

INVESTMENT STRUCTURE AND EVOLUTION IN THE CONTEXT OF ECONOMIC CRISIS

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The scope of this article is the evolution analysis of net investment in Romania between economic growth and international economic crisis. The analysis captures both the evolution of net investment by structure elements (buildings, outfits, other investments) and the structure and evolution of investments by sources of financing. Also there is an analysis of the foreign direct investment (FDI) share in the total net investment and the impact of the economic crisis on this share. The article aims to identify the main factors for the evolution of investments in Romania before the financial crisis and determine how the financial crisis influenced the structure and volume of investments in the national economy.

Most previous studies have focused either on a small part of the investments made in Romania (in most cases the FDI have been analyzed) or on the period of economic expansion without capturing the evolution of investment during the economic crisis. Previous research has highlighted especially the FDI influence on macroeconomic indicators of high importance for the economy (unemployment rate, GDP growth rate, etc.) with less focus on the factors influencing these investments and the close connection between the economic context (economy status) and the volume of these investments.

For the analysis of the investment evolution during the mentioned period statistical data was used that captured both the investment evolution trend and the changes occurred by the national economy stepping into recession amid the global financial crisis established. To get an overview of the situation it was considered a time interval that captured both the economic growth and the period after the onset of the economic crisis. Thereby information was obtained on the volume of net investment during 2000-2010, on foreign direct investment in the period 2003-2010 and their share in total net investment and also on the main sources of investment financing during the economic growth and the influence of the economic crisis on the structure of these funding sources.

The analysis of this information and results allowed drawing conclusions on the impact of the economic crisis on the volume and structure of investment in Romania, on the main sources of financing used by investors in times of crisis and regarding main courses of action to stimulate investment activity in order to re-launch economic activity.

Keywords: *Net Investment, Romania during crisis, foreign direct investment (FDI), sources of investment founding, investment evolution*

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Introduction

Internationalization and globalization of economic affairs, of industrial production, of the movement of financial capital, determines the investment activity to become of global nature, with implications for all national economies and the entire global economy.

Investments are the material basis of social and economic development of any country. They provide quantitative and qualitative growth of fixed capital, increase in technical and economic efficiency of existing capital, but also create new jobs.

There are three major areas of traditional investment opportunities (except gold, art works and goods), namely: fixed interest securities, companies' shares and capital goods and real property.

Net investments represent expenditures for construction, installation and assembly works, equipment and transport means purchasing, and other expenses for creating new fix assets for developing, modernizing, rebuilding the existing ones, as well as the value of services related to the transfer ownership of existing fix assets and lands (notary duties, commissions, transport, loading and unloading expenditure) etc..

Net investments comprise the following structure elements: construction, outfits (with or without assembly), geological and drilling works, other net investment. Depending on the source of financing, net investments can be classified as: investments financed from own funds, investments financed from internal and external loans, investments financed from the state budget and local budgets, investments financed with foreign capital, and investments financed from other sources.

Foreign direct investments are considered paid-up capital and reserves falling to a non-resident investor owning at least 10% of the subscribed capital of a resident enterprise, the loans between the investor and the company he invested in, and profit reinvested by him.

There are three types of foreign direct investments, namely:

- Greenfield - creation of enterprises by or with foreign investors (Greenfield investment);
- Mergers and acquisitions - full or partial takeover of enterprises by foreign investors from residents;
- Business development - increasing holdings of foreign investors in foreign direct investment enterprises.

Whether we consider a period of economic expansion or recession, investments are the main engine of economic growth and development or, as the case may be, of revitalizing economic activity in times of recession and financial crisis. In Romania's case, with an emerging economy, investments have a decisive role in ensuring the modernization of economic activity as a prerequisite to adapting technical and economical conditions of passage of the national economy to a market economy, our country's participation in international economic relations in conditions of competition and competitiveness.

