. of economy.*

KEY WORDS: *investment; direct foreign investment; economic recovery*

JEL CLASSIFICATION: *O11, M11*

1. INTRODUCTION

Investment means placing the capital in the capitals of other economic entities with the expectation of profit. According to the same source, the investment can also be seen as the allotment of an amount of money and of other material means for the creation of new fix funds, in order to enlarge and modernize the existing ones. Making a parallel between the theoretical and the practical plan; theoretically the investment is defined as a complex and controversial financial category, practically it is a reality which marks the past and places landmarks in the future (Stoiana, 2008).

From another point of view, the investment represents the placing of money in securities ensuring income under the form of interests, dividends or capital gains, respectively

[*] *Lecture, Ph.D. Student, "Eftimie Murgu" University of Reşița, Romania, adela1209@yahoo.com*

Assist. Prof., Ph.D. Student, "Eftimie Murgu" University of Reşița, Romania, mihaelafrumusanu@yahoo.com

Lecture, Ph.D. Student, " Eftimie Murgu" University of Reşița, Romania, j.ciurea@yahoo.com

the acquisition of inputs. Simply put, the investment is defined as the totality of expenses performed for the purchase of capital goods.

As a conclusion, we can affirm that the investment represents funds allotted by the economic entity either in the capital of another economic entity with the expectation of profit as income or interests, or the sums allotted for the development of one's own business by placing the funds in the acquisition of new means necessary for the development of the activity or for the development of the existing means.

2. ROLE OF INVESTMENTS IN ECONOMY

The necessity and importance of investments in the economic life, and not only, through extrapolation even talking about their importance for the development of human community, firstly derives from the fact that the main engine for the development and the economic recovery is represented by investments. The performing of investments, viewed in terms of volume, leads to the economic increase, by increasing the goods and services, and through the quality of the performed investments we obtain the increase of the consumers' life quality, the investments being considered "as spreading new, sharing their own novelty" bringing lots of improvements (Vasilescu et al., 2000).

The role of investments in the economic recovery derives also from the fact that they are a factor for the stimulation and increase of demand and tender on the market. Firstly we talk about the development of the production of goods and services that appear on the market, bring diversity of assortments, hence the increase of the demand brings with it the development of the economic entity, as well as the creation of new work places. Thus, the investments are very important in the development of the human community as well.

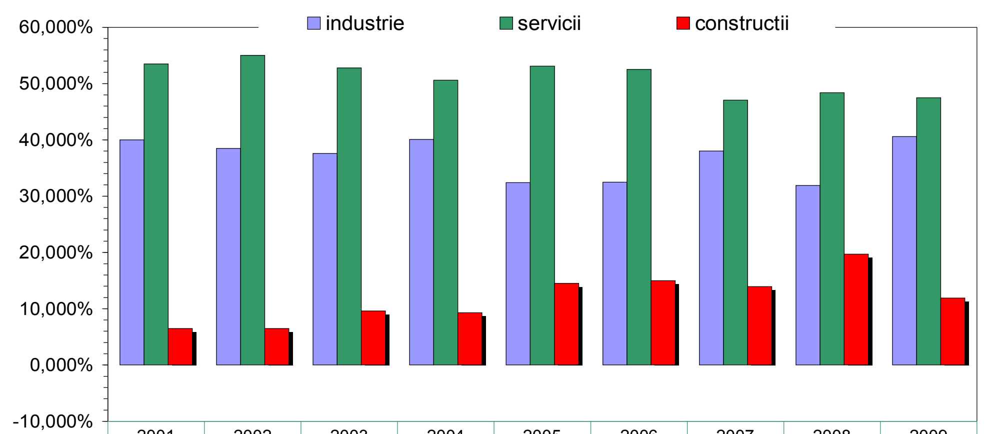
Strictly viewed in economic terms, the investments lead to the economic recovery and increase through the cyclic character of incomes obtained from the investment performance. Thus, the implementation of a new investment, attracts incomes for the implementing entity but also for other economic entities, because the performance of an investment means the launching of the demand and tender in that field, the demand from the entity that performs the investment, and the tender from the connected entities that can offer the goods and services necessary for the investment performance. As a conclusion, the investment performance attracts incomes for the entity that implements it, but also incomes for the entities that participate to the investment by offering goods and services. The incomes obtained in both cases go back to economy, attracting other investments and the creation of new incomes.

