

Perspectives on Romania's Economic Growth through the Evolution of Direct Investment Flows

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Abstract

The global economic crisis has affected different countries of the world, leading to widening economic disparities both globally as well as regionally, as demonstrated by the developments in European countries since 2009. In this context, and given the national objective of accession to the euro in a relatively short time, we considered it necessary to put forward an analysis of the evolution of direct investment flows in correlation with the growth dynamics between 2004 and 2012. The analyses presented in this paper, based on a series of relevant macroeconomic indicators, show that fiscal and legislative measures adopted since 2009 have profoundly affected entrepreneurial initiative and perception of foreign investors on the Romanian business environment, leading inevitably to a continuous damage of direct investments with a negative impact on economic growth.

Key words: *direct investments, investment rates, economic growth, economic crisis*

JEL Classification: *E22, E27, O40*

Introduction

Changes in recent years in the world economy as a result of the economic crisis differently affected countries in the world according to specific conditions existing at the time of turmoil and economic measures taken by the responsible decision makers in order to minimize its effects. States that have realized that “at any moment, entrepreneurs can pack and go elsewhere with their creative initiative”¹, understanding the importance of direct investment as the main driver of economic recovery, have applied measures to support the entrepreneurial environment, avoiding “impulsive changes to pass tax, regulations or laws”² and thus managed to limit the effects of the crisis.

This statement is supported by the developments in EU Member States in the next period of global economic crisis. According to Eurostat data, in 2009 all member countries were facing decrease, sometimes significant, in the growth of the real GDP rate, with the exception of Poland that registered a positive growth of real GDP by 1.6 percent. In the following years, namely 2010 and 2011, other European countries were able to report positive and significant growth rates of real GDP, such as: Sweden (+ 6.2%; + 3.9%), Slovakia (+ 4.2%; + 3.3%), Estonia (+ 2.3%; + 7.6%), Germany (+ 4.2%; + 3.0%), Finland (+ 3.3%; + 2.7%), Poland (+

¹ Smick, D.M., *The World is Curved. Hidden Dangers to the Global Economy*, Publica Publishing House, Bucharest, 2009, p.115

² Ibidem, p.114

3.9%; + 4.3%). Thus, there are a number of states, including economies comparable to the Romanian economy in terms of development in the period before the crisis (e.g. Poland)³, which, through the implemented measures, managed to limit the effects of the economic crisis.

Regarding Romania, which is among the European countries mentioned above, we wrote in 2009 that in the context of the global financial crisis “one may expect a decline in inward foreign direct investments” and stressed the need to adopt “immediate action to address the effects of the crisis by supporting productive activities”, suggesting a series of actions in this regard⁴.

Within a sectoral approach, food security is closely related to the role of government to combine monetary, fiscal, trade, social and investment measures⁵ in order to harmonize food offer and demand and deal with crisis situations. Besides, if we refer to agriculture as a vital economy sector – we may outline the low involvement of foreign capital in this field, since foreign direct investments could play a significant sustaining role for the national agrifood policy. Agricultural policy aims to short and long term objectives in terms of raising productivity and export, creating necessary support structures for the specific infrastructure, research and associated services⁶.

In the context of global and regional change, arising from the economic crisis, which led to widening disparities between European countries and given the national objective of accession to the euro in a relatively short time, we put forward a thorough analysis of the evolution of direct investment flows in correlation with the growth dynamics during the crisis (2009 - 2012) compared to the previous period (2004 - 2008). This analysis could give useful information on the effects of fiscal and legislative measures adopted in recent years on the business environment, in terms of local and foreign investments made in the economy too. We also appreciate that the results of this study may be integrated into a broader analysis that leads to achieving a realistic picture of the development perspectives of the Romanian economy and its possibilities of real convergence with developed European countries.

