HOW HAVE RECENT ADVERSE CONDITIONS AFFECTED ROMANIA'S INVESTMENT ATTRACTIVENESS?[1]

DORINA CLICHICI
Institute for World Economy, Romanian Academy
Calea 13 Septembrie nr. 13, Sector 5, Bucureşti
ROMANIA
dorina.clichici@iem.ro

Abstract: The last few years have been characterized by adverse conditions that have substantially affected the Romanian economy, with major implications for investment attractiveness. Against this background, the objective of the paper is to investigate how Romania's capacity to attract foreign capital has evolved, in the light of the most recent unfavourable economic and political dynamics. In this context, the article pursues several important objectives. The first objective is to review the literature that emphasized the relation between the macroeconomic environment and FDI flows. The second objective is to analyse the level of investment attractiveness of Romania, through the evolution of the country rating and investors' perceptions of Romania as a destination country for FDI. The third objective is to identify the structural changes in FDI flows, but also of the factors that contributed to this evolution. Using both qualitative and quantitative approaches, the study evaluates Romania's investment attractiveness through the evolution of its country rating and the perceptions of investors regarding Romania as an FDI destination. The results reveal that the investment attractiveness of the Romanian economy have slightly declined, under increased macroeconomic uncertainty, significant deterioration of public finances, and military conflicts taking place in the country's immediate proximity. Moreover, they indicate a qualitative and structural change in foreign investments, more specifically, we are witnessing a diversification of the FDI portfolio and a shift towards areas with higher added value or with a lower initial capital requirement.

Keywords: - FDI, Romania, investment attractiveness, country rating, investors' perceptions
JEL Classification: F00, F21, F30

1 Introduction

The past few years have been characterized by a series of disruptive events that have substantially affected the global economy, with major implications for Romania. The Covid-19 pandemic, the multiple crises caused by the war in Ukraine, the tightening of monetary conditions by central banks in the fight against rising inflation, have had seriously affected the Romanian economy. The effects of all these turbulent events were amplified by some internal unfavourable economic and political changes, generating a slowdown in the pace of economic growth, a worsening of the country's fiscal position, an increase in the trade deficit, an increase in inflation, consequently deteriorating the country's investment attractiveness. Specifically, after a period in which Romania experienced relative macroeconomic balance, the pandemic crisis caused a substantial contraction of the Romanian economy. Despite the economic recovery in 2021 (growth determined by the reopening and restarting of economic activities suspended during the pandemic), Romania experienced a slowdown in growth in the following years. Moreover, after a budget deficit that already exceeded the threshold of the Stability and Growth Pact, Romania's fiscal position has experienced a continuous deterioration, with the country entering the excessive deficit procedure starting in 2020. In addition, the multiple crises caused by the war in Ukraine caused substantial price increases and aggravated inflationary pressures, with the inflation rate reaching a 15-year high in 2024.

2 Literature review

The literature has extensively analysed the relationship between the macroeconomic environment and FDI flows, as well as how economic and financial crises affect investment decisions. There are several reasons

[1] This paper capitalizes on the author's doctoral thesis "The changing concept of foreign investment under globalization". It is also a part of the author's contribution to the study "Reconfiguring foreign investment under economic and geopolitical uncertainty (multi-year study)", coordinator Dorina Clichici, Institute for World Economy, Romanian Academy, 2025.

why foreign investors prefer markets that grow faster. First, higher levels of economic growth generate a higher level of profitability (Blonigen et al., 2007; Greenaway et al., 2007), but also a higher possibility of increasing efficiency (Agosin and Machado, 2007), thus raising the attractiveness of the market for foreign investors. Second, a higher economic growth rate signals the possibility of increasing the size of the market, i.e., of domestic demand, favoring a long-term commitment on the part of the foreign investor. Thus, a high level of aggregate demand attracts FDI by increasing opportunities to earn higher profits (Zhang, 2001a; Iamsiraroj and Doucouliagos, 2015). The confidence of foreign companies in the host economy is also promoted by economic growth, encouraging long-term commitments through FDI (Noorbakhsh et al., 2001; Ernst and Young, 2010). Specifically, higher economic growth rates generally imply more stable macroeconomic conditions, positive economic prospects, and lower levels of political risks (Morisset, 2000; Dunning, 2006; Aisen and Veiga, 2013). Higher rates of economic growth often indicate an accelerated pace of economic development, a favorable investment climate, strengthening institutions and infrastructure and the availability of skilled human capital (Zhang 2001b; Nunnenkamp și Spatz 2004). Moreover, Ghazalian (2024) found important variations in the magnitude of the significant positive effects of economic growth on FDI flows in different geo-economic regions, depending on several relevant economic variables. In this context, the author emphasizes the major role of public policies to stimulate economic growth, coupled with those of openness to international trade and foreign investment.