As for Romania, the necessity and importance of investments are even higher as Romania had to face a transit economy (from communism and centralized economy to democracy and free economy), and starting with 2008, it had to face an economic crisis which distorted the economic reality in many countries considered strong and stable (USA, Germany, Greece, etc).

Once with the negotiations for the EU accession, Romania benefited from an investing push, from two points of view. Firstly, due to the funds received from the EU, and secondly, because it represented an attractive market for foreign investors, due to cheap labour force and taxes, especially the profit tax, smaller than the ones in the European community. This situation remained the same after 2007, the year of Romania's accession, but compared to the years before the accession, the volume of investments diminished, and once with the economic crisis, they decreased drastically.

3. EVOLUTION OF INVESTMENTS IN EU AND ROMANIA

The evolution of net investments in the national economy during the period 2001-2009 (figure 1) encountered fluctuations in all fields, but especially in the main ones as industry, services and agriculture, and also constructions. Analysing the data supplied by the National Institute of Statistics for the period 2001-2009, we can notice that the industry has encountered in the period 2001-2003 a descendent trend losing 2.4%, but the lowest drop registered in the year 2005, when it lost from one year to another (2004 compared to 2005) 7.7% and later it followed the same trend, namely that of recover in 2007 (38.00%) and again a drop in 2008 (31.90%). What attracts the attention in net investments in the Romanian economy is not the fact that in 2008 the investments registered a drop of 6.10% in industry, which is very normal taking into consideration the global economy and the economic crisis, but the fact that in 2009, in full economic crisis, the investments in industry registered a higher increase of 8.7%, which is a good thing because the industry takes second place at the incomes collected for PIB, after services and commerce.



	2001	2002	2003	2004	2005	2006	2007	2008	2009
industrie	40,00%	38,50%	37,60%	40,100%	32,400%	32,500%	38,000%	31,900%	40,600%
servicii	53,50%	55,00%	52,80%	50,600%	53,100%	52,500%	47,050%	48,400%	47,500%
constructii	6,50%	6,50%	9,600%	9,300%	14,500%	15,000%	13,950%	19,700%	11,900%

Source: elaborated by the authors processing the data supplied by INS

Figure 1. Net Investments on the main sectors of the national economy for the period 2001-2009

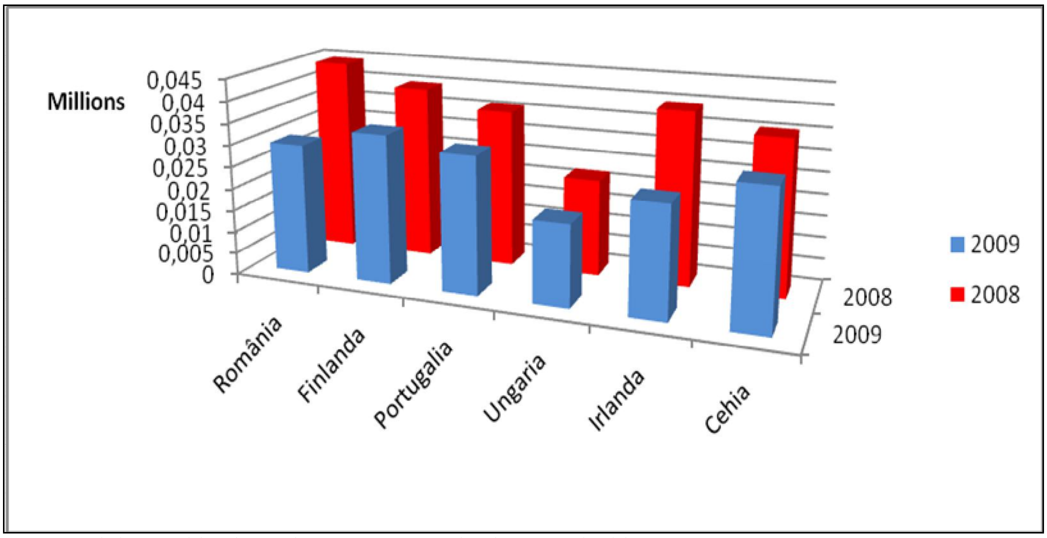
Referring to commerce, services and agriculture, the trend followed by investments is approximately the same with the one in industry, but in the period 2001-2006 no major fluctuations were registered, the percent afferent to investments in this field being round the percentage of 50% (between 0.6% and 55%). The year 2007 is the first year when the investments afferent to this segment of the national economy was under 50%, knowing a drop of 5.45% from 52.50% to 47.05%. The years 2008-2009 did not bring any substantial changes in commerce, services, agriculture, the registered fluctuation being a normal one, that of a slight decrease in the conditions of the current economy.

