



GLOBAL JOURNAL OF MANAGEMENT AND BUSINESS RESEARCH: C
FINANCE

Volume 14 Issue 1 Version 1.0 Year 2014

Type: Double Blind Peer Reviewed International Research Journal

Publisher: Global Journals Inc. (USA)

Online ISSN: 2249-4588 & Print ISSN: 0975-5853

Considerations Regarding Foreign Investments in Romania in the Year 2014

By Moldovan Iosif

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GJMBR-A Classification : JEL Code: F31.



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From this perspective, analyzing factors that influence the attraction of foreign investments, as a vector of economic development in the international context is the most important –this will be the main objective of this paper.

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I. THE GLOBAL ECONOMY AFTER RECESSION – FACTORS OF INFLUENCE

Considering the fact that the world's economy went through an adjustment resulted due to the economic recessionary situation, 2013 in retrospect, appears to have been a year of economic transition towards a new cycle, registering an evolution in the context of international financial markets. The MSCI World Index grew approximately 20% from January to the half of December 2013, reaching the 2007 year-end maximum.

Signs of resuming the new economic cycle are much more visible in the real economy, especially in the developed economies, which is confirmed by a number of issues such as:

- During the 2nd quarter, the economic Euro zones have emerged from the recession caused by sovereign debt;
- dynamics of some U.S. economic sectors (real estate, auto industry) and coping with fiscal-budgetary problems that it used to face;
- a record level of exports in the United States and in the Euro area;
- the stabilization of China's economy, after years of decline - in 2011 and 2012;

- Japan's implementation of macroeconomic (under the aegis of Abenomics), on behalf of the aggregate supply and demand.
- The evolution of the global economic growth in the period ahead will be influenced by a number of factors such as:
- The coherent mix of politics in the United States, generated by the government debt, namely the requirement that FED bringing up the inflection for monetary policy in 2014;
- the way to counter the effects of deflation in the Euro zone;
- maintaining the current status of both the vulnerability of emerging economies and those in the developing countries, within reasonable limits;
- avoiding the damage of the financial markets, affecting the real economic investment effort;
- avoiding and/or keeping under control the geopolitical risks;
- the gradual transition from economic austerity policies to the economic policy of expansion in the states of the Euro area;
- solving the problems in the credit sphere, given Europe's economic dependence on finance and banking;
- the attitude of China, following the development of the 18th Congress announcing a series of reforms in the economy, in order to contribute to a better allocation of resources and thereby stabilizing and reaccelerating economic growth;
- how Japan will implement the economic policies aimed at supporting sustainable economic recovery measures in terms of monetary policy (with the objective of determining the convergence of inflation to a level of 2%/year over the next two years) and structural policies;
- the development of Russia's economic growth.

II. ECONOMIC GROWTH FORECAST FOR ROMANIA IN YEAR 2014

After the latest appraisal, Romania's economy grew 3.5 % during 2014 compared to 2012, exceeding even the best estimates¹.

Looking at the prognostics that concern the evolution of Romania's economy in the following period of time², the Economist draws attention as having the most optimistic one concerning the GDP growth, of 3.3% in year 2014, showing an increase in people's confidence and the growth of exports.

Likewise, the International Monetary Fund and the European Commission³ place their stake on a 2.1% growth, while the European Bank for Reconstruction and Development improved their estimations from 2.2% to 2.4 %, as it anticipated in the spring of 2013, specifying that the prognostic is reliant to the evolution of the Eurozone.

World Bank's prognostic is a 2.5 % growth for year 2014, but this could be better if the 2014 agricultural year will be similar to the 2013 one, when the wheat, maize and barley crops helped with the growth level of exports⁴. In year 2014, Romania's economy should be driven by a higher rate of structural UE funding, by an enhancement of construction (both commercial and residential).

Another instrumental matter to economic growth can be brought by consumption; even if we consider that the internal demand had a low increase during the last years, but the inflation registers minimum levels (1.55% in 2013), the interests are down and the unemployment rates are stable compared to 2007-2008. The optimist forecasts offer confidence, if we consider the reduction of gaps in the economic development; Romania needs an economical growth of 3-4% in the following period.

Positive signals are to be seen even in the evolution of direct foreign investments registered in Romania, which fell during the critical times⁵. Considering their worth in 2013 was 2.71 billion euro, up by 26.8% in regards to 2012 reaching the maximum in four years, since the beginning of the recession, as per the information from the National Bank of Romania⁶.

III. ROMANIA AND THE QUALITY OF BUSINESS ENVIRONMENT

A major role in the effort of attracting foreign investments is played by the quality of the business

environment. From this perspective, the improvement of the business environment through creating a „friendlier” one did not evolve well after 2009. Therefore, Romania dropped to position 73⁷ in the top of states which have a good business climate.

