GENERAL ASPECTS ON DEVELOPMENTS IN EQUITY INVESTMENTS IN ROMANIA

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Abstract

In this paper, the authors realize a complex review on the evolution of capital investments in Romania. The increase of capital investments is seen as one of the factors that will contribute in a favorable manner to the economic development, not only in Romania or Europe. The authors describe the overall evolution of the investments, the elements that influence the efficiency and the evolution of the Direct Foreign Investments.

Key words: investment, capital, solution, foreign, efficiency

General Background

The social and economic results achieved by Romania after 2010 provide us an unprecedented drop. The indicators on which one may evaluate from a quantitative and a qualitative point of view, the economic development marks an upward trend compared to previous periods.

Foreign exchange reserves of the National Bank have increased slightly at the end of 2014, by attracting a volume of currency from the existing population. A simple calculation leads to the conclusion that at present, the total savings of people being kept outside of the bank accounts, amounts about eight-nine billion US dollars.

Under the circumstances of a low level of exports, maintaining the trend shown in 2011 and a weak trade balance, with any economic measures of attracting bank accounts currency, repayments due in maturing in 2012 and subsequent years will be somehow difficult, and new loans or rescheduling payments at maturity, even being difficult to obtain, will lead to efforts that may strike implementation of the measures envisaged in the government program.

This last measure (obtaining new loans or rescheduling the one with present maturities) will depend on how Romania will act in the process of European integration and also will depend both on European funds and attracting foreign direct investment and Romania’s relations with the International Monetary Fund and the World Bank, relations that are embodied in loan agreements. To illustrate the above ideas, we may point out that since 1990 and until now a constant deficit of foreign trade was recorded.

Under the circumstances presented above, there are not so many saving measures; attracting foreign capital investment in Romania would be one desirable but uncertainty evolution of the Romanian economy and a lack of coherent legislative framework does not stimulate foreign investors. Regarding the economic recovery through capital investments mentioned above, attracting foreign capital investments as important growth prospect of real national capital is difficult to be achieved as the best solution.

Under these circumstances, even the consolidated private companies that have a consolidated financial situation will not be able to launch the privatization
process due to lack of financing. It cannot be used any purpose loans in the form of capital investment, not only because of the law, but also because of the high interest rates charged by commercial banks. In this context, the attraction of domestic and foreign investment represents a method of real development in any economic situation, both in Romania and in the world, and in Europe in particular.

It is understandable that foreign investment would have major effects: replacing the volume of loans that Romania has to refund; refurbishment of companies and autonomous administrations; introduction of a new management model; ensuring the qualification and specialization of employees; using own foreign market segments of those who invests, thus eliminating foreign competition; raising the production quality and finally decentralization and development of market economy work.

**Highlights on the evolution of investment**

As it is known, the renewal of fixed assets, their improvement, developing new production capacities at the level of technological requirements represent target priorities for any economy that wants to maintain balance and to enroll in a constant development trial at the macro level. In countries like Romania, which has been in a transition process to a market economy, the need to attract investments in areas that are suitable to develop is an objective necessity.

Romania and other eastern European countries, inherited an integrated industrial development production capacities, working interdependently and ensuring a qualitative level with more or less appropriate products needed on internal market and a surplus for export markets that accepted the quality of products.

Since 1990, it began a long process of transformation of the Romanian economy in one super-nationalized in a market economy. This idea is not only a constructive one, but is also essential to provide a new revival of industry in Romania.

From these intentions until the actual ways by which the practice attempted in economic reform and privatization is a long process.

Recall that in 1990 were issued two hypotheses, associated in their process, giving an overall picture on the level of the Romanian economy period, representing also the views of reform strategies that were restructured and elaborated later.

On the one hand, we talked about agriculture “record production” and many other critical aspects, making “a big bet on agriculture”. Twenty-three years after the release of this market one may observe, with great disappointment and growing concern, that this bet was not abandoned, but basically shattered by a reality that makes agriculture being in regression from all points of view (equipment, agro technical endowments, results, etc.) to an undeveloped economic stage.

An important aspect which should have been considered by those who took the national economy, was the necessity to continue, complete and put into operation investments that were in progress at that time.