At the same time, recent disruptive events have revealed the vulnerability of FDI flows to adverse global and regional geopolitical conditions, significantly undermining investment decisions and increasing risk aversion. Tighter credit conditions have limited the funds available for new investments and diminished their capacity to invest, increasing uncertainty about future returns. Increased uncertainty related to the economic recession, unstable economic conditions and pessimistic forecasts have made firms hesitant to engage in new, long-term projects, leading to reduced aggregate demand and diminishing the appetite for FDI. Although crises may create opportunities for FDI in certain sectors or economies due to lower asset prices, they ultimately affect the investment climate. Saleh (2023) reviewed the literature examining the effects of economic and financial crises on FDI and found two main effects of crises on FDI, i.e., indirect effects and direct effects. Indirect effects refer to the impact that deteriorating macroeconomic indicators (e.g., economic slowdown, trade disruption, and exchange rate volatility) have on the investment climate and, respectively, on foreign investors' decisions. While direct effects manifest themselves at the microeconomic level, affecting the balance sheets of foreign companies. Declining demand is one of the main direct effects of economic crises and recessions, causing a decrease in sales, production, and profits. Ghazalian (2023) revealed the severe impact of the Arab Spring on FDI flows in the MENA region, revealing significant variations in the effects of this event on FDI flows and distinct patterns over different time periods. These findings imply that the role of political stability is overwhelming for foreign investors' decisions.

Given the close relationship between the macroeconomic environment and FDI, we will analyse how Romania's capacity to attract foreign capital has evolved, given the most recent disruptive conditions. In this context, we will pursue several important objectives. The first objective is to review the literature that emphasized the relation between the macroeconomic environment and FDI flows. The second objective is to analyse the level of investment attractiveness of Romania, through the evolution of the country rating and investors' perceptions of Romania as a destination country for FDI. The third objective is to identify the structural changes in FDI flows, but also of the factors that contributed to this evolution.