The constructions sector was strongly marked by the global economic crisis because, after knowing a strong development in the period 2001-2006, registering rises of over 100%, from 6.50% in 2001 to 15% in 2006, they encountered a slight decrease in 2007, with 1.05% and in 2008 with 5.75% (19.70%). The largest decrease in investment in all areas, i.e. 7.8% in 2009, was registered by the construction sector, reaching values close to the ones from 2004, i.e. 11, 90%.

At the level of the European Union the situation of investments does not look any better. In the period 2001-2008, at the level EU27 we registered a continuously rising trend from 1935103.5 million Euros, in 2001, to 2638393.2 million Euros in 2008, thus the global economic situation shaken by the economic crisis broken out in 2008 led to the reduction of investments with around 400.000 million euro, registering in 2009 a value close to the one in 2005, i.e. 2274234.7 million euro. If in Romania, at the EU27 level, the investments registered a rising trend from 2001 to 2008, registering a rise 5 times higher (from 9295.3 million euro in 2001 to 44605.6 million euro in 2008) the year 2009 meant the reduction with almost half of the investments, their volume registering a value of 29676.5 million euro.

In 2008 (figure 2), when Romania registered the highest level of investments from the analysed period, 2001-2009, their volume represented 1.69% from the total of investments at the EU27 level, outgoing countries like Finland (1.51%), Ireland (1.49%), Portugal (1.36%), the Czech Republic (1.37%), Hungary (0.83%). On the other hand, in 2009, Romania kept its progress just in the case of Hungary and Ireland, in the other countries the decrease of the level of investments not being that high.

Because the economic crisis, the global economy confronted with, did affect all the segments of economy, the European Union launched in 2008 „the European Plan of economic recovery", approved by the European Council in December 2008. It implies a financial support of at least 200 billion EUR (1.5% from PIB) from the EU and national budgets in order to recover the demand and the economic activity and to keep the labour force and create new ones. Measures taken by the European Union for economic recovery also stipulate the protection of the population, the workers and the entrepreneurs affected by the economic crisis. It proposes more support for these vulnerable groups, including investments meant to strengthen the professional competences and help people keep their workplaces or find other ones. Also, EU will fasten the distribution of social and regional funds – 6.3 billion Euro- and intends to allot financial incentives to enterprises strongly affected by the crisis, from the construction sector and the car sector that produce ecological cars and build efficient buildings from an energetic point of view.



Source: elaborated by the authors processing the data supplied by Eurostat

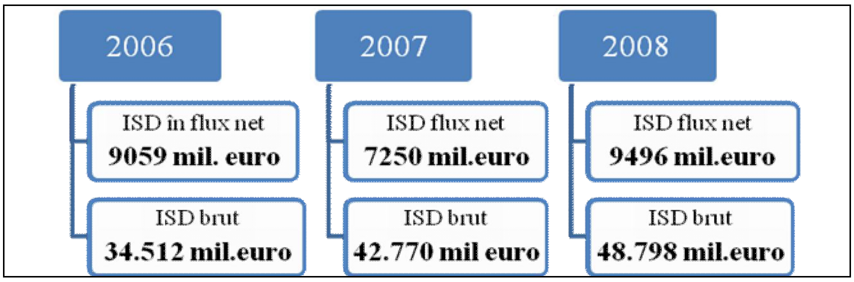
Figure 2. Comparison between Romania and other member states for the years 2008-2009 regarding the investments at the EU 27 level

„The European plan of economic recovery: investments in value of 5 billion EUR", according to the press conference given by the European Parliament on 6th May 2009, is another measure taken by EU for economic recovery. According to this package of anti-crisis measures, 3.98 billion Euros will be invested in the infrastructure for electricity, natural gases, wind-power energy, and carbon storage. The European Parliament supports the allotment of 1.02 billion Euros for projects in the rural development. To retain is the fact that Romania benefits of financing for the projects of gas interconnection Romania-Hungary (30 million Euros) and Romania-Bulgaria (10 million Euros) and of the development of equipment infrastructure that should permit the inversion of gas flow in the case of a short interruption in supplying (80 million Euro).

