

## **A PARALLEL BETWEEN THE ROMANIAN AND EUROPEAN INVESTMENT FUNDS\***

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**Abstract:** This paper aims at making a parallel between the evolution of Romanian and European investment funds, starting with the year 2000 and up to the present day. In the first part the evolution of investment funds (both open-end and closed-end) from the year 2000 and up to 2010 is presented, both at a European level and in Romania, and the second part analyses the years 2009 and 2010 comparing the situation in Romania with that of other countries. The analysis was based on the official data offered by EFAMA, AAF and RNB, as well as by other national and international institutions. The main conclusion regarding Romania by comparison with the European level is the following: the value of the net assets of the investment funds is insignificant when compared with that of the European investment funds, in other words Romania is behind also in this area called investment funds.

**JEL classification:** E22, G15

**Key words:** investment funds, Romania, Europe

### **1. INTRODUCTION**

Investment funds are not just an alternative to bank products, they represent a significant source for the business enterprises that need capital and offer professional management, the diversification of the portfolio, transparency and mutuality, having an important part on financial markets. Through their activity, they influence the stock market, the interbank market and even the financial flux of companies.

The European Fund and Asset Management Association (EFAMA) is a non-profit organization, organized as a federation which represents the interest of the investment undertakings industry and of the asset management industry. It periodically elaborates reports and analyses regarding the evolution of investment funds.

The Romanian Association of Asset Managers (AAF) is an independent non-government professional organization of the operators in the Group Investment Organizations (O.P.C.) in Romania, which gathers:

- 19 investment management companies (S.A.I) which manage the Securities Group Investment Organizations (O.P.C.V.M.) and Other Group Investment Organizations (A.O.P.C.);
- 5 Financial Investment Societies (S.I.F.) former Private Property Funds;
- 3 deposit banks.

The A.A.F. purpose is:

- to promote the concept of group investment in securities as well as the activity of its members;

- to contribute to the organization and activity of its members so that these should be according to the national and international norms and standards;
- to contribute to the formation and development of the organizational, legislative and general professional frame for the improvement of the members' activity;
- to contribute to the advertisement towards investors and towards the public of the activity, rights, advantages and risks related to the activity of the members;
- to develop and raise the professional standards for the members of the Union;
- to ensure a high level of professional qualification for the staff of the Union's members, which should be compatible with the international qualification standards;
- to establish and develop ties with government or non-government organizations both internal and external, with the purpose of promoting the exchange of points of view and experience in the area, as well as promoting the capital market and securities group investments in Romania.

## 2. OBJECTIVES

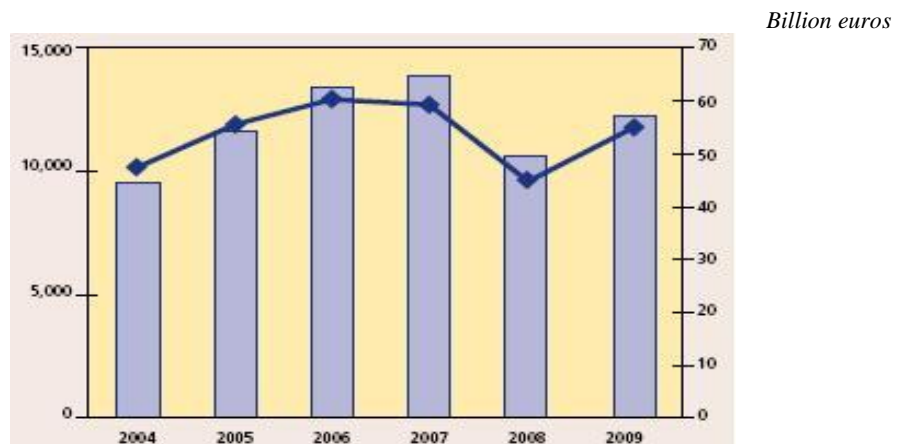
The aim of this paper is to analyze mutual funds in Romania and Europe to see Romania's rank compared with Europe.