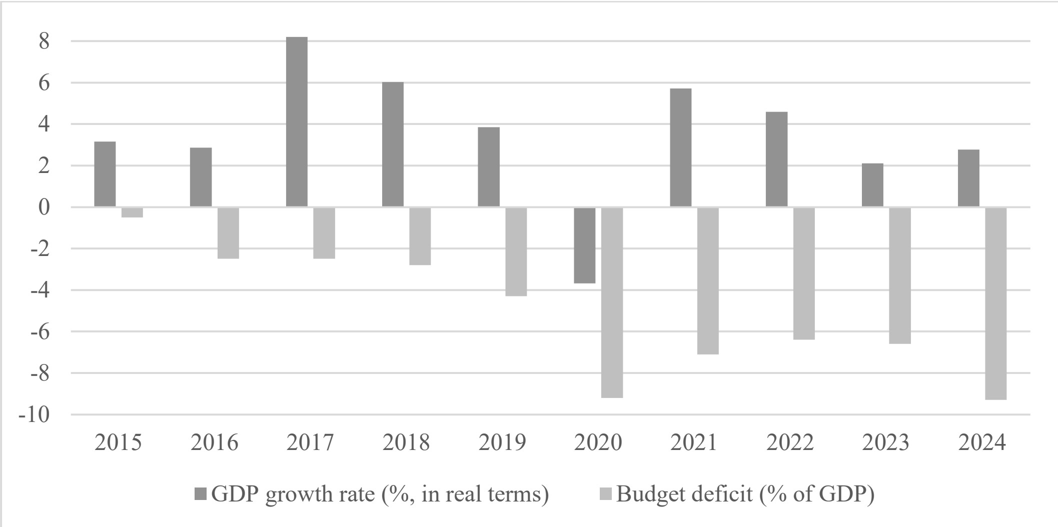
3 Methodology and data

Using both qualitative and quantitative approaches, the study evaluates Romania's investment attractiveness through the evolution of its country rating and the perceptions of investors regarding Romania as an FDI destination. In addition, we conducted a quantitative analysis of the structural changes in FDI flows under recent disruptive conditions. The analysis relied on data from the National Bank of Romania for FDI flows and their main components, while country rating information was obtained from the official websites of rating agencies. Furthermore, the information regarding the perception of foreign investors was retrieved from Ernst&Young Attractiveness Survey and the data for macroeconomic indicators and economic sentiment from IMF and Eurostat.

4 The main risks affecting the investment sentiment in Romania

After the pandemic crisis that led Romania to enter the excessive deficit procedure and the multiple crisis generated by the war in Ukraine, the country faced a continued deterioration of its fiscal position. The unfavourable evolution was amplified by substantial increases in public sector wages and pensions, in the context of the 2024 elections, combined with the increase in interest payments on public debt. This unfavourable situation was amplified by subdued economic growth (of 2.1% in 2023 and 2.7% in 2024), political instability, the cancellation and resumption of presidential elections in May 2025, causing the postponement of fiscal reforms in the first half of the year and creating significant pressure on public finances. Against this backdrop, the level of budget deficit culminated in a value related to GDP of 9.3% in 2024 (the highest budget deficit level in the EU recorded in 2024) (Figure 1), but also with a continuous rise in public debt, reaching 54.8% of GDP in 2024 (up by 19.8 percentage points compared to 2019).

Figure 1: Evolution of GDP growth rate (%) and budget deficit (% of GDP) in Romania, between 2015 and 2024



Source: Author's representation based on IMF (2025) and Eurostat (2025a) data.

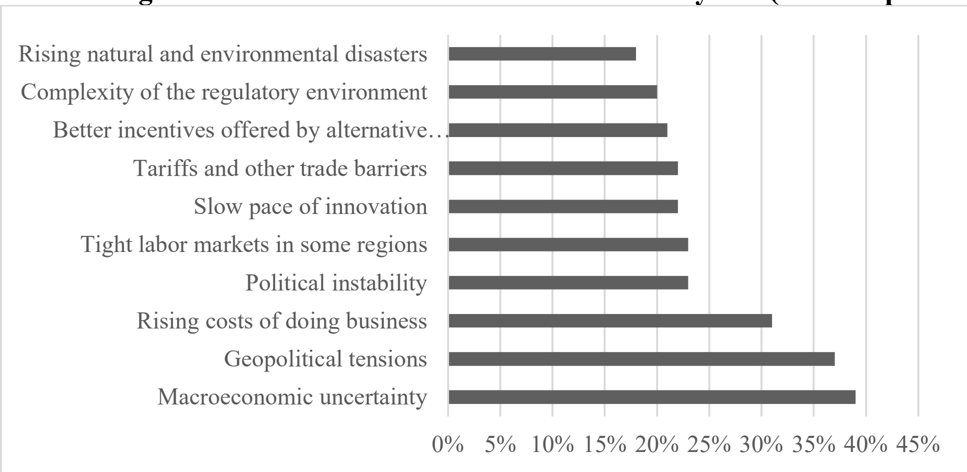
These negative economic developments have had a major impact on Romania's investment attractiveness, damaging the country's financial credibility (measured by its country rating). Thus, given the fragile macroeconomic situation, the largest rating agencies (Standard & Poor's, Fitch, and Moody's) have warned that the fiscal and political risks currently facing Romania could lead to a downgrade of the country rating in the future. A brief analysis of the evolution of the rating granted to Romania reveals that it has remained at BBB- (on the Standard & Poor's and Fitch scales) and Baa3 (on the Moody's scale) in recent years, with a stable outlook. However, the most recent disruptive events that Romania has faced, namely the presidential elections of November 2024, which were cancelled and resumed in May 2025, the challenges related to reducing the budget deficit, but also the slow pace of economic growth, have determined the rating agencies revising the sovereign risk outlook of Romania from BBB- with a stable outlook to a negative one in 2025[2]. The negative outlook suggests that the rating could be downgraded in the future, if economic or political conditions worsen, with the risk of entering the "junk" or "non-investment-grade" category, a category that implies the possibility that the sovereign bond issuer will not be able to honour its payment obligations.