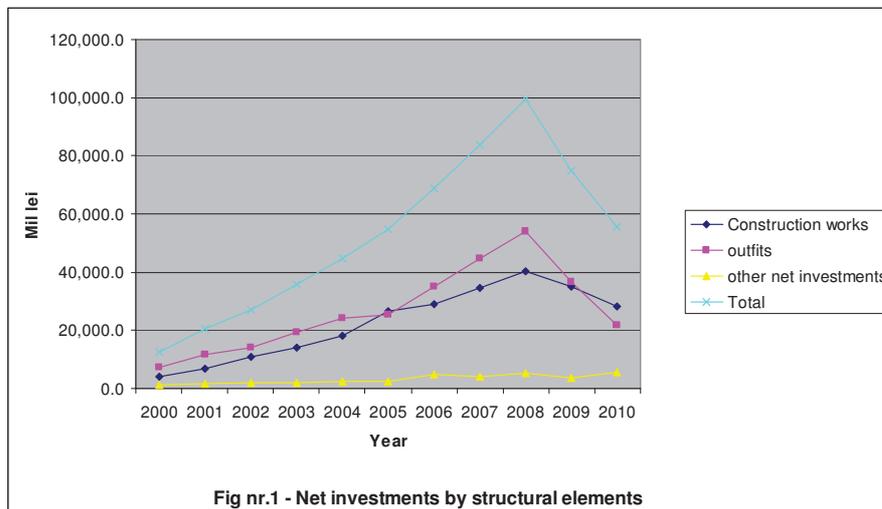
Investment Evolution in Romania

Tracking the investments history in the national economy over the past 20 years, four periods of the economy can be defined. Overall, investments in the national economy grew approximately three times in the last 20 years, from about 7 billion dollars in 1990 to around 19 billion dollars (55.6 billion lei) in 2010. GDP has seen a similar evolution, increasing four times in the same period.

- the first stage was represented by a period of investment decrease (1990-1992)
- the second stage is represented by the period 1993 to 1999, during which investments have had a tendency of stagnation or slight increase
- the third stage covers the years 2000 to 2008, a period of strong increase of investments in the national economy, from 12.5 billion lei in 2000 to about 99.5 billion lei in 2008, thus resulting in an increase of about 8 times compared to 2000
- the fourth stage is the period of economic recession and covers the period from 2009 until present day, during which investments have dropped almost to half of the level recorded in 2008

The purpose of this study is the period between the years 2000 to 2010, that is stages three and four of those mentioned above. More specifically, this period includes an exponential growth in the volume of net investments stage, from a level of approximately 12.5 billion lei in 2000 to a peak of about 100 billion lei in 2008.

The evolution of total net investments and on structure elements is shown in the chart below:



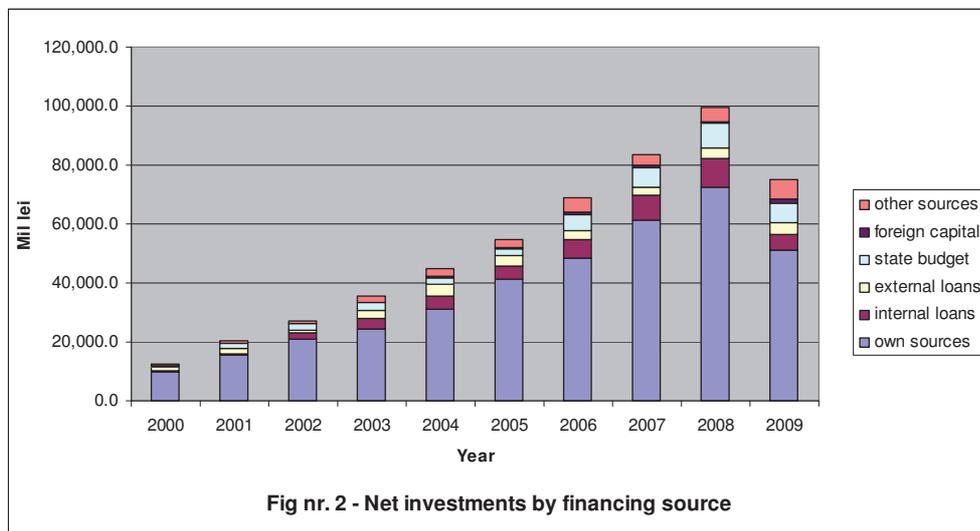
Looking at the chart above, some important ideas about the evolution and structure of investments in the analyzed period can be stated, namely:

Firstly, we can see that the net total investments grew rapidly in the first years analyzed and slower in recent years. Thus in 2000-2001 there was an increase of over 60% of net investments, from 12.5 billion lei to about 20.5 billion lei. In the following periods (2001-2002 and 2002-2003), increases were approximately 30% over the base year. Growth during 2004-2006 was approximately 25% compared to previous years, and growth during 2007-2008 was approximately 20% annually. The maximum total net investments was achieved in 2008, their value being about 99.5 billion lei.

Secondly, it should be noted that, in the last two years of analysis, amid the financial crisis took place a drastic decrease in the volume of annual net investments, a decrease which meant in 2010 a net investment value of approximately 55% lower than the peak year 2008.