Unfortunately, in many such cases, the work was disrupted, delayed or stopped, inducing great losses for the economic agents involved in the economic activity and overall the economy.

Against this backdrop, investment was different from other sectors of the economy. Thus, in a first stage after 1990, it noted a sharp decrease of the centrally distributed investment funds, along with the fact that the private equity could not fill the emptiness left by the stoppage of new activities and for not assigning the money from the state budget in
this area. That is, the first three to four years after 1990, highlighted the allocation of funds for some upgrades, private equity focusing on investments in the refurbishment (mainly by imports of machinery and other fixed assets in general) or building production capacity or sales of reduced size. Of course, this is a feature of the market economy, but in this way were wasted resources in investment projects in progress.

In a second stage, it appears that the resources created in the privatization process were directed to investments, a process that could be supported under an incentive fiscal legislation. Against this background, the volume of investments, even in conditions of economic crisis stronger domestic and international, was maintained at a constant level, with slight increases from year to year, until 2008, when they triggered crisis.

A specific thing is that the investment funds were directed to imports of machinery, disregarding the Romanian industry’s ability to become, through refurbishment, external competitive on external level markets. In these circumstances, the relaunch of Romanian industry has generally, in the context of legalities and requirements of the market economy, not only remained a dream, but the level of degradation, both in large industry and other sectors activity, increases, with an irreversible trend process. It is remarkable both trend and higher share of invests for fixed assets, compared with those allocated to construction industry. The main investments made in the period under review were focused on the manufacturing industry, electricity, agriculture and the tertiary sector (trade, mail and telecommunications, public administration).

Investments in the public sector, whose main destination is the infrastructure works, were oriented towards areas of national interest: electricity, mining and quarrying, manufacturing, and also in the field of Post and Telecommunications.

It is well-known the interest in European programs and share of investment increased for machinery. The private sector investment was oriented towards the purchase of transport equipment, mostly imported; in this sector, the investments were directed mainly in tertiary sphere, especially in trade.

Factors influencing effectiveness

A highly significant example in this respect would be the programmatic objective, high perspicacity and relevance, which were subsumed by the political class efforts, steps and decisions of cost that Romania’s accession to the Western-European economic and political structures, namely the European Union and NATO.

In the context of the new geopolitical situation and economic situation in Europe, adherence to these structures represents, even aside from the theme anyway hyperbolized, the “reintegration of Romania in Europe”, and an objective with profound economic and political objectives.

How to address the issue of accession by Romania, on one hand, and the two structures, on the other hand, however, it was different. It is understandable that both NATO and the EU agreed in their entourage European country - Romania - which have economic stability, to have a well-developed infrastructure and also have a social tranquility and verified and guaranteed domestic policy, being clearly stated performance criteria, valid for all former candidate countries.

These criteria induce necessarily a causal link, meaning that their performance leading to accession, which in turn has become a requirement for a better stability in terms of economic, political and social, due to be possible new developments of structure, superstructure and infrastructure of the country. We assume that there was a wrong opinion of those who thought the integration into
the European Union and NATO is a kind of solution for all problems and on a second thought to development infrastructure and other macroeconomic activities.

To summarize the situation after the year 1990 one may say that economic restructuring process could not be undoubtedly a first consequence, the emergence and rising unemployment. Hence, new problems for Romania, which was not used to practice officially unemployed word. In parallel, on a basis level inflation was created, the falling national currency, the obvious highlight the poor quality of Romanian products which access to European markets has become increasingly difficult, and general economic decline became inevitable.

In this context, the strategy to force, only about politics, entering the European Union and NATO was the only option. Anyway, at present Romania is a NATO member and starting with the 1st of January 2007 a European Union member. However, knowing the consequences of the “two accessions,” especially in the context of the policy of the new president of Romania, a retrospective of space for twenty-three journey makes sense, if only for archive.

We assume that it was more productive if it was assumed the dismissal of labor force, the high level of unemployed, can be used with high efficiency to achieve at least one of the criteria for accession, namely infrastructure development in our country.

The public administration, as owner of industrial activities, such as production of cement, bitumen and other products necessary for the development of pavements, roads etc., including necessary equipment, could with maximum ease, immediately after 1990, switch to redundant labor and improve this element of infrastructure.

