

# THE DELAY OF INVESTMENTS IN ROMANIAN TOURISM CAUSED BY THE CURRENT FINANCIAL CRISIS

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**Abstract:** *The European Union considers creating specific economic areas due to the inheritance of each country. For the south-east European area, the characteristic is the low industrial development, as a consequence of the financial crises. Nowadays, the south-east European area becomes attractive mainly because of the tourism industry, due to the industrial downturn of the last decades. EU policies regarding the tourism industry face the actual financial crisis, which is reflected in the postponing of investments in tourism. In this article, the author intends to analyze the current stage of investments made in the Romanian tourism industry with the help of the European Union. The study also aims at finding favourable solutions for continuing investments, although the crisis persists.*

**Key words:** *investments in tourism, delaying investments, re-launching investments.*

## 1. Introduction

Tourism can be shortly defined as being an economic-social phenomenon specific for modern civilization, strongly anchored in the life of the society and influenced by its evolution, with a high dynamism and having large social segments as target. It involves a large human capital and influences the evolution of the economy and society.

Tourism, as an important element of the tertiary sector, an industry with huge potential, has an increasing role in the economy of a country, being a factor which underlies economic growth.

Constituted mainly of services supply, tourism is now an essential component of the tertiary sector and it is in close

connection with the development of other sectors.

Being influenced by economy, the tourism industry finds itself in times of uncertainty. In 2009, the international tourism industry registered a powerful regression, due to the world wide financial crisis.

## 2. Current Decreases in the Tourism Sector

This part presents the current situation of the tourism industry at international and European level, and in Romania.

The year 2009 was a year of recession for Europe as it was for the whole world.

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The situation caused by the financial crisis in tourism is also reflected in the stagnation of the investments in tourism.

As it can be seen in Figure 1, international tourism statistics show a

4.3% decline in the number of international tourist arrivals in 2009, as compared to 2008. Despite the negative change, specialists are optimistic about the year 2010 and predict a 3 up to 4% growth



Fig. 1. Evolution of the changes in the number of international tourist arrivals

Figure 2 shows the situation of 2009 compared to 2008, underlining that all the countries form the EU registered decreases

in the tourism sector, except for the Netherlands which registered a slight growth.

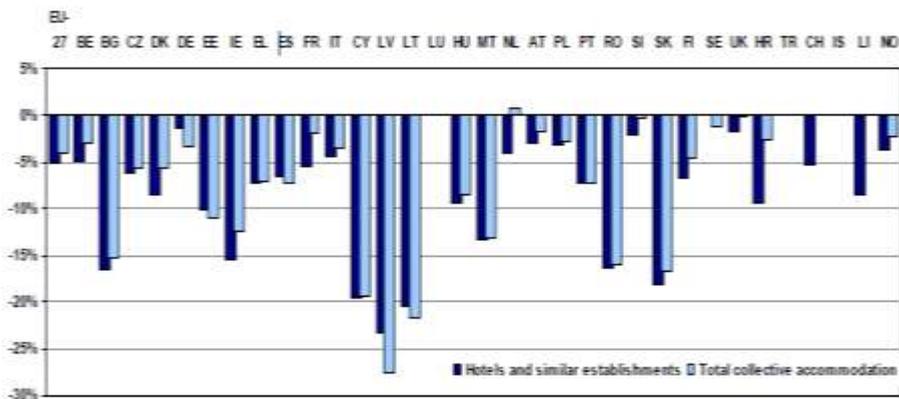


Fig. 2. Changes in percentages regarding number of nights spent at hotels and similar establishments in the countries of the EU, 2009 compared with 2008

The year 2009 was a year of recession for Romania as for the other EU countries. In Romania, 2009 ended with decreases in the tourism sector, compared to the previous year.

Only one Romanian person out of four went on vacation that year. Less than three quarter of the Romanians went year on vacation in 2009, because of the reduction of the holiday budget.

Romanians chose to give up vacations out of precaution, adopting a different attitude compared to the previous years, when they used to take loans from the banks in order to go on vacation. Only 57% of the Romanians from the urban area chose to go on holiday in the summer of 2009, according to a market research made by Business Magazine. Another 18% said that they intended to go on holiday later in autumn.