If the low level of taxes in Romania is still a trump for investors, not the same thing can be said about the general climate given to them on the local market, most shortcomings are generated by the high cost of connecting to electricity, the high number of taxes and the difficulty with which you can get notes and papers necessary for constructions.

Regardless the signaled negative aspects, the World Bank's report was that in 2013, Romania managed to facilitate the process of establishing a company through transferring the issue of fiscal records from the Agency of Fiscal Administration to Trade Register and diminishing the frequency of tax payments from 4 to 2 times a year.

The same report shows that Romania has good outcome concerning the duration of credit approval, at protecting investors and the facility with which you can set a company up.

So, to open a business in Romania, five procedures are needed and about eight days, unlike Ukraine where there are six procedures and a twenty one days wait period for the paperwork.

Romania's' "Doing Business ranking" international classification, stirs concern at the European Commission⁸, which points out that "The business environment in Romania must be significantly improved to attract more direct foreign investment and stimulate the process of catching up to the other EU countries"⁹.

Therefore, the European Commission agreed that national authorities should take measures in four important directions, which seem to be showing a deficit, namely:

- the improvement of regulations related to the quality of business and the reduction of administrative tasks for small and middle enterprises.
- the improvement of financial access for small and middle sized enterprises and supporting said enterprises when they intend to export
- the improvement of land register system in order for the territorial market to work better

¹ www.zf.ro, accessed in 14.02.2014

² www.zf.ro, accessed in 10.12.2013

³ The International Monetary Fund, in his estimation, it's expected that evolution should be decisively influenced by the growth of internal demand and not by exports. Additionally, the European Commission anticipates that PIB will increase with 2.1 % in 2014, and the growth will continue in 2015 to 2.4%, with a much more significant contribution from internal demand. Www.zf.ro, accessed in 10.12.2013

⁴ www.dailybusiness.ro accessed in 06.02. 2014

⁵ The highest level of direct foreign investments in Romania was recorded in 2008, of 9496 billion euros, and compared to this maximum level foreign investment dropped to 3.48 billion euros in 2010, to 1.6 bilion euros in 2011 and 1.8 bilion in 2012. www.zf.ro, accessed in 12.02.2014

⁶ http// zf.ro, accessed in 12.02. 2014

⁷ According to the Doing Business ranking, conducted by the World Bank, on a sample of 189 countries, Romania has lost 28 seats, from 45 in 2009, at 73 in 2013, www.zf.ro, accessed at 19.11.2013

⁸ View the position expressed by the staff Directorate General Economics and Finance, in the report published in 20.11.2013 where the evolution of Romania is analyzed in the standby agreement with the European Commission and the IMF

⁹ The European Commission report for Romania, published in 20.11, 2013

- creating a more attractive research environment for private investments through improving the stimuli received from inventions

Suboptimal management for state companies

In analyzing the investment framework in Romania it's important to notice the role that the state companies detain international economy and arrears to the budget records, have a suboptimal management and reforming them was influenced by the lack of consistency and coherence of the political factors decision. The representatives of the European Commission reported that retain that "State Enterprises play an important role in the economy of Romania, but their management is optimal. Reforms are therefore necessary, but have been slow and lisp site of ambition. Improvements in corporate governance, through the appointment of managers and boards of Directors, professionals have been limited. Selling stakes in State enterprises has suffered due to failures and changes of strategy"¹⁰.

The general business climate may be analyzed in the light of the observations made by

The European Bank for reconstruction and development in the annual report that examines the evolution of the States in 2012 that is active¹¹, it finds that in Romania:

- Banks have withstood the economic difficulties of recent years, and the bank supervision has been strengthened significantly and guaranteeing deposits has been brought to the EU standards.
- Romania needs to step up efforts aimed at lowering non-performing loans rate, which represents over 20% of the total balance of the loan, but the risks are outweighed by the high level of provisioning.
- There has been some progress in fighting corruption and reforming the judiciary, however, efforts in this area should be continued.
- The Government has made limited progress in terms of privatizations, while the energy sector privatization has advanced in parallel with progress in the liberalization of prices for electricity and gas, the sale of CFR and Oltchim had failed.
- Fiscal Developments in Romania was "impressive", considering that Romania has managed to emerge from the excessive deficiency procedure by the European Commission and has shown determination to control finances, after breaches during the crisis between the years 2008-2009;
- The absorption of EU funds remains at a low level, in spite of attempts to increase the access rate.

More efficient use of European funds would improve prospects for economic growth.