Thus, maintaining the rating at the "investment grade" level is paramount and depends on prompt and committed actions by the Romanian authorities, i.e., implementing fiscal reforms, maintaining political stability and the budgetary consolidation trajectory. The importance of predictability in economic policies to ensure a stable and attractive business environment is also highlighted by the Foreign Investors Council of Romania (FIC, 2025), which considers it necessary to identify priority sectors for attracting FDI, in line with the directions assumed by Romania in the National Recovery and Resilience Plan, but also other areas of the economy that have a high potential to grow, generate innovation and create new jobs, having a broad positive impact on the entire economy.

[2] All three largest rating agencies, Standard & Poor's, Fitch, and Moody's, revised the sovereign risk outlook of Romania from a stable outlook to a negative one. Standard & Poor's revised it in January 2025 (S&P, 2025), Fitch in December 2024 (Fitch, 2024), and Moody's in March 2025 (Moody's, 2025).

At the same time, the long-term perception of foreign investors regarding Romania's attractiveness has worsened during the last year (Ernst&Young, 2025). Although 58% of the executive directors surveyed believe that Romania's attractiveness will improve in the next three years, this value is decreasing compared to 2024 (67%). According to Ernst&Young survey[3], macroeconomic uncertainty, determined by the slowdown in economic growth, high interest rates, high levels of public debt, etc., but also geopolitical tensions are considered the biggest risks affecting Romania's attractiveness in the next three years, representing latent concerns of investors (Figure 2). Moreover, foreign investors are concerned about the increase in the costs of doing business (including energy costs) and political instability, which is manifested by a continued polarization of political parties and populist policies.

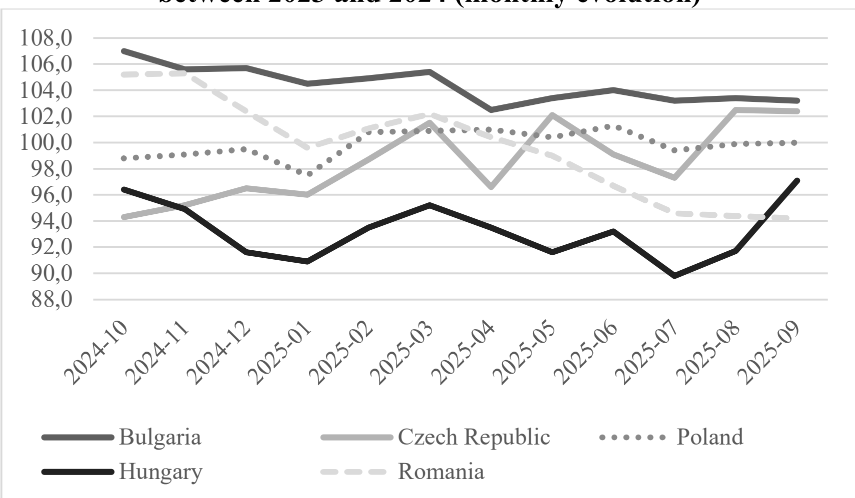
Figure 2: Risks affecting Romania's attractiveness in the next three years (% of respondents surveyed)



Source: Author's representation based on Ernst&Young data (2025).

In the context of increasing macroeconomic, political and geoeconomic risks, which have generated an increase in the costs of conducting business, the economic sentiment in Romanian has experienced a constant decline since April 2025 (Eurostat, 2025). Compared to other countries in Central and Eastern Europe, Romania currently has the lowest value of the economic sentiment, at only 94.2, while Bulgaria experienced the highest level, at 103.2 (Figure 3). This unfavourable evolution of confidence is set to test the government's capacity to stabilize the economy and consolidate the fiscal position, but also to reduce the level of political fragmentation in the coming period.

Figure 3: Economic sentiment in Romania and in other Central and Eastern European countries, between 2023 and 2024 (monthly evolution)



Source: Author's representation based on Eurostat data (2025b).