The Black Sea seashore remains the most solicited, although the investments planned to arrange the beaches and to renew the accommodation spaces have been delayed.

Over the last period, the interest in rural areas such as Bucovina, Bran-Rucar-Moeciu, Praid and Maramures has also grown. In these rural areas, some investments were made before the crisis, encouraged by different pre-adhering programs.

For the winter holiday period, the number of tourists has decreased with approximately 10 percent as compared to last year. Travel packages and hotel rooms have been sold in 70-80 percentages. [7]

### **3. Programs Which Support Investment in Tourism**

The tourism industry, supported by investments, has the capacity of contributing to the stimulation of the internal development of a region, the decrease in regional unbalances, the geographical redistribution of wellness from the metropolitan zones to the poorest, peripheral ones. Therefore, tourism appears like a viable alternative of development for different regions. In this context, by its geographic position and rich potential, Romania could become an area of high tourist attraction, provided a series of tourist development strategies are created, implemented and promoted, at national level, as well at regional one.

In Romania, we can talk about regional development since 1998, this concept focusing, just like in the E.U., on the development of disparity reduction between the countries' regions; in this way, the quality of living is generally improved, by stimulating and diversifying economic activities, private sector investments or unemployment reduction. For the regional development policy, eight development regions have been created, which include the whole territory of Romania: North-West region, North-East region, Centre region, West region, South-West Oltenia region, South-Muntenia region, South-East region, Bucharest-Ilfov region.

Regional and national programs supporting investments in tourism are essential to ensure the harmonious development of the tourism industry.

Under-development appears to be highly correlated with unemployment and the prevalence of rural activities, as well as with the inability to attract direct investments.

The balanced development of all regions of the country and, as a result, the national development, will be achieved by an integrated approach, based on a combination of public investments in the local infrastructure, active policies of stimulating business activities and local resources capitalization support, on 5 Thematic Priority Axes of the Regional Operational Program. The 5 Priority Axes are:

- 1) „Sustainable development support of towns – urban poles of growth”;
- 2) „The regional and local transport infrastructure improvement”;
- 3) „The social infrastructure improvement”;
- 4) „The regional and local business support”;
- 5) „The development and promotion of tourism”.

The Regional Operational Program 2007-2013 is an operational program agreed with the E.U., financed by The European Regional Development Fund (ERDF), representing an important instrument to implement The National Development Strategy and policies for regional development.

The region's strategic objective is to support an economic, social, sustainable and territorial balanced development, in all regions of Romania, according to specific needs and resources, with emphasis on supporting the sustainable development of urban growth poles, improving the business environment and base infrastructure, in order to turn regions of Romania, particularly less developed ones, into attractive places for investments.

Within the main coordinates of regional development in Romania, tourism holds an important place, being present in the frame of The Priority Axis 5.

The fact that tourism occupies an important place and that it must have a better development in Romania is revealed in the frame of the Priority Axis 5.

This axis of The Regional Operational Program (POR) is entitled „The development and promotion of tourism” and it includes 3 Major Domains of Intervention, namely:

- 1) „The restoration and durable capitalization of the cultural patrimony, as well as the creation / modernization of the related infrastructures”
- 2) „The creation, development, modernization of the tourism infrastructure for the capitalization of the natural resources and the increase in the quality of tourist services”
- 3) „The promotion of the tourist potential and the creation of the necessary infrastructure, with a view to increasing Romania's appeal as tourist destination”.

#### **4. Causes of the Delay in Tourism Investments**

In order to make an investment, investors should have their own funds or, a more advantageous solution, should apply for a co-financing program and to benefit from help from the EU.

The funds which are allocated by the EU can be accessed by applicants, i.e. public administration, small and medium enterprises, NGOs, and other institutions, only in a co-financing system. In order to access these funds, applicants should complete a specific application form. The problem appears because most of the applicants have been severely affected by the financial crisis and do not have sufficient funds to be eligible at the co-financing programs; as a result, some of the investments have been postponed.