- Romania's business environment remains difficult, and companies are faced with problems in day-to-day operations, a situation that probably contributes to the difficulties of the country to attract foreign direct investment;
- Romania continues to be heavily exposed to developments in the euro area, but prospects remain favorable environment sustainability, reflecting diversified economy and high growth potential due to low level of per capita GDP, less than half the EU average calculated at purchasing power parity, show the EBRD;
- The legal framework for the financing of SMES has been improved.

The improvement of procedures regarding acquisitions and concessions in U.S

When to make use of public revenues and public investment process in the European Union, the European Parliament adopted in early 2014 a legislative package for amendment of European directives in the field of public procurement and the award of the concession contract ¹².

The new measures relating to procurement matters relating to clarifying the approach of the award criterion "most economically advantageous tender"¹³, new rules on subcontracting¹⁴, mechanisms designed to simplify the procedure for the preparation of tenders¹⁵, a simpler procedure for the submission of tenders, a

¹² The Directive was adopted for the award of the contract the concession, until now covered only partially at European level and has entered into force EC Regulation 1336/13/12/2013 amending Directives on public procurement which have increased the thresholds for which must be applied tendering procedures; from 1 January 2014, the Regulation will apply immediately and directly in Romania.

¹³ The new rules stipulate that public authorities are required to include criteria relating to the quality, accessibility, environment and innovative character, taking into account the price and the costs of the acquisition. Wedge currently these criteria were provided on a discretionary basis and not binding. At the same time, change the "lowest price" in the "lowest cost" which may relate only to the price (as it is happening currently) but may also be an approach based on life-cycle cost.

¹⁴ New rules on subcontracting, providing the possibility of contracting authorities to pay directly for services and subcontractors work provided the principal contractor and clarifications in respect of substantial modification of the contract cannot, without organizing a new procurement procedure, stating that under certain conditions strictly laid down by the directive, it becomes possible without the need of a new procedure.

¹⁵ The procedure for the submission of tenders by companies will be simpler, proof that the criteria for participation should be made initially on the basis of declarations on honor and only the winner will be obliged subsequently to present original documents. In order to facilitate cross-border tendering procedures introduced certification online Archive (e-Cergis), and the possibility of obtaining European passports for public procurement. The Commission considers that the new measures will reduce the administrative burden of companies with over 80%.

¹⁰ The General Directorate for Economy and Finance of the EC, in the report published in 20.11.2013, where the evolution of Romania is analyzed in the standby agreement with the European Commission and the IMF.

¹¹ www.zf.ro; accessed in 21.11.2013.

better correlation of¹ the effective procurement requirements with those of horizontal policies, such as environmental protection, social protection and innovation, and new conditions of participation whose failure could lead to the exclusion of participants.

The concession contracts, the European Directive has proposed that the major objective to provide easier access to concession contracts through the harmonization of the principles of the Treaty on the functioning of the EU and to eliminate various interpretations thereof at national level. In this sense it defines concession contract related to the notion of operational risk transferred to the lessee, including specifically what are the risks considered "operational risk".

In order to increase the degree of transparency of public procurement, the existing value in our legislation for publication in the official journal of the European Union of the notice of invitation for public works concession is extended to all types of contracts (including contracts of concession of services). In the same sense, the Directive establishes the obligation of publication in the official journal of the European Union of the notice of the award of the concession contracts of services whose value is equal to or greater than EUR 2,500,000. Romania will have at their disposal for a period of 24 months after the entry into force of the new regulations for their implementation in national legislation. The speed with which they will be implemented and respected will influence the position of the Romanian State recipient of foreign direct investment, known as the level of corruption is high in this sector.

IV. CHINA AND STRATEGIC INVESTMENTS IN ROMANIA

A factor of greater media, at least on the investment climate in Romania is China's position that, after 20 years of economic growth has opened its intention to invest in Romania. The purpose of China which recorded economic supported development after 1990¹⁶, is to invest in Romania in the fields of nuclear technology, tip, railway transport and build highways, under the conditions in which these sectors requires significant financial resources that Romania doesn't have due to objective reasons as well as subjective.

In a position to support major government investment projects, China considers Romania a "bridgehead" for the rest of Europe¹⁷ and said declared

intentions have resulted through a series of agreements signed to date of 25.11.2013 relating to different sectors of the economy.

In the energy sector undertaken projects relate to:

- the construction of two new nuclear units, units 3 and 4 from Cernavoda worth 6.5 billion euros, partners Nuclearelectrica and China General Nuclear Power Corporation.
- The construction of a hydro-electric pumping with 1,000 MW installed power, in Cluj County Hydroelectric Tarna-Lăpușești, partners: Hydro and Sinohydro Corporation with a value of about 1 billion euros
- Construction of a new 500-MW energy group, partners: Energy complex Oltenia and China Huadian Corporation, with a value of 1 billion euros
- the power station rehabilitation Mintia , partners: Hunedoara energy complex and China National Electric Engineering, worth 200 million euros.
- In the transport sector was discussed the intention to build a rail line for high-speed trains linking up Constanta, Arad, in Budapest. An important addressed area was related to exports of livestock and related products in China, which offer a particularly generous market¹⁸.