Data Analysis

In order to highlight the changes in the evolution of direct investment flows in correlation with the growth dynamics, in the present study we analyzed a series of relevant macroeconomic indicators for the period 2004-2012 (Appendix, Table 1), namely:

1. **Net investment (NI)**, which includes expenses for creating new assets and the development, modernization and reconstruction of existing assets⁷;
2. **Foreign direct investments (FDI)** attracted both by the privatization process and by “greenfield” business;
3. **FDI without significant privatizations (FDIwsip)**, not including foreign capital flows exceeding 10 million euro for privatization⁸;
4. **Gross Domestic Product (GDP) and real GDP growth rate**;
5. **Gross fixed capital formation (GFCF)**.

³ Iacovoiu, V. B., *Foreign direct investments between theory and economic practice. Comparative analysis*, ASE Publishing House, Bucharest, 2009, p.153-232

⁴ Ibidem, p.321-324

⁵ Ene, C., *Securitatea alimentară – coordonate și implicații*, Petroleum-Gas University of Ploiesti Publishing House, Ploiești, 2009, p. 23, 191

⁶ Ene, C., *Modelul U.E. de elaborare a politicii alimentare pentru țările beneficiare*, International Conference “Economia contemporană – prezent și perspectivă”, 24-25 aprilie 2004, Pitești., Agir Publishing House, pp. 177-179

⁷ According to the definition given by the National Institute for Statistics, www.insse.ro

⁸ According to the definition given by the National Bank of Romania, www.bnr.ro

The relationship between direct investment in the economy and economic growth in the period under analysis is highlighted through investment rates, as follows:

1. **Rates of net investments** calculated as a percentage of net investments denominated in million lei current prices in gross domestic product (million lei current prices) and in the gross fixed capital formation (million lei current prices);
2. **FDI rates** calculated as the share of FDI expressed in million euro in GDP and GFCF, indicators expressed in million euro using the annual average exchange rate LEI/ EUR;
3. **The share of FDI without significant privatizations** calculated as a percentage by dividing the two indicators expressed in million euro.

Analyzing the dynamics of direct investment flows (Fig. 1), it is remarkable the upward trend, even significant net investment until 2009, followed by a negative trend in FDI inflows to the level of 2012 and divergent in terms of NI that shows a slight increase starting 2011. Therefore, 2009 is a turning point in relation to the evolution of direct investment flows.

Thus, during 2004-2008, net investments and inward FDI without significant privatizations recorded a constant positive trend, more pronounced in the case of NI, which demonstrates the growth interest of local and foreign investors for the creation of new production or development and modernization of existing assets. Regarding foreign direct investment inflows, the higher level registered in 2006, respectively 9.059 billion euro, is due to the FDI attracted in the privatization process (as for example, Erste Group has paid 3.5 billion euro for the acquisition of the majority share package of Romanian Commercial Bank). Comparatively, since 2009 inward foreign direct investments as well as FDI without significant privatizations declined steadily and initially accelerated (as for example, FDI inflows fell by 63.3% in 2009 compared to 2008 and 36.4% in 2010 compared to 2009). Also, it has to be noticed that between 2009 and 2012, there were not FDI inflows directed towards significant privatizations. Net investments initially dropped 34.36% in 2009 as compared to 2008 and 20.63% in 2010 as compared to the previous year, followed by a slight increase in 2011 and 2012, according to provisional data (Appendix - Table 3).

