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UNCERTAINTIES AND OPPORTUNITIES FOR THE ROMANIAN INVESTMENT CLIMATE

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Abstract: *In this paper the authors make an analysis of the uncertainties and opportunities that affects the Romanian investment climate, in the context of the current international financial crisis. Moreover, there are given arguments for implementing some policy measures in order to protect the foreign investments inside the Romanian borders.*
Key words: *foreign investment, investment climate, Romania, financial crisis*

1. INTRODUCTION

The contemporary financial crisis adjusted the investment strategies and expectations of investors under the influence of new economic trends. Nowadays, it is accepted and proven that the investment environment can generate a significant influence on the productivity, the economic growth and on the economic activity in general (Bosworth & Collins (2003); Corduneanu et al. (2010); Rodrik & Subramanian, 2004). Shock was even more powerful for the emerging countries in the Central and Eastern Europe by comparison to the developed states. The countries in the Central and Eastern Europe felt strongly the effects of reducing the foreign capital flows, of diminishing the loans granted by the bank system and of reducing the demand coming from the states in the Euro area.

In this context, an analysis of the main uncertainties and opportunities that the Romanian investment climate is facing is necessary. The paper is organized as follows: section 2 gives some hints about the Romanian economic indicators before and after the world depression shock, section 3 comes with some solutions that should be taken into consideration by the policy-makers in order to keep the foreign investments inside the Romanian borders, section 4 concludes.

2. ROMANIAN ECONOMY BEFORE AND AFTER THE WORLD DEPRESSION SHOCK

In the period before the contemporary depression occurrence, cheap foreign financing supported the growth of consumption oriented mainly towards the import of goods, but the economic growth did not rely on increasing the Romanian economy's competitiveness. The world depression showed the competitiveness gap, contributing to the diminishment of exports, and the repercussions was felt strongly at the level of production and labor market. Given the lack of confidence and liquidity that occurred at the level of banking sector, the foreign capital Romanian companies faced the intricacy of accessing new financing resources and of more expensive loans.

At the same time with the economy entering recession, the government public debt increased due to distortions at the level of public finance and the expansion of private debt guaranteed by the Romanian state determined the public decision-makers to do everything in their power to acquire external financing resources from IMF, the European Union and from the internal capital market in order to unwind the budgetary and external constraints. This was made also for stabilizing the trust of the existing foreign investments on the Romanian market. The massive loaned funds contributed to avoiding the occurrence of a foreign currency crisis on the exchange market at the level of the banking sector affected by financial difficulties of foreign mother companies and of the network subsidiaries, as well as to covering the financing needs coming from the budgetary sector and the external obligations corresponding to the old contracted loans.

The unemployment increase leads to a growing risk that the public decision-markers give in to the pressures to increase public expenses, which would delay taking some measures oriented towards reforms able to stimulate the economic revival. Still, changing the international context by the volatile and reduced trend of economic growth might lead to positive effects on the Romanian economy.

An analysis of the main economic indicators at the level of Romania during 2005-2010 show that the period 2005-2008 registered a positive trend of economic growth, from 4.2% to 7.1%. It was followed by a severe compression of -7% in 2009 and an increased expectation of growth to 1% in 2010. During the analyzed period, the highest level of inflation of 9% was registered in 2005, and after a descending trend of just two years, it grew to 7.8% in 2008, the estimated levels for 2009 being 5% and 3.3% for 2010. In the below figure there are presented in order the economic growth, the inflation, the public balance, the current balance, the governmental external debt (as % of GDP) and the external debt services as % in the exports (Fig.1).

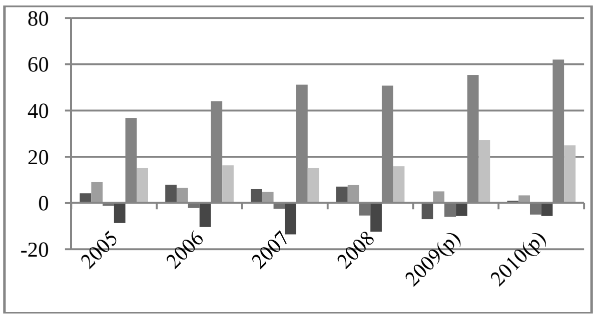

Fig. 1. Romania – analysis of main economic indicators for the period 2005-2010
Source: data supplied by Coface Services (2010)

3. INVESTMENT CLIMATE, PUBLIC POLICIES AND THE PROTECTION OF FOREIGN INVESTMENTS

Although the world depression should have increased the responsibility of the Romanian political market and should have ceased the permanent political disagreements in favor of orienting the political decision-markers towards active measures in the economy, unfortunately they lacked. Idleness of macroeconomic policies accentuated the depression effects. Due to the fact that political elections were given priority, which consumed resources that might have been oriented towards activating the market forces, the Romanian economic environment is exposed to risks generated by the occurrence of a new wave of world depression. And this because of the diverging opinions at the legal and economic level of the present political market increase the fragility of economy and its capability of generating new coherent viable long-term measures.