V. INVESTMENT OPPORTUNITIES IN 2014

As of 2013, the investment process in Romania, is strongly influenced by the process of stabilizing the banking sector, which provides the certainty that keeping savings in bank deposits is no longer advantageous, nor as safe (e.g. Cyprus) nor as yield¹⁹. From this perspective, it becomes important to identify investment opportunities that bring savings and profits that currently even though talk of stagnation and yet distrust can be found at banks²⁰. Opportunities for financial investments are mutual funds, for which

the relations between China and the European Union, and cooperation relations with Romania constitutes a solid benchmark in this cooperation, www.zf.ro, accessed 26.11.2013.

¹⁸ In the first year of Romanian cattle breeders have committed to deliver 14,000 heads of animals known as that in the first nine months of the year 2013 the Romanian exports of food and live animals in China were only 0.9 million euros, and in 2012 the deliveries amounted to 1.5 million euros; www.zf.ro, accessed 26.11.2013.

¹⁹ After the National Bank's decision to cut a quarter of a percentage point for monetary policy, interest income estimated to be earned from bank deposits oscillates around a rate of 3%, and the expected yields on different financial investments for 2014 are: 5% in bonds, with a plus for corporate ones, 20% growth estimate for BET, the BSE index (25% achieved in 2013) 5 percent forecast, appreciation for diversified mutual funds and 0% or stagnation and even depreciation for gold and other precious metals. <http://www.capital.ro> accessed January 14, 2014.

²⁰ Bank deposits are of about 47 billion euros, of which nearly 30 billion euros are held by the population and the amount of mutual fund assets (SIF), the readings are less than three billion; www.capital.ro accessed January 14, 2014.

¹⁶ In 1990, China had a per capita GDP of \$ 347, and today it has \$ 6.222, so 18 times as much, while the per capita GDP of Romania grew up in the same period from € 1.650 8.470 \$ \$ per capita, so only five times. China has foreign reserves of more than 2,000 billion dollars, www.zf.ro; accessed 26.11.2013.

¹⁷ Chinese Premier Li Keqiang during his visit in Romania Eastern Europe Summit-China, clearly said that relations of cooperation between China and Central and Eastern Europe is an important part of

economic analysts, foresee the transfer of large sums, being expected as the assets will grow with a rate of 30%. The matter is that the popular ones will be fixed-income mutual funds and bond funds. Also expected are funds like investment opportunities and in 2014, predicted yields of more than 10%. Other attractive investment opportunities are considered to be pharmaceutical sector, who will remain on the plus and in this year²¹, SIF, which will attract many investors from these economic analysts forecast yields of up to 20% and property Fund.

The property Fund, given that the Fund Manager is required to reduce the discount of more than 30 percent from the present 15 percent, will continue buying shares, will diminish the social capital (distributing the money difference to shareholders) and will sell shares and the portfolio. For the real estate sector the foresight is stagnation, or even decline.

Financial investment opportunities are influenced easily by the tax regime of buying Government securities, taking into account that ownership interest income from government securities to maturity by individuals, are not subject to taxation and taxed only on income from their trading. Unlike individuals, revenue from purchase/holding/trading in government securities (interest and capital gains) by legal persons is subject to income tax.

VI. CONCLUSIONS

In Romania, 2014 may be a good year for attracting foreign investment but is subject to risks arising from changes in the international economy and mainly European, but great attention must be paid to the risks that come from the inside. These risks will be generated by the election year, namely by the government leaders abuse and the relatively low level of consumption, which will not return significantly without substantiated and effective measures, which unfortunately is not foreseeable.

In order to create a favorable framework of investments are needed for some steps, without claim to run out, aimed at:

- increasing the predictability extent of tax policy;
- improving the quality of business – related regulations and reduce the administrative burdens for IMM;
- rigorous regulation of financial investments;
- improving the access to finance for IMM's;
- restructure in order to improve the state sector;

- improvement of the cadastral system, allowing for a better functioning of land markets;
- creating an attractive research environment for private investments by improving stimulants for inventions and innovations
- increasing the absorption of European funds, as a reliable and certain source for investments;
- reduced taxation on labor and taxation of capital;

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²¹ Antibiotics Iasi he went up to the year 2013 with more than 70% and Zentiva with 35 %, and financial positions and business plans are reliable in respect of investors, see <http://www.capital.ro> accessed in January 14 2014.