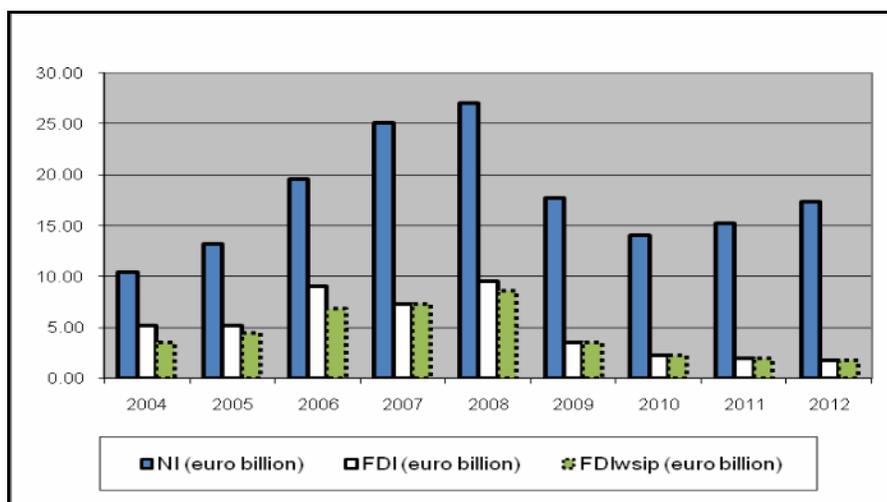


Fig. 1. Direct Investment Flows in Romania, 2004-2012

Source: Appendix – Table no.1

Consequently, in 2012 as compared to the previous years, the Romanian economy registered the following developments in terms of direct investments:

- o net investments represent approximately 2/3 of the level recorded in 2008, while inward FDI is 1/5 of the 2008 level;

- compared to 2004, there is a positive situation regarding NI (+ 67.29%), but negative with respect to FDI flows attracted (-65.58%) and the inflows of foreign capital for the creation of new fixed assets or upgrade and expand existing ones (-49.07%).

Comparing the evolution of GDP and GFCF (Fig. 2) with direct investment flows (Fig. 1) one notices similar trends, except for 2011 and 2012 when FDI still have a downward trend.

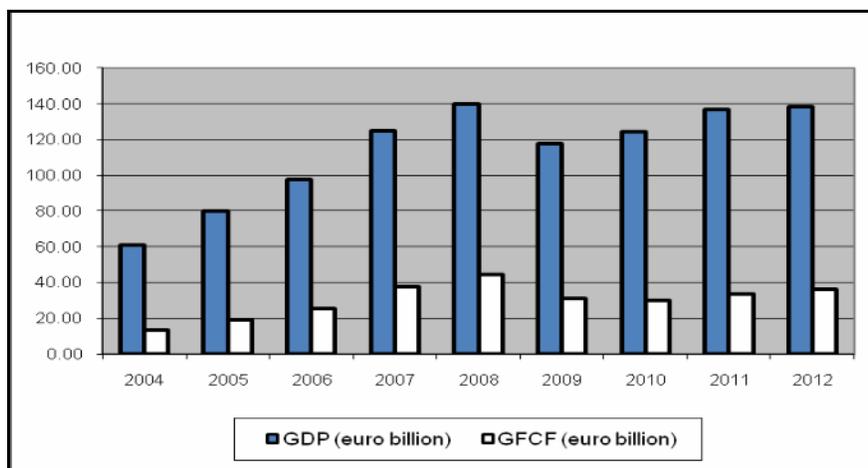


Fig. 2. GDP and GFCF in Romania, 2004-2012

Source: Appendix – Table no.1

A more detailed picture of the role that direct investment, either domestic or foreign, has played in the evolution of the Romanian economy, in terms of fixed capital formation and support economic growth, is obtained from the analysis of the dynamics of investment rates calculated in relation to GDP (Fig. 3) and GFCF (Fig. 4).

In the figure below (Fig. 3), one can observe a similar evolution of the two rates calculated as a share of GDP for the period of time from 2004 to 2012, consisting of a divergent trend, but overall descending. Thus, the rate of net investments recorded a peak in 2007 (20.11%), a value very close to that of 2006 (19.97%) when FDI rate peaked (9.26%). The situation is similar with regard to the minimum of the two rates, namely 11.15% for the NI (2011) and 1.29% for the FDI (2012). The difference in the evolution of the two rates occurs in 2012 when the net investment rate increases by 12.73 percent, while FDI rate further decreases (to 0.08%).