First, a number of companies or agencies that were either privatized sums questionable or went into production difficulties and financial resources, would become highly profitable by exploiting and capitalizing on the domestic large amounts of products. Thus, at least cement companies as Fieni, Hoghiz, Medgidia and other activities would be carried out with a high profitability, which would have been likely to create, through profits, revenue sources from the state budget.

On the other hand, the use of labor made available for the construction of these infrastructure elements should be suspended from the budget and pay large amounts of money in the form of unemployment benefits or compensation and other amounts that gives people out of work.

Of course, in this way, it would become easier to pass large number of people in the sphere of productive activity, mining etc., which, as time goes on, are no longer effective in the work of infrastructure development, through a useful and efficient process of converting labor.

In these circumstances, it would have been easier for Romania to take advantage of a particular infrastructure, have absorbed most of the unemployment created and thus to face more social and economic problems.

In such a situation, it would be easy to assume that the EU and especially NATO are interested to be present in the area and have appreciated that Romania has an enviable infrastructure and would have thought very quickly that it takes attracting Romania in the constellation of EU and NATO member states, in order to create conditions related to Moldova, Ukraine, Turkey and the Asian region.

But these developments have not registered, being probably more effectively to privatize important sectors of production of cement, bitumen production, etc., in amounts that may be discussed again at any time, thus creating great difficulty repairing the infrastructure in our country.
It is easy to assume in this context that EU countries have figured in other words the acceptance of Romania in union structures, moving often to postpone taking a positive decision.

At decision-making levels of the EU accession of Romania was placed in private terms. Those groups of countries have realized that Romania’s accession will require substantial financial efforts on their part to modernize infrastructure elements and Romania is not ready to access such funds.

Nobody believes that privatization of infrastructure is a bad thing. Worse is that, from 1990 to present the infrastructure nor was privatized, neither was modernized by using internal resources our country had in abundance.

Turning to substantive reform and privatization in Romania, nor is difficult to see that in all countries, but especially in those who were also in the process of transition to a market economy, maintaining a mixed economy is a necessity.

Therefore, privatization of certain sectors should be done only when the conditions have been created for this process to be done efficiently and profitably for macroeconomic system. Unfortunately, large businesses, some producing for export, were slowly but irreversibly, left ruined, currently indebted to the state budget, social insurance budget and to other agencies. Others were privatized in a hurry, with limited participation of foreign investors without a competition, so proceeds are not at the level that would have required the performance of these companies or agencies, not to mention privatizations missed lack of creditworthiness of investors insufficient check (you might appreciate the fact that the deterioration of business was the result of “intentions” to bring them below to “zero” and then privatize the property of whom “shall”).

It is easy to give examples such as: IMGB, Dacia, ROMCIM, Romtelecom, dramatically privatizations of steelworks Resita, Galati, Huedoara - Find out what the backup progress of these privatizations - not to mention a number of factories producing fertilizer whose privatization has meant a qualitative leap for achieving outstanding production and recovery of such companies, but their liquidation.

Many privatizations were ultimately exercises real estate. We appreciate in this context it is not yet late to take the necessary steps to increase the attractiveness to stakeholders and the availability of funding to participate in the privatization process or investing with partners in our country with amounts to ensure balance and, especially, the prospect of recovery of investment activities.

The share of FDI in investment structure

We have mentioned above that vital solution to stop the economic decline and strengthen the recovery process, attracting foreign capital investment prospect given that real growth domestic capital cannot give too many evidences.

Invest domestic capital on account of bank loans cannot be considered as an investment structure because of both legal provisions and the high level of interest charged and, why not, because of the crisis that looms increasingly evident and the banking system.

In this context, attracting capital and foreign investment is the only real way forward in any economic situation, both in Romania and in the world, in general, and Europe in particular.

National law and fiscal policy were the two biggest obstacles for the market entry of foreign capital on Romanian market. Once things have settled somehow and a number of foreign investors have expressed a wish to place investments in Romania,
VAT was introduced on some transactions etc., without making a thorough and try a simulation to see the effect of measures taken. Bitter conclusion will be:

- Investors extend their analysis and try to make predictions;
- Measures do not have the desired effect, on the contrary, they were reduced accordingly, and potential investors changed their minds;
- State budget revenues come from income tax exaggerated and are not concrete from the economic point of view;
- External image is affected, and our expectations are removed;
- Romania’s new status of EU member data exchange problem somewhat but still remain within our power to prepare thoroughly based on which projects can access their funds.

