

Foreign Direct Investments - Determining Factors and Dynamics in Romania

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Abstract

This paper aims to analyse the dynamics of foreign direct investment (FDI) in Romania during the period 2013–2024, with the objective of identifying trends in FDI flows and stocks, the sectoral distribution, and the countries of origin of investors. Definitions and classifications of FDI according to specialised institutions' methodologies will be presented, highlighting their role in economic growth, technology transfer, and integration into global production chains.

Keywords: foreign direct investment, economic development, greenfield investments

Introduction

In the global economy, foreign direct investments (FDI) represent one of the most important forms of international economic integration, constituting a pillar of the single market and regional development strategy, playing an essential role in the development, modernization, and competitiveness of national economies, and representing a necessary channel of access to modern technology, managerial know-how, global production chains, innovation and technology transfer, and sales markets.

The evolution of FDI in Romania is fundamental for understanding Romania's competitive advantages. It reflects the economy's structural transformations, vulnerabilities, the attractiveness of a changing investment environment, medium-term development prospects, and the country's ability to integrate into global production chains.

1. Definition of foreign direct investment, its components and classification

According to the OECD, Foreign Direct Investment (FDI) refers to investments made by a resident investor in another country, with the aim of obtaining a lasting influence over the management of the enterprise in which the investment is made (OECD, 2008).

The International Monetary Fund clearly states that an investment is considered FDI when the investor owns at least 10% of a company resident in another economy's voting rights (IMF, 2009).

Another institution, UNCTAD, defines FDI as the international flow of capital through which a company acquires a lasting interest in a foreign enterprise, with the aim of exercising managerial control or significant influence (UNCTAD, 2023).

According to the National Bank of Romania (BNR, 2024), FDI comprises three main components: share capital, reinvested profits, and loans between affiliated companies.

Based on the international methodology, FDI consists of three main flows (OECD, 2008):

- share capital
- reinvested profits
- intra-group loans

Regarding FDI classification, several criteria are used, including the mode of market entry.

a) By mode of market entry: Foreign direct investments are classified into greenfield investments, when the investor creates a production facility from scratch, or brownfield form, through the acquisition or merger with an already existing enterprise. And a joint venture, when the foreign investor forms a joint entity with local investors, sharing both risk and control.

b) By economic impact on the local economy: FDI is classified into two categories, namely export-oriented investments when production in the host country is intended for foreign markets, and domestic market-oriented investments when production is intended for domestic consumption.

c) By investment motivation— The OLI Model (Dunning 1980) According to the eclectic OLI theory, firms invest abroad to gain access to resources, markets, efficiency, or strategic assets.

Regarding the role of FDI in the economy, foreign direct investments contribute to economic development by (UNCTAD, 2023):

- boosting economic growth and productivity;
- transferring technology and managerial know-how;
- integrating into global production chains;
- creating jobs and increasing tax revenues.

At the same time, FDI can help intensify the economic convergence process and reduce development gaps compared to advanced countries (European Commission, Eurostat).

2. The dynamics of foreign direct investment in Romania

The net flow of foreign direct investment (FDI) in Romania amounted to 6,748 million euros in 2023, while the FDI stock reached 118,231 million euros at the end of 2023. The largest share of FDI flows is found in sectors such as industry, financial intermediation and insurance, and trade. Regarding partner countries, investments from Germany hold the largest share in the ranking of final investors, followed by those from Austria, France, the USA, and the Netherlands.