Romania's economic recovery was sustained, and still is, first of all, by the direct foreign investments, including here the grants as well as the investments from foreign investors. The direct foreign investment represents the long investment relation, between a resident entity and a non-resident one; usually, it implies the exertion by the investor of a significant managerial influence in the enterprise in which it invested. Direct foreign investments are the following: paid capital and the reserves of a non-resident investor that holds at least 10% from the subscribed social capital of a resident enterprise, the credits between this investor and the enterprise in which it invested, as well as the profit reinvested by it.

Because FDI is an important part of our investments in the country, which is reinforced by the fact that, according to press release of 12/02/2010 NBR in 2009 the current account deficit of balance of payments amounting to 5 054 million was funded at a rate of 96.9% by non-residents' direct investment in Romania, which recorded 4 899 million, down 48.4% compared to 2008 (NBR, 2008).

We continue to analyze the situation on the structure of foreign direct investment and sources of origin, referring to their balance for the period 2006-2008 (figure 3). From data provided by B.N.R. in conjunction with INS, we see that the gross amount, ie FDI result of adding balance to the opening balance of net FDI flows and the difference value positive / negative revaluations resulting from exchange rate and price changes of assets and the value accounting restatement of opening balances for the period under review, investments increased progressively from Euro 34.512 million in 2006 to 48.798 million in 2008, but viewed in terms of net FDI flows, they decreased by 0 8% in 2007 from 9.059 billion Euros in 7250 million in 2007, because then in 2008 to increase to 9.496 billion Euros and in 2009 to record the highest drop so far, i.e. the reduction with 48.4 %.



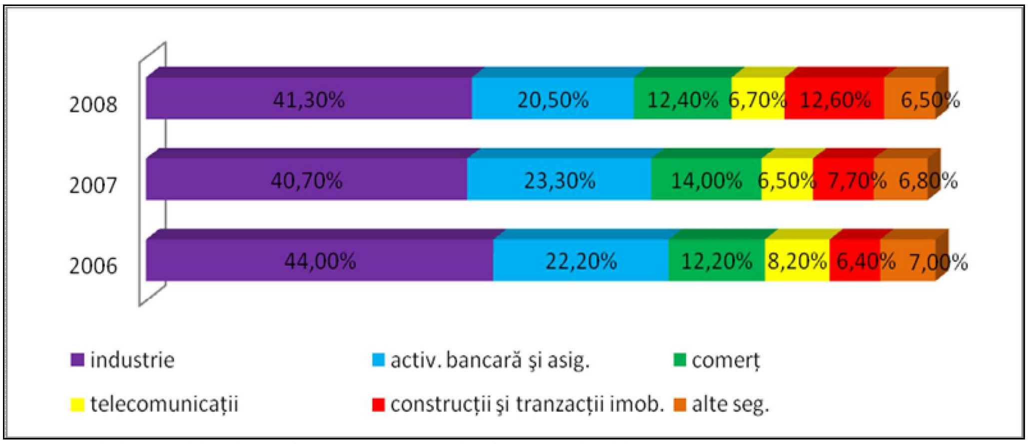
Source: elaborated by the authors through the process of data supplied by B.N.R.

Figure 3. FDI in Romania in net flow and gross value

From a structural point of view, FDI also contain investments in industry, in the banking activity and insurances, retail and wholesale, telecommunications, constructions and real estate transactions and foreign investments in other fields (figure 4).The largest share in FDI is held by the investments in industry, ranged around 40%, on the second place being the banking activity and insurance with a percentage between 20.5% and 23.3%. The other segments of the national economy in which foreign capital investments too place, registered fluctuations, the greatest decrease registering in telecommunication where from 8.2% in 2006 it got to 6.5% in 2007, respectively 6.7% in 2008. As opposed, the constructions and real estate transactions increased with 6.2%, i.e. almost double in terms of percentage, and as in terms of value, the rise is even more spectacular, the sum derived from the direct foreign investments tripling from 2208,77 million Euro in 2006 to 6148,55 million Euro in 2008.