Is clearer than ever that the need of capital for Romania is vital, especially the foreign one, but also because legislation just not appropriate to show greater restraint in the Romanian market penetration.

Incorporation of trading companies with foreign participation subscribed share capital during 1991-July 2015

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
<th>Ratio</th>
<th>Value</th>
<th>Ratio</th>
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<td>202152</td>
<td>100.0</td>
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<tr>
<td>1995</td>
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<td>5.5</td>
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<td>0.5</td>
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<td>1.0</td>
<td>554/70</td>
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<td>1.0</td>
<td>554/70</td>
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<td>1998</td>
<td>6000</td>
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<td>2013</td>
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Note: Column 1 represents number of incorporations in the period respectively. Column 2 represents capital subscribed at incorporation, Column 3 represents capital subscribed at incorporation.
Foreign direct investment in 2009 due to the negative impact of the crisis, were only 3,512,610.5 thousand euros, in 2010 3,914,440.6 thousand euros 3,329,432.4 thousand euros in 2011, 2,856,416, 6000 EUR 2012 EUR 2,355,803.8 thousand in 2013, 3,877,239.8 thousand euros in 2014 and 2015.

The situation in 2015 -153,811.2 actually express withdrawal of capital. It is hard to imagine why in 2009-2012 have not taken other steps to stimulate foreign investors line, while the social and political situation was an additional barrier in the way of those who would have dared to invest in our country.

There should be no deductions for the purposes of regulation stimulelor to attract foreign capital and encourage the domestic capital, because all companies investing in Romania by Romanian comer-ciale, whatever the origin of capital subscribes constitutes national wealth.

It has greatly restricted the scope of countries that have invested in Romania. Throughout the period after 1989 and until now it have invested 41,415,773.3 thousand euros, which does not mean much given that such participation is not, in fact, payments in foreign currency holdings but as subscriptions capital and, most times, capital in nature.

In 2012 it was revealed that investment of foreign capital participation in the registration form new companies has been lowered. From the neighbors outside Romania, like Hungary, Turkey and Moldova and with participation frail other countries are practically absent. If for Eastern and Central European countries, faced with their own problems of transition it travels themselves can find a logical explanation of the phenomenon, for countries such as Greece, where “went” and fleet system Romanian communications, a small share in the total foreign investment in all these years is likely to raise some eyebrows.

Among them stands out the group of Arab countries which, though they have a large share in terms of number of companies registered in their own name in particular, together totaling less than 3% of total foreign capital invested. This explains a number of negative phenomena (evasion, money running outside, running and seemingly unprofitable non-core activities, etc.).

If we compare the trade deficit, namely advancing exports by imports, with total investments as equity in companies, it is easy to see that by working unreasonable, unbalanced, over 90% of total investments went on drain through the practice of a total foreign trade balance. The situation is interesting and if we discuss how companies were registered start-ups in 2010-2012, in territorial in Romania.

We find that in a number of counties, such as Tulcea, Vaslui, Bacau, Gorj, Buzau, Teleorman and others, these investments form of capital subscribed in foreign currency starting new companies, are missing or are at a very low level of the total of such investments. There are some exceptions, such as Bucharest, Ilfov, Prahova, Timis, Cluj, Brasov, Constanta, falling to meaningful participation in capital formation by subscription and shedding of shares in foreign currency, but the situation is totally inadequate in the general context presented.

Not to be neglected appearance that “big investors” coming from developed countries are often established as Romanian citizens in those countries. Near, in this way, the homeland, regardless of their motivations, is in itself commendable and worthy of being encouraged, however, in relation to the content and objectives of foreign portfolio investment in Romania, the results are far from effective hoped.
It is also reported that, through such investments, Romania could not find a source to provide at least maintaining, if not revitalize its industrial development. If we compare the investment of foreign capital through participation in the establishment of companies in our country with other countries in Eastern and Central Europe, we find that Romania is in the tail of such rankings. This is further proof that we need to ask the question of how rigorously the activity is reshaped and redirected.

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