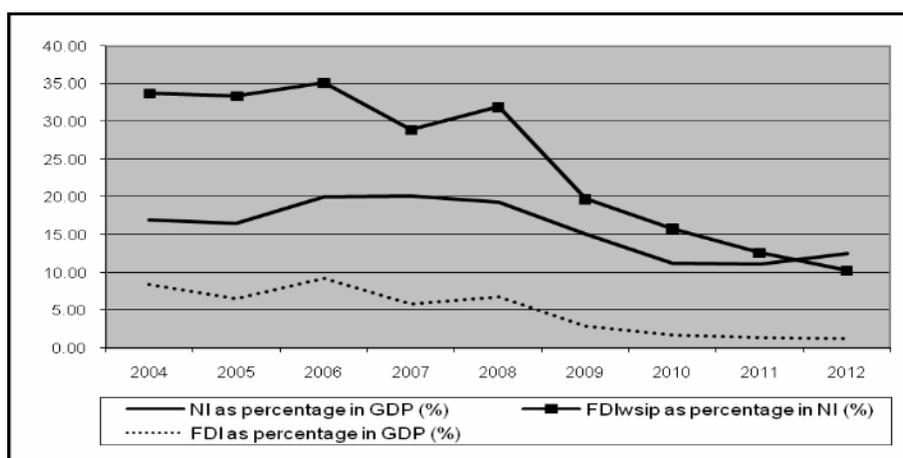


Fig. 3. Investment Rates in Romania, 2004-2012 (part 1)

Source: Appendix – Table no.2

It should also be noted that FDI without significant privatizations had an important share in net investment (over 30%) in 2004, 2005, 2006 and 2008, which explains the steep downward trend in the period 2009-2012 when ISDwsip share fell from 32% (in 2008) to 19.72% in 2009, continuing the negative evolution in the following years to the level of 10.27% (in 2012).

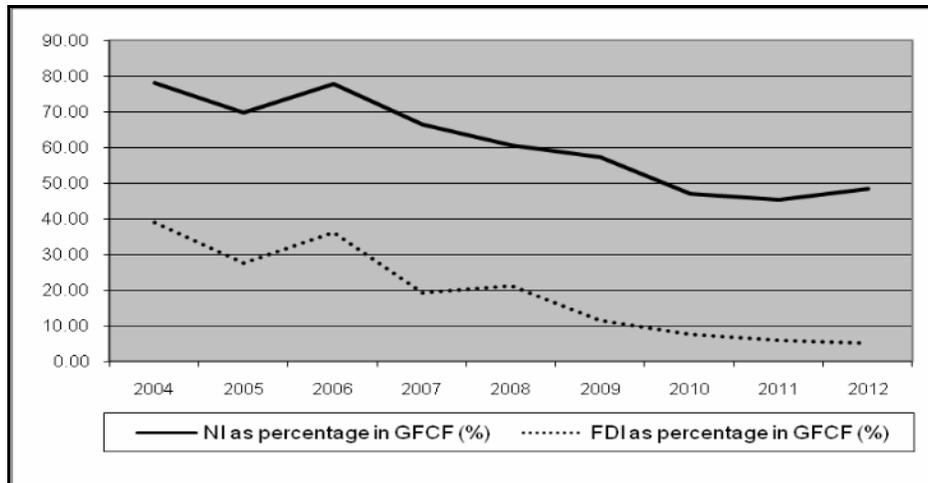


Fig. 4. Investment Rates in Romania, 2004-2012 (part 2)

Source: Appendix – Table no.2

From the analysis of the dynamics of investment rates calculated as percentage in GFCF (Fig. 4) during 2004-2012, one may notice a downward, yet more pronounced, trend. Thus, the net investment rate decreased from 78.2% in 2004 to 45.41% in 2011, after which a slight recovery in 2012 (48.39%), while FDI rate is reduced from 39.02% in 2004 to only 4.97% in 2012.

The presented data demonstrate that between 2009 - 2012 as compared to the period 2004 - 2008, the share of direct investment, either domestic or foreign, in GDP and gross fixed capital formation decreased significantly. Thus, in 2012 compared to 2008, net investment fell by 35% as a percentage of GDP and GFCF reported 20.12%, while foreign direct investment fell by 81% as a percentage of GDP and 76.65% respectively as a percentage of GFCF. Moreover, compared to 2004, in 2012 the net investment fell by 26.14% as a share of GDP and GFCF reported 38.12%, while foreign direct investment fell by 84.81% as a share of GDP and 87.26 % as a share of GFCF (Appendix - Table 3).