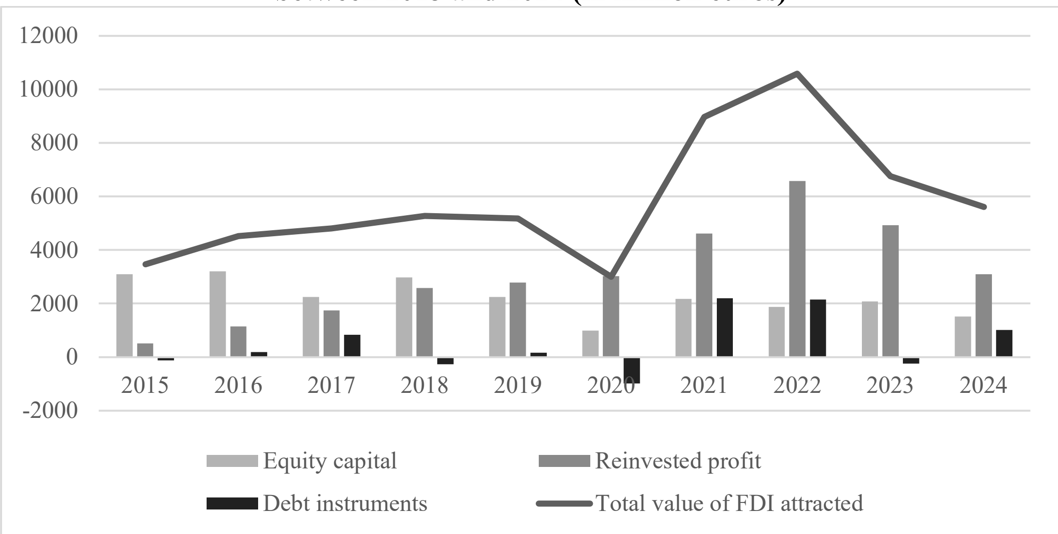
[3] The EY Attractiveness Survey Romania 2025 is based on the results of a survey conducted between March and April 2025, on a representative sample of 100 executive directors. Approximately 60% of respondents represent companies headquartered in Europe, and 40%, companies headquartered in other regions. The responding companies operate in six broad sector categories and were distributed across a full spectrum of sizes based on turnover.

These risks are further amplified by the European Commission's decision in June 2025 to initiate actions to suspend payments under the European Structural and Investment Funds and the Recovery and Resilience Facility for Romania, given that it has failed to correct its budget deficit (European Parliament, 2025). Such a suspension will have significant economic and social repercussions, maintaining a rather pessimistic economic outlook for the coming years. Although the inflation rate is expected to gradually decline, it will remain high (at 5.1% in 2025, falling to 3.9% in 2026), the forecast for real GDP growth has been revised downwards to 1.4% in 2025 (an increase of 2.2% in 2026), while the budget deficit will remain substantial (being forecast at 8.6% of GDP in 2025 and 8.4% in 2026) (European Commission, 2025). At the same time, the increase in customs duties by the US is expected to limit the recovery of Romania's exports, indirectly, as a result of the negative impact of these tariffs on Romania's trading partners in the European Union. These developments underscore the importance of implementing fiscal reforms and political consolidation so that the long-term confidence of foreign investors in the Romanian economy increases.

5 Evolution of FDI flows in Romania under recent economic developments

Given the unfavourable economic developments, the delicate balance of FDI flows has been affected, experiencing a decrease for two consecutive years, of 36.3% in 2023 and, respectively, of 17% in 2024. Moreover, a substantial decrease in profit reinvested by foreign companies can be noted, by 25% in 2023 and by 37% in 2024 compared to the previous year.