In the general framework described above, the companies faced with an increased selectiveness from the banking system for financing their investment projects and their current exploitation activities, the increase of interest rate, preference for financing mainly the governmental needs, and increase of exposure to the foreign currency exchange risk generated by the high volume of foreign currency loan contracts. The companies, fragile due to their high indebtedness, oriented their efforts mainly towards their survival that marked the diminishment of jobs, generating new pressures on the public finances. The reduced financing and the general condition of the world economy affected strongly the construction, chemical, retail areas and lead to a compression of demand for the household area which influenced the consumer goods sector. Problems occurred also at the level of companies in the textiles- footwear sector; the automotive industry managed to stabilize and revive their production after having faced a diminishment of external demand.

Uncertainties connected to the future economic and financial evolution, plus the problems faced by the business environment may have influences on the accomplishment of the external obligations of the Romanian government. Moreover, there is a considerable possibility that the Romanian companies do not assume their obligations on their due dates. The country mark is B (granted by Coface (2010)) because the business environment is medium, the reliability and availability of companies' financial statements vary to a great level, and the receivables collection is sometimes difficult. The companies evolve in an instable or low performance framework that is a risk factor, which must be considered for the transactions between companies.

In the present international context, it is difficult to forecast the future dynamics of foreign investments and their orientation on geographic areas. The sole certainty is that they dropped in all states of the world, no matter the development level. Still, the majority of the investors prefer the Western Europe and the United States due to the stability of the investment climate, efficiency of the government policies and demand level. The dimension of markets and their growth potential, the existence of qualified work force and its efficiency, the financial resources and the raw materials are much more important elements than the cost of labor force.

The public policies should be oriented towards:

- ⇨ creating a favorable climate to investments designated to replace the old technologies by new ones that would contribute to using alternate renewable energy sources having a low impact on the environment;
- ⇨ modernizing the transportation infrastructure;
- ⇨ orienting the resources towards increasing the competitiveness by research and innovation and by creating new products and equipments having higher added value and lower costs;
- ⇨ stimulating the investments in the activity sectors with growth potential and creating new jobs;
- ⇨ internationalizing the activity of Romanian companies by entering on and expanding externally the held market segment;
- ⇨ consolidating the Romanian companies by mergers and acquisitions;
- ⇨ ensuring the stability of financial system;
- ⇨ ensuring the economic and legal stability;
- ⇨ eliminating the legislative barriers;
- ⇨ diminishing the costs of beginning an individual business;
- ⇨ attracting foreign investments to a regional level by creating an organized collaboration framework between the foreign investments and the Romanian companies.

Attracting the foreign investments to the Romanian emerging market may be stimulated by some international agreements that would ensure protection to the foreign investments. By the bilateral agreements, the signatory states are committed not to infringe the rights of foreign investors by arbitrary actions, setting out behavior and procedure rules that apply to them. The agreements on the investments protection operate as a tax treaty but diminish the direct effects on the private companies. If one of the signatory states does not observe the issues of the concluded agreement, the investors may request and may obtain compensation from the responsible country, according to the international law.

On its turn, the fiscal policy is an instrument of attracting the foreign investments. It must be stable and must grant favorable facilities to the foreign investors, as well as to the entire Romanian economy. In order to benefit of the tax advantages, the foreign investments made in Romania must stimulate the occurrence of some investment objectives in the activity sectors with a high added value and growth potential. Granting discounts to the profit tax payment may be differentiated according to the following criteria:

- ⇨ maintaining a weight of the Romanian capital of over 51% and the total value of the company's capital to at least EUR 100 million no matter the activity sector, provided at least 50 jobs are created;
- ⇨ orienting the foreign investments towards agriculture, tourism, food industry and transportation infrastructure by incorporation of companies with a high degree of technical endowment and to contribute to creating new jobs;
- ⇨ stimulating the innovation and creating new technologies by the partial deduction of research-related expenses;
- ⇨ stimulating the occurrence of some micro–centers in public-private partnership designated to caring for disabled young persons provide the state's participation is at least 60% during the entire objective development that would offer services equal to those existing in the developed countries and at similar costs.

4. CONCLUSIONS

Attracting the foreign investments to the Romanian emerging market may be stimulated by some international agreements that would ensure protection to the foreign investments. Moreover, the public policies should have in consideration creating a favourable climate to foreign investments. The main limitation of our paper is represented by the lack of more empirical data that could support the theoretical analysis, this being also the main objective that further research should take into consideration.

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