## 3. METHODOLOGY

Comparative analysis of the data groundwork to the realization of this study. The analysis was based on the official data offered by EFAMA, AAF and RNB, as well as by other national and international institutions.

## 4. THE EVOLUTION OF INVESTMENT FUNDS AT A EUROPEAN LEVEL AND IN ROMANIA IN THE PERIOD 2000-2010

As it can be noticed in figure 1 European investment funds have had an ascending trend in the period 2004-2007 and in 2008 the effects of the economic crisis have been felt and the value of net assets has decreased, but it has resumed its ascending trend in 2009.



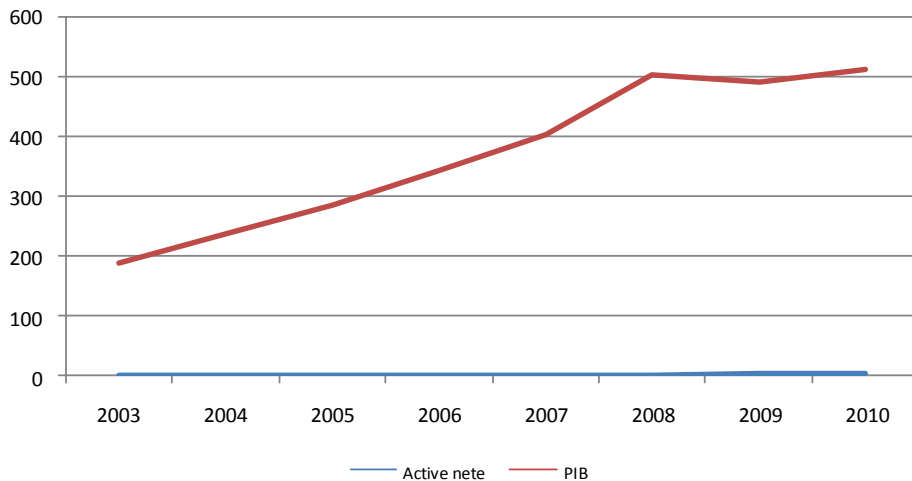
Note: Net assets per capita in EUR (left scale); Net assets as a percentage of GDP (right scale)

Source: Annual Report 2009 available at [www.efama.org](http://www.efama.org) accessed 18.05.2011

**Figure 1. The Evolution of European Investment Funds in 2004-2009**

The states member in the EFAMA in 2009 have been: Austria, Belgium, Bulgaria, The Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Lichtenstein, Luxembourg, Holland, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Switzerland, Turkey and Great Britain. Only in 2007 Slovenia has joined and Bulgaria and Romania have been observing countries and only in 2009 they have become full-fledged member states.

The GDP value compared to the value of the net assets of the investment funds is a lot larger, which shows that, in Romania, the investment funds are not yet an important part of the economy, as they are in other countries (USA, Luxembourg, France, Germany). The net assets of the Romanian investment funds represent 1% of the GDP. At a European level the net assets represent 45-65% of the GDP, the discrepancy between Romania and the European level is quite large.