Beside the fact that the possible applicants have been affected by the financial crisis, the Romanian economy was also affected by the crisis and, consequently, other sources of financing investments are not accessible:

- Due to the excessive crediting from 2007-2008, the central bank is still reserved in giving credits. The Governor of the National Bank said that the banks would start giving credits later this year.
- The Government has accessed loan from the Monetary International Fund due to the lack of money caused by the crisis; as a result, for the moment it cannot afford to sustain investments in tourism.
- According to financial analysts, Romania is not a recommended place to invest in due to its economic instability.
- Investing in Romania implies a lot of bureaucracy and investors find this as an inconvenient.
- The impact of the crisis on the income has negative results on tourism, too.

People cut down on expenses, and also on the money allocated to travel. All tourism operators have been affected by the crisis and, as a result, the tourism budgets are smaller, affecting investments.

### **5. Perspectives to Relaunch Investments in Tourism**

Tourism in Romania will be re-launched at its true value when the banks restart crediting, when the authorities accomplish what they have promised, and tourism operators start offering good value for money.

In order to encourage investments in the Romanian tourism and attract investors, a first measure would be to re-launch the support of the Government for investments in tourism. A list of programmes and investment projects in tourism was approved from the state budget, for 40 million euros, at mid-February 2010, by the Government, at the proposal of the Ministry of Regional Development and Tourism. This decision is a step forward in such times and it is a first measure in order to unstop the investment process.

The list includes the construction of a balneal and entertainment unit in Snagov, the rehabilitation of the Royal resort Sinaia and the development of the entertainment infrastructure on Lacul Morii in Bucharest.

Apart from these, there is the project of a swimming pool in Arad, some balneal units in Beius, Bors and Sacuieni an aqua park in Baile Felix, all in the Bihor County, as well as the rehabilitation of the touristic routes in Fagaras, Piatra Craiului and Bucegi mountains. Ocna Sibiului is going to have a balneal park, and the outside salt pits are going to be arranged and modernized; the skiing area in the Semenic mountains is also going to be modernized. The following skiing areas are also going to be modernised: Nucet (Bihor County),

Baisoara (Cluj County), Sugas-Bai (Covasna County), Borsec (Harghita County), Durau (Neamt County), Brasov, Predeal, Busteni, Sinaia, Azuga, Rasnov and Paltinis.

Entertainment tourist harbours are going to be built in Tuzla, Ostrov, Capidava and Topalu as well as in Galati.

There are going to be investments in the development of tourist infrastructure in the resorts on the Black Sea Coast, too - Costinesti, Eforie, 23 August, Limanu, Mangalia, Techirghiol and Tuzla.

In Covasna, the treatment unit in Hatuica is going to be modernised; a railway is going to be built between Comandau and Covasna and the traditional baths in Moacsa, Cernat, Bradut and Turia are going to be modernised. The traditional baths in Borsec and Tusnad are going to be modernised. There will also be investments in Lacu Rosu, as well as in Praid (Harghita County) and Remetea where balneal units are going to be built.

In Suceava County, the Baths in Vatra Dornei are going to be modernized and so is the Cacica salt pit. Skiing areas in Campulung Moldovenesc, Malini and Sucevita are going to be modernized, as well.

In Valcea County, the Calimanesti-Caciulata resorts are going to be modernized, and Voineasa, Olanesti are going to have new treatment units; in addition, the tourist infrastructure of Horezu is going to be modernized.

The projects are covered by the national sub-programs for investment in tourism, «Ski in Romania», "Development of the tourist infrastructure in high mountainous areas", "Balanced and integrated development of resorts" and "The balanced and integrated development of the tourist area of the Danube Delta and the Black Sea Coast".

The sums from the budget are offered to complete the money coming from local

public authorities. The local public authorities are the ones to organize the public bids necessary to develop investments and to use the money received for the implementation of the respective projects.

## 6. Conclusions

Tourism appears as a viable alternative for the development of different regions, the national and regional development being closely related to investments. The investments in tourism have seen a powerful regression, due to the world wide financial crisis.

In order to encourage the investment in the Romanian tourism and attract investors, a first measure would be to re-launch the support of the Government for investments in tourism. The tourism industry, supported by investments, has the capacity of contributing to the stimulation of the internal development of a region.

As a final conclusion, investments in tourism are closely related to the recovery of the tourism industry and of the whole Romanian economy. Once the economy has started the recovery process, the investments in tourism will gain more strength and interest.

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