Figure 4: Evolution of FDI flows attracted by Romania, between 2015 and 2024 (in million euros)

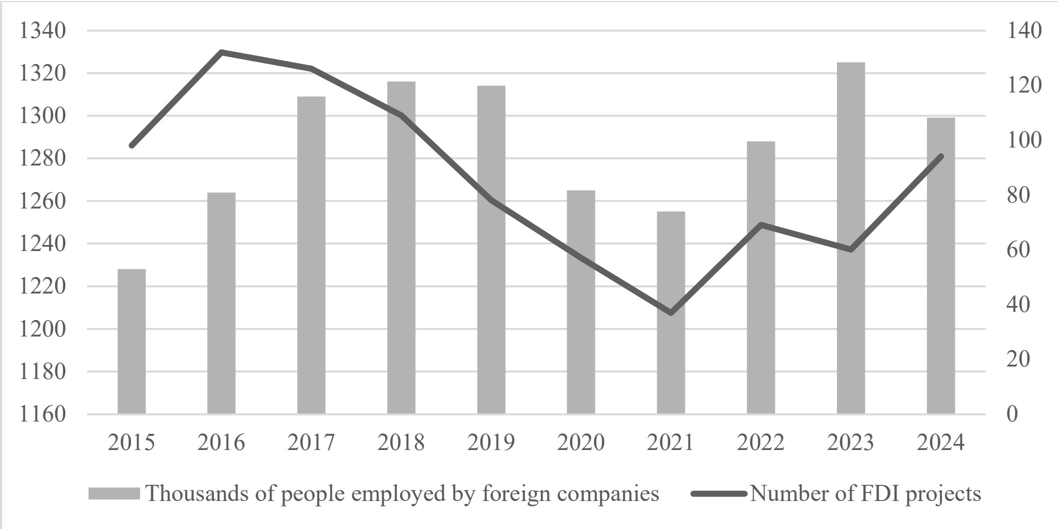


Source: Author's representation based on NBR data (2025).

This development suggests a trend of repatriation of earnings by investors, against the backdrop of a negative perception of Romania's future economic prospects and increased uncertainty regarding the ability to collect additional profits under current conditions. At the same time, the contribution of debt instruments to FDI inflows increased by 17.8% in 2024 compared to the previous year, reflecting an increase in loans contracted by foreign companies located in Romania from parent companies and other partners within the group. This financial support granted to local subsidiaries by multinational groups is interpreted as a need to strengthen financial flexibility in an uncertain and challenging international context (ECB, 2024).

However, despite a period marked by macroeconomic difficulties and geopolitical tensions, Romania experienced a 57% increase in the number of FDI projects in 2024 compared to the previous year, from 60 to 94 projects (Figure 5). This is the highest number of FDI projects in Romania since 2018 and one of the most dynamic recoveries among the Central and Eastern European countries, surpassing the dynamics recorded by Poland (13% increase in the number of projects) and Hungary (4% increase in the number of projects) (Ernst&Young, 2025). Moreover, an increase in the number of people employed by foreign companies can be noted between 2022 and 2023, with a moderate decrease being recorded in 2024 (the total number being 1,299 thousand employees, down from 1,325 thousand employees in 2023), as a consequence of digitalization processes of activities, as well as cost optimization.

Figure 5: Number of FDI projects and number of people employed by foreign companies in Romania, between 2015 and 2024



Source: Author's representation based on NBR data (2025) for the number of people employed by foreign companies in Romania and Ernst&Young (2025) for the number of FDI projects.

The rise in the number of FDI projects, while the value of FDI flows has decreased, indicates a qualitative and structural change in foreign investments. More specifically, we are witnessing a diversification of the FDI portfolio and a shift towards areas with higher added value or with a lower initial capital requirement.

Conclusions

The analysis uncovered that the most significant risks to FDI in Romania relate to macroeconomic uncertainty, the significant deterioration of public finances, determined by the high level of the budget deficit and the rapid increase in public debt relative to GDP, but also to the geopolitical tensions and conflicts taking place in the country's immediate proximity. These challenges led to the rating agencies revising Romania's sovereign risk outlook from stable to negative in 2025, meaning that the rating could be downgraded to the ”junk” category in the future if economic or political conditions worsen. Moreover, in the most recent country rating assessment by Fitch, in August 2025, it highlighted the persistence of significant risks to medium-term fiscal consolidation, generated by the low pace of economic growth, the difficulties in implementing the new package of fiscal consolidation measures and the heightened political polarization. Such a perspective could significantly affect foreign investors' perception. The risks affecting the country's investment attractiveness must be addressed as soon as possible, to avoid a possible downgrade of Romania's country rating.

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