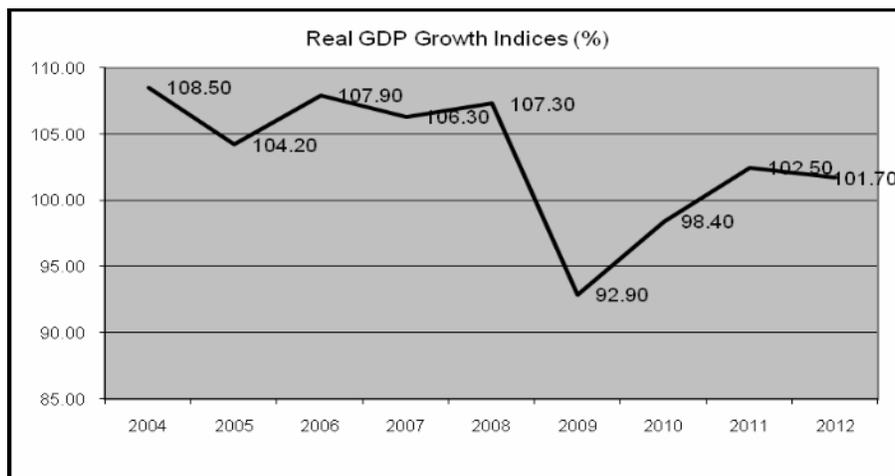


Fig. 5. Real GDP Growth Indices in Romania, 2004-2012

Source: Appendix – Table no.1

Analyzing the dynamics of investment rates correlated with the evolution of real GDP growth rate (Fig. 5) we can see a number of significant differences between the two intervals, namely from 2004 until 2008 and from 2009 until 2012, in terms of direct investment contribution, either domestic or foreign, in fixed capital formation and sustaining economic growth.

During 2004 - 2008, on average, about 71% of investments in the economy were designed to create new assets, development, modernization and reconstruction of existing ones, this process is performed in a relatively large proportion (on average 33%) by the foreign capital. Also, on average, as a share of GDP, net investments represented 18.6% while foreign direct investments 7.36%, which demonstrates the interest of local and foreign investors. In our opinion, the high levels of direct investments made in the Romanian economy are due to market potential as well as the European Union integration, which confirmed the success of building a functioning market economy⁹. Among the main causes leading to the stimulation of direct investment, domestic and foreign, we notice the improvement of the business environment, macroeconomic and political stability as well as the opportunities created for "greenfield" project¹⁰.

During 2009 - 2012, investments in the economy for creating new assets, development, modernization and reconstruction of existing ones is on average 49% of total direct investment, this process is supported by foreign capital in a low proportion (on average, about 15%). Net investments are, on average, 12.5% of the GDP, while FDI account for only 1.86% of GDP. These data demonstrate the investors' lack of interest, especially the foreign ones, to create new production capacities, situation that "is due to many factors, mainly economic and political nature, internal and external, and interdependencies between them. Following the global economic crisis, effective demand has significantly reduced, on the one hand due to the decline in the external demand in EU Member States that carry most of the Romanian exports. On the other hand, decreased purchasing power, both due to lower nominal wages, but also due to increased inflation, led to reduced domestic demand. Sharp decrease in income, which was reflected in the reduction of savings potential, together with the practice of high levels of interest rates on loans contributed to the contraction of credit for investment. In addition, political and legal instability and incoherence, excessive bureaucracy, low trust in business environment had the effect of reducing the attractiveness of the Romanian economy, due mainly to the increase of investment risks, with negative impact on inward FDI"¹¹.

Even if "the impact of the global financial crisis on the Romanian banking system was low, one reason being the insignificant presence of U.S. banks"¹², "the uncertainty specific to the international financial market was translated in Romania by raising interest rates, currency depreciation and the imposition of restrictions on the granting of loans"¹³, realities that conducted to the contraction of credit for investment.