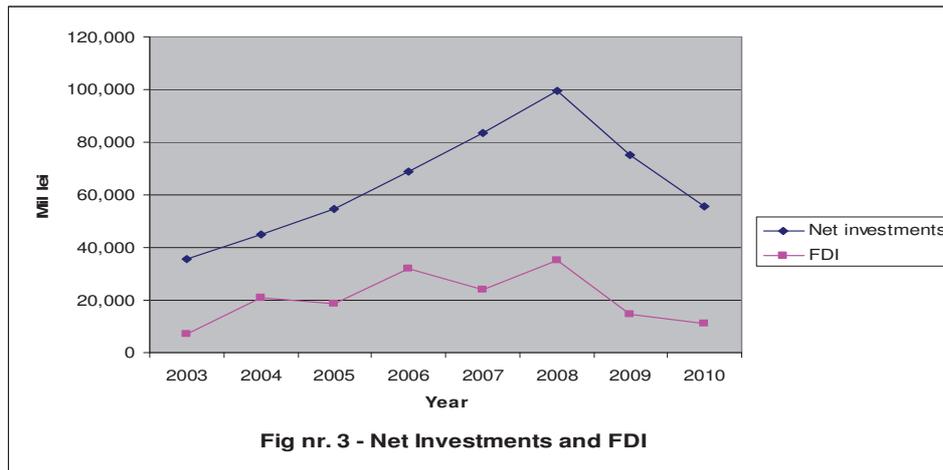
Thirdly, the structure analysis of investments in the analyzed period allows observing the fact that, except for the years 2005 and 2010, the main share of total investments was represented by equipment (including means of transportation).

Another classification of total net investments of special importance for understanding their evolution in the analyzed period is represented by total investments division based on the funding source. This classification allows us to identify the main sources of financing preferred by investors in economic growth period and how these preferences have changed in the context of financial crisis. This information can be summarized in the chart below:



As can be seen looking at the chart above, the main share in financing of investments is from own sources, which represents approximately 70%-75% of the total net investments made annually, with a general downward trend during the analyzed period, from 77.5% in the first year of analysis to about 68% in 2009. The only source of financing which had a steady upward trend (as a percentage share in total investments) the entire period of analysis is represented by the state budget. Thus, if during the first year of analysis investments financed from the state budget accounted for only 3.4% of total investments, in the last year of analysis they have reached about 9% of total investments, representing the second most important source used by investors to finance investment projects. An interesting situation occurred when financing through loans. Thus, if in 2000 foreign loans represented approximately 12% of the total financing sources, and domestic loans only 3.5%, at the end of the period, the relation between these two forms of financing has been reversed, thus domestic loans in 2009 represented approximately 7.5% of total investments and external ones have dropped over 50% in 2009, reaching a level of about 5% of total net investment.

Another very important aspect for understanding the evolution and structure of investments in economic growth and then in recession is the foreign direct investments' analysis both as evolution and as a ratio compared to net investments. The period considered for this purpose includes the years between 2003 and 2010 and is briefly presented in the chart below.



Foreign direct investments have had an oscillating evolution throughout the period analyzed, both in volume and as a ratio towards the total net investments. The maximum level of direct foreign investments was achieved in 2008 when FDI reached approximately 35 billion lei (9.5 billion Euros), a year in which the total volume of net investments also reached the maximum level of 99.5 billion lei. The establishment of the financial crisis caused a significant decrease in the level of FDI, in 2010 reaching about 11 billion lei, which represents a decrease of approximately 70% compared to the 2008 level (35 billion lei).

Largest share of FDI in total net investment was recorded in 2004 and 2006, when FDI accounted for about 46% of the net investment volume in the national economy.

Results and Conclusions

The analysis of the evolution of investments in the national economy during the strong growth in national economy and changes occurred with the establishment of the global financial crisis and Romania's entering into a recessionary phase allows the following observations and conclusions: Firstly, the evolution of net investments in the national economy is similar to the evolution of main macroeconomic indicators during the analyzed period (unemployment rate, GDP, industrial production, trade, etc.), namely growth until 2008 and a sharp decrease in 2009 and 2010 due to the financial crisis. Therefore, net investments have suffered a strong correction in the two years of recession, materialized in the decrease of more than 50% of net investments, thus reaching the level registered in 2005.

With regard to financing sources, it appears that the only source of financing which had a significant and positive trend as a share in net investments is represented by the state budget. This is because since 2007, Romanian investors have benefited from non-reimbursable European funds accessed through various operating programs and following which, during 2007 to 2010, total funding of about 38.7 billion lei were accessed, the total value of projects funded through these funds being over 60 billion lei.

The investment category that has had one of the most extensive movements during the analyzed period is represented by foreign direct investments. In the period 2003-2008, foreign direct investments increased about five times, and during the two years of recession they have fallen by about 70% compared to the maximum level of 2008. This significant increase in FDI in the period of expansion is based on the convergence of several factors such as: cheaper labor force in our country compared with Western countries that have led some multinational companies to

open offices in Romania, Romania's accession to the EU on January 1, 2007, the improvement of living standards made Romania become an attractive market for major retailers in the EU, etc. Given the close relationship between FDI and the national economic situation, we anticipate that they will resume their upward trend only when the national economy will also take an upward trend thus determining foreign investors to regain confidence in the national economy.

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