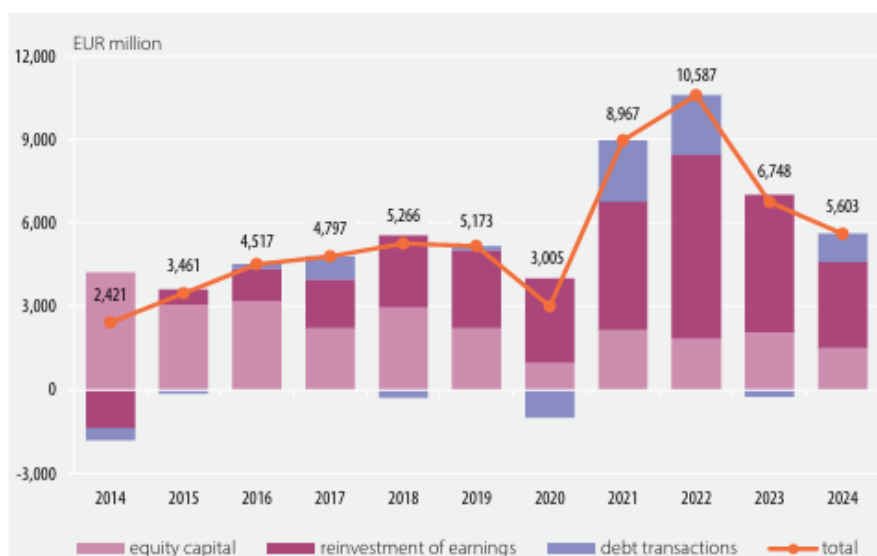
Figure 1. Foreign direct investment in 2023 in Romania



Source: BNR, Foreign direct investment 2023, p. 6, https://www.bnr.ro/uploads/2023-10-foreigndirectinvestmentinromaniain2023_documentpdf_545_1740466698.pdf

After the growth period corresponding to the years 2021-2022, and following the record value of 10,587 million euros in 2022, throughout 2023, the net FDI inflow attracted by Romania recorded a decrease of 36.3 percent compared to the previous year.

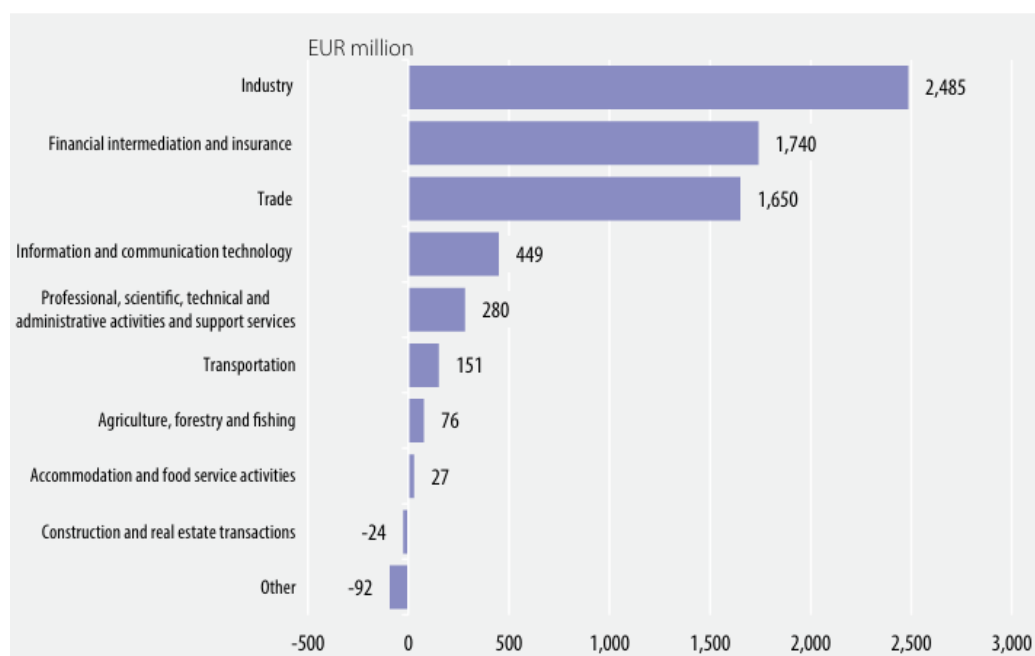
Figure 2. FDI flows by component in 2014-2024



Source: BNR, Foreign direct investment 2023, p. 8, https://www.bnr.ro/uploads/2023-10-foreigndirectinvestmentinromaniain2023_documentpdf_545_1740466698.pdf

If in 2014 the FDI inflow recorded a value of 2,421 million euros, in 2019 it reached a value of 5,173 million euros, and due to the Covid-19 pandemic in 2020 it decreased to 3,005 million euros. This was followed by a period of growth in FDI flows in Romania, reaching a record level of 10,587 million euros in 2022, followed by a decline due to existing geopolitical tensions.