⁹ Done, I., *Probleme și provocări economice ale tranziției*, Expert Publishing House, Bucharest, 2009, pp. 227-228

¹⁰ Stancu, A., *Măsuri de stimulare a inițiativei întreprinzătorilor din Uniunea Europeană*, Sesiunea de comunicări științifice – Coordonate economice și juridice ale integrării europene, Universitatea „Nicolae Titulescu” București, 21-22 aprilie 2004, Lex et Scientia, Nr. XI, Vol. III, Editura Cartea Universitară, 2005, pp. 155-158

¹¹ Iacovoiu, V.B., *Impact of Capital Investments on Unemployment in the Context of Economic Crisis. The Case of Romania*, Economic Insights – Trends and Challenges, Vol.I (LXIV), No.4/2012, pp.36-47

¹² Matei, M., Done, I., *Considerations regarding the role of foreign direct investment in Romanian banking system*, Revista Română de Economie, 1 (37)/2009, p.13, <http://www.revecon.ro/articles/2009-1/2009-1-5.pdf>

¹³ Ibidem

Conclusions

In Romania, as in most European countries, 2009 was a turning point that marked the change from the positive trend registered during 2004-2008 to an intensified negative trend. According to the analysis presented, this trend characterizes both the growth rate of real GDP and net investments made in the economy, especially foreign capital inflows. Thus, the data analysis shows that net investment reduction was achieved along with a reduction of inflows of foreign capital twice as large (in 2009), while net investment volume growth was accompanied by further reducing flows of foreign direct investments in the Romanian economy (in 2011 and 2012).

An unfavourable evolution was recorded since 2009, and in terms of the investments destination, meaning that the share of investments aimed at creating new assets, development, modernization or reconstruction of existing ones significantly decreased from 71% to 49%, which demonstrates that the entrepreneurs' interest was focused mainly to maintain existing production capacities.

Given these developments that highlight the continuing decrease in the period 2009 - 2012 of investor interest in developing new business in the Romanian economy, in the context of economic crisis, we believe that there are currently no economic fundamentals for a sustainable economic growth. In addition, as long as the lack of foreign capital, which had a significant share in the period 2004 - 2008 and boosted domestic investments, will not be substituted by attracting new funding sources, it is likely that relatively optimistic forecasts of the National Forecast Commission (for 2012 projected real GDP growth by 1.7%) will prove to be unrealistic.

In our opinion, the results of the analysis presented demonstrates that fiscal and legislative measures adopted since 2009 have profoundly affected entrepreneurial initiative and perception of foreign investors on the Romanian business environment, which inevitably led to further deterioration of investment flows with a negative impact on economic growth.

In order to create prerequisites for a sustainable economic growth, it is necessary for the decision makers to take measures aimed at supporting the business environment, including by attracting European funds, which is a cheap and accessible source of funding that can replace shortage of foreign capital. On the role of the state in the economy, we believe that the relevant statement of the renowned economic analyst David M. Smick¹⁴, according to whom, besides providing the best education, training and reasonable access to credit to its citizens, everything policy makers can do is to ensure a climate of economic optimism, eliminating legal impediments, tax or regulations that may discourage an individual to pursue their dreams and avoid, at the same time, all traces of class struggle.

In what concern the fructification of European funds for a sustainable economic growth, it is imperative that cohesion funds to be used efficiently for infrastructure development, the increase of competitiveness, as well as the improvement and diversification of professional skills in order to enhance the quality of human capital¹⁵. In the long term, these investments will lead to increased economic performance of the private entrepreneurs, through education and knowledge, thus sustaining the sustainable economic growth.