The first place was occupied by Austria, its investments representing 23% in 2006 and dropped to 18.8% in 2008. The next country investing in Romania is Holland which in 2006 had a quota of 17.1%, dropping to 16.3% in 2007 and then in 2008 it got back to 17,2%. DFI performed by Germany in Romania followed a trend opposed to the rest of the countries, i.e. from a share of 10.1% in 2006, it increased to 11.7% in 2007 reaching a share of 15.4% from the total of DFI in our country in 2008; in terms of value, Germany doubled its investments in our country in the period 2006-2008 starting from an investment of 3473 million Euro, reaching a total investment of 7509 million lei. As opposed we have Spain, in 2006, with 263 million Euro, Canada with

210 million Euros and Israel with 107 million Euros. Starting with 2007, after Romania's accession to EU, the list of DFI contained the European Bank for reconstruction and Development (EBRD) which in 2007 invested in Romania 103 million Euros, and in 2008, 152 million Euro. Also in 2007 at the end of the top list was Gibraltar with 112 million Euros, and in 2008 was Lebanon with 159 million Euros, but in 2007, Lebanon invested 179 million Euros in our country.



Source: elaborated by the authors processing the data supplied by B.N.R.

Figure 4. The DFI in Romania in the period 2006-2008

4. CONCLUSIONS

As a conclusion, from the above presented issues, we can depict the importance of investments for the economic recovery and development of each country. If we consider the ex-communist countries, for which progress was forbidden for years, then we have to specify that investments are of great importance for development and recovery, but the direct foreign investments are vital due to the lack of native capital and efficient investment strategies, but also due to the lack of experience in management.

The main issue in Eastern Europe, as it is the case in Romania, is that, by shutting out from the rest of the world due to the countries politics, the technical and technological progress is not at the same level with the rest of the countries. The economic recovery through investments results in new technology, equipment with last generation assets leading to substantial progress of the economy. The technological progress brings with it the increase of labour production in all fields, through the increase of the labour force output, the increase of the economic entities incomes, further leading to other investments.

The fact that external investors showed up on the intern market, either by opening new branches or subsidiaries, by creating new economic entities or by placing funds in native companies for their development, leads to the increase of workplaces thus reducing unemployment. It also leads to the increase of the population's consumption, through salary incomes, further leading to the increase of life standards generating incomes for the economic entities, creating other incomes and investments.

Financially, the foreign investments attract strong currency inflows (Euro/USD), thus maintaining a low exchange rate, leading to the increased power of the national currency. Another aspect that should not be neglected is the strong currency inflow that helps the government not to apply for external credits, leading to the reduction of external debts, or at least maintaining them at a constant level.

We should also mention the qualitative aspect of products and services on the intern market which must increase their quality if they want to survive on the market, because the appearance of foreign investors leads to competition between economic entities, to the implementation of another qualitative level to which the native entities see themselves forced to adjust.

REFERENCES:

[1]. Românu, I.; Vasilescu, I. (coord.) (1997) *Managementul Investitiilor*, Editura Margaritar, Bucuresti

[2]. Stoiana, C.N. (2008) *Risc şi incertitudine în investiţii*, Teora, Bucureşti

[3]. Vasilescu, I.; Românu, I.; Cicea, C. (2000) *Investiţii*, Economic Press, Bucureşti

[4]. http://dexonline.ro/definitie/investitie (2010)

[5]. http://www.banknews.ro/dictionar_financiar-bancar/#IAS (2010)

[6]. http://www.contabilizat.ro/dictionar_economic_si_financiar~termen-investitii.html (2010)

[7]. http://www.insse.ro/cms/rw/pages/comunicate/indici_constr.ro.do (2010)

[8]. http://epp.eurostat.ec.europa.eu/ (2010)

[9]. http://ec.europa.eu/social/home.jsp?langId=en (2010)

[10]. http://ec.europa.eu/news/economy/081127_1_ro.htm (2010)

[11]. http://www.europarl.europa.eu/ (2010)

[12].http://www.euractiv.ro/uniunea-europeana/articles%7CdisplayArticle/articleID_17132/PE-isi-da-girul-asupra-planului-european-de-redresare-economica.html (2010)