Figure 3. Net FDI flows by main economic activity



Source: BNR, Foreign direct investment 2023, p. 11, https://www.bnr.ro/uploads/2023-10-foreigndirectinvestmentinromaniain2023_documentpdf_545_1740466698.pdf

From Figure 3 regarding the distribution of net FDI flows by sectors of activity, it can be observed that the largest net FDI flow is recorded in industry, while the net FDI flow attracted by construction and real estate transactions has become negative, thus recording a decrease to the level of -24 million euros. Other sectors that recorded high levels of net FDI flow were Financial intermediation and insurance, which reached a level of 1,740 million, as well as trade, which recorded a value of 1,650 million euro.

Figure 4. FDI position: main components and their determination method as at 31 December 2023

		EUR million			
		Closing position at end-2022	Transactions	Other changes in volume	Closing position at end-2023
	Total	107,944	6,748	3,539	118,231
1.	Equity positions	76,570	6,996	1,193	84,759
2.	Debt positions (a - b)	31,374	-248	2,346	33,472
a	Debt	43,582	1,096	2,481	47,159
i	Financial debt	32,589	135	2,143	34,867
ii	Trade debt	10,281	1,032	253	11,566
iii	Other accounts payable	713	-72	84	725
b	Claims	12,208	1,344	135	13,687
i	Financial claims	4,464	992	66	5,522
ii	Trade claims	7,612	330	56	7,998
iii	Other accounts receivables	132	22	12	166

Source: BNR, Foreign direct investment 2023, p. 14, https://www.bnr.ro/uploads/2023-10-foreigndirectinvestmentinromaniain2023_documentpdf_545_1740466698.pdf

Compared to 2022, the total net FDI balance increased from 107,944 million euros to 118,231 million euros in 2023. At the same time, the components of the FDI balance followed similar trends in 2023 as in 2022. Thus, equity capital increased from 76,570 million euros to 84,759 million euros, while the balance of debt instruments rose from 43,582 million euros to 47,159 million euros, and receivables increased from 12,208 million euros to 13,687 million euros.

Conclusions

In the period 2022-2023, although increasing, FDI developments still reflected a moderation, indicating a recalibration of investor preferences and a more cautious economic environment. Nevertheless, Romania remained attractive to foreign investors due to several favourable factors, including a skilled workforce, access to the EU market, still moderate costs, and relatively good macroeconomic stability.

In 2023, the net inflow of foreign direct investment (FDI) in Romania amounted to 6,748 million euros, while the FDI stock reached 118,231 million euros. Certain economic sectors stood out with the highest levels of investment, namely industry, financial intermediation and insurance, and trade. The FDI stock reached 118,231 million euros by the end of 2023. Many of these investments were concentrated in greenfield FDI enterprises. In contrast, the remaining foreign investments were made through the full or partial acquisition of enterprises from residents (mergers and acquisitions). When analysing the level and evolution of foreign direct investment in an economy, it is worth noting that, besides their undeniable advantages, FDI can also generate risks, including the creation of vulnerabilities in the host economy during economic recessions.

The evolution of FDI during the analysed period highlights, on the one hand, the dynamics of investments, and on the other side, it emphasises the state of the economic environment which influences foreign investors' decisions, such as geopolitical instability, fiscal policies, macroeconomic fluctuations, the country's investment climate, and changes in global demand structure. FDI involves managerial involvement, entails certain operational risks, and is influenced by the evolution of the global economy and each country's investment climate. For emerging economies such as Romania, FDI is essential for supporting economic growth and generating a series of multiplier effects, including job creation, increased productivity, enhanced competitiveness and quality, and infrastructure investments.

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