¹⁴ Smick, D.M., op.cit., p.115

¹⁵ Mureşan, J.D., Ivan, M.V., *Education, Science and Technology: Essential Concepts for Understanding the Welfare/Poverty Binomial*, 12th IBIMA Conference on Creating Global Economies through Innovation and Knowledge Management, IBIMA Proceedings, 2009, p. 513-517; Stancu, A., *Caracteristicile de calitate ale serviciilor de învățământ*, a XI-a Sesiune de Comunicări Științifice a Cadrelor Didactice cu participare internațională „Creșterea Competitivității Economice a României în Contextul Integrării în Uniunea Europeană”, 19-20 mai 2006, Universitatea Româno-Americană București, 2006, pp. 23-29

National policies has to ensure efficiency and competitiveness increase by adopting measures to boost the contribution of FDI companies to “the surplus stock of the trade balance of Romania”, to promote “efficient re-industrialisation of the national economy having as priority objective the development of some branches of the manufacturing industry based on intra-branch specialisation and on insertion within international value chains into segments with high value added, that are science and high-tech-intensive” and to stimulate foreign companies “for higher increases of reinvested earnings” as well as “some investments in industries with domestic capital on greenfield or infant industries types”.¹⁶

In conclusion, as long as the Romanian state policies will be geared towards ensuring a business climate conducive to investment, both domestic and foreign, similar to European countries mentioned above, the beneficial effects related to boosting entrepreneurial environment, with positive and sustainable impact on economic development, will be felt in Romania as well.

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Appendix

Table 1. Macroeconomic indicators in Romania, 2004 - 2012

| Crt. No. | Indicators | Years | | | | | | | | | |
|----------|------------------------------|----------|----------|----------|----------|-----------|-----------|-----------------------|-----------------------|-----------------------|--|
| | | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | |
| 1. | GDP (lei mL current prices) | 247368 | 288954.6 | 344630.6 | 416006.8 | 514700 | 498007.5 | 522600 ¹ | 578600 ¹ | 609600 ¹ | |
| 2. | Real GDP Growth Rate (%) | +8.5 | +4.2 | +7.9 | +6.3 | +7.3 | -7.1 | -1.6 ¹ | +2.5 ¹ | +1.7 ¹ | |
| 3. | NI (lei mL current prices) | 42111.3 | 47851.5 | 68827.5 | 83660.6 | 99525.6 | 74939.3 | 59092.7 ¹ | 64529.2 ¹ | 76660.5 ¹ | |
| 4. | GFCF (lei mL current prices) | 53830.3 | 68526.6 | 88272.0 | 125645.3 | 164279.4 | 130602.6 | 125200.0 ¹ | 142100.0 ¹ | 158400.0 ¹ | |
| 5. | FDI (euro million) | 5183 | 5213 | 9059 | 7250 | 9496 | 3488 | 2220 | 1920 ¹ | 1784 ¹ | |
| 6. | FDIwsp (euro million) | 3503 | 4413 | 6860 | 7250 | 8623 | 3488 | 2220 | 1920 ¹ | 1784 ¹ | |
| 7. | VAER lei/euro | 4.0542 | 3.6234 | 3.5245 | 3.3373 | 3.6827 | 4.2373 | 4.20997 | 4.23797 | 4.4116 ⁸ | |
| 8. | GDP (euro million) | 61015.2 | 79746.81 | 97787.09 | 124653.7 | 139761.59 | 117529.44 | 124135.96 | 136529.88 | 138181.16 | |
| 9. | NI (euro million) | 10387 | 13206.24 | 19528.3 | 25068.35 | 27025.17 | 17685.62 | 14036.6 | 15226.69 | 17377.02 | |
| 10. | GFCF (euro million) | 13282.52 | 18912.24 | 25045.25 | 37648.79 | 44608.41 | 30822.13 | 29739.42 | 33530.76 | 35905.34 | |

Abbreviations:

GDP – Gross Domestic Product; **NI** – Net Investments; **GFCF** – Gross Fixed Capital Formation; **FDI** - Foreign Direct Investments;

FDIwsip - Foreign Direct Investments without significant investment privatization; **YAER** – Yearly Average Exchange Rate.

Sources:

i) Data for indicators no.1 to 4 and 7 referring to period of time 2004-2009 are final and published in “Statistical Yearbook of Romania 2010”;

ii) Data for indicators no.5 and 6 referring to period of time 2004-2010 are final and published in “Report upon foreign direct investments in Romania 2010”;

iii) Data for indicators no.8 to 10 are own calculations.

1) Data published by National Prognosis Commission (NPC) in “The Interim Forecast for Spring 2012”;

2) Data published by National Institute of Statistics (NIS) in Press Release No.47/2.03.2012;

3) Data calculated using a growth rate of 18,8% ($T_1 2012/T_1 2011$) according to www.amosnews.ro;

4) Data published by National Bank of Romania (NBR) – Balance of Payments 2011;

5) Own estimation using FDI inflows for T_1 2012 (446 euro million) published by NBR – 446 x 4 quarters;

6) Own estimation according to evolution for years 2009 and 2010;

7) Data published by National Bank of Romania (NBR) – Evolution of Annual Average Exchange Rate;

8) Own estimation using Monthly Average Exchange Rate for period January – July 2012 published by NBR.

Table 2. Investment Rates in Romania, 2004 - 2012

| Crt. No. | Rates | Years | | | | | | | | | | |
|----------|---------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--|--|
| | | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | | |
| 1. | NI as percentage in GDP | 17.02 | 16.56 | 19.97 | 20.11 | 19.34 | 15.05 | 11.31 | 11.15 | 12.57 | | |
| 2. | FDI as percentage in NI | 33.72 | 33.42 | 35.13 | 28.92 | 31.91 | 19.72 | 15.82 | 12.61 | 10.27 | | |
| 3. | FDI as percentage in GDP | 8.49 | 6.54 | 9.26 | 5.82 | 6.79 | 2.97 | 1.79 | 1.41 | 1.29 | | |
| 4. | NI as percentage in GFCF | 78.2 | 69.83 | 77.97 | 66.58 | 60.38 | 57.38 | 47.2 | 45.41 | 48.39 | | |
| 5. | FDI as percentage in GFCF | 39.02 | 27.56 | 36.17 | 19.26 | 21.29 | 11.32 | 7.46 | 5.73 | 4.97 | | |

Source: own calculations using data presented in table no.1

Note: For FDI rates have been used indicators values in euro million

Table 3. Evolution of Direct Investment Flows and Investment Rates in Romania, 2004 - 2012

| Crt. No. | Years Growth Rates | - (percentages) - | | | | | | | | | |
|----------|---|-------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| | | 2005/2004 | 2006/2005 | 2007/2006 | 2008/2007 | 2009/2008 | 2010/2009 | 2011/2010 | 2012/2011 | 2012/2008 | 2012/2004 |
| 1. | Growth Rate of FDI | +0.6 | +73.8 | -20 | +31 | -63.3 | -36.4 | -13.5 | -7.1 | -81.21 | -65.58 |
| 2. | Growth Rate of FDI/Insp | +26 | +55.4 | +5.7 | +18.9 | -59.6 | -36.4 | -13.5 | -7.1 | -79.31 | -49.07 |
| 3. | Growth Rate of NI in euro million | +27.14 | +47.87 | +28.37 | +7.81 | -34.56 | -20.63 | +8.48 | +14.12 | -35.7 | +67.29 |
| 4. | Growth Rate of NI as percentage in GDP | -2.7 | +20.59 | +0.7 | -3.83 | -22.18 | -24.85 | -1.4 | +12.73 | -3.5 | -26.14 |
| 5. | Growth Rate of FDI/Insp as percentage in NI | -0.9 | +5.09 | -17.68 | +10.34 | -38.20 | -19.78 | -20.29 | -18.56 | -67.82 | -69.54 |
| 6. | Growth Rate of FDI as percentage in GDP | -22.97 | +41.59 | -37.15 | +16.67 | -56.26 | -39.73 | -21.23 | -0.08 | -81 | -84.81 |
| 7. | Growth Rate of NI as percentage in GFCF | -10.7 | +11.66 | -14.61 | -9.01 | -5.28 | -17.74 | -0.04 | +6.36 | -20.12 | -38.12 |
| 8. | Growth Rate of FDI as percentage in GFCF | -29.37 | +31.24 | -46.75 | +10.54 | -46.83 | -34.1 | -23.19 | -13.26 | -76.65 | -87.26 |

Source: own calculations using data presented in tables no.1 and no.2