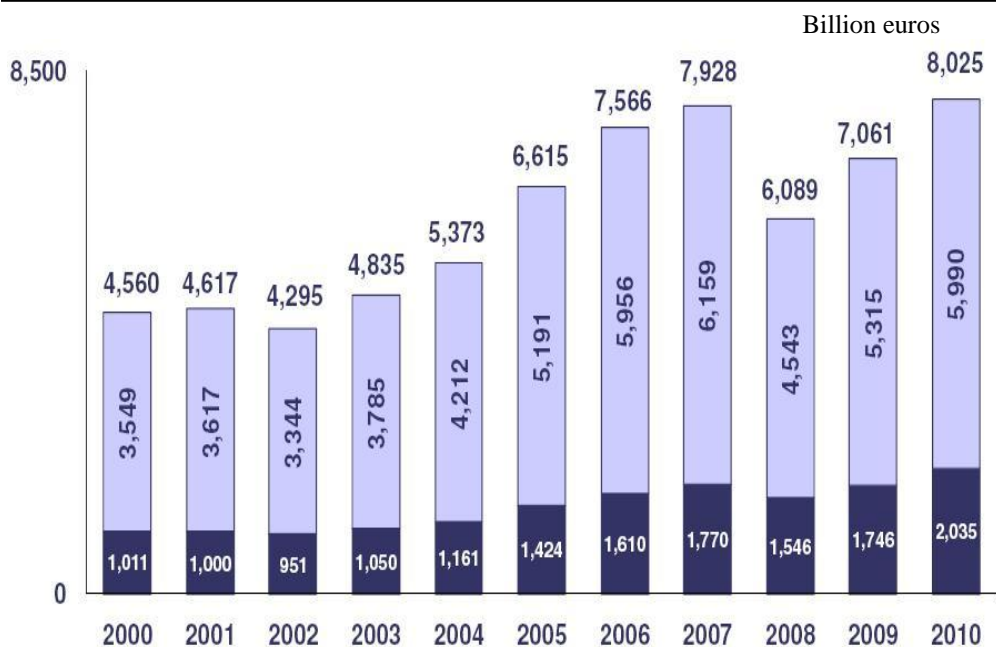
*\*Billion RON*

*Source: Representation of the data from [www.bvb.ro](http://www.bvb.ro), [www.bnro.ro](http://www.bnro.ro) and [www.insse.ro](http://www.insse.ro)*

**Figure 2. The evolution of the GDP and the total net assets of AOPC and OPCVM**

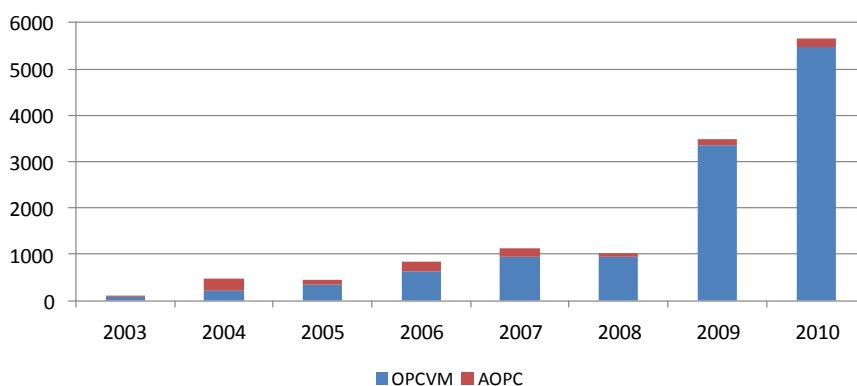
The value of the net assets of the investment funds which were open-end is three times higher than that of the closed-end investment funds. In the period 2000-2007, except 2002, the evolution of investment funds, both of those closed-end and of those open-end, was positive. In the crisis year 2008 a decrease in assets was obvious, but in the year 2009 they have resumed the increase, an increase which in 2010 has surpassed the value they had in 2007. And according to the type of open-end funds the evolution was positive until the year 2008, except the monetary funds, which continued to increase until 2009 and only then they started decreasing, whereas the other types of funds began increasing in 2009, as only 2008 was a crisis year.

In figure no. 4 one can notice that the value of net assets of the open-end investment funds is a lot bigger than of those which were closed-end, as it is in Europe as well, only that in Romania the value of the net assets is a lot smaller compared to the European one. In Romania one can talk about millions of lei, whereas in Europe one can talk about billions of Euro.



Source: EFAMA Quarterly Statistical Release, February 2011, no. 44, p. 3 available on [www.efama.org](http://www.efama.org) accessed in 17.05.2011

Figure 3. The net assets of the European investment funds



\*Billion RON

Source: Representation of the data from [www.bvb.ro](http://www.bvb.ro), [www.bnro.ro](http://www.bnro.ro) and [www.insse.ro](http://www.insse.ro)

Figure 4. The division of net assets between OPCVM and AOPC

The chart above shows how the number of closed-end funds has increased (except in the year 2008, when they increased), but they cannot be compared with the rise of open-end funds, which have increased greatly in 2009 and 2010, in 2009 being three times as many compared to 2008 and in 2010 double compared to 2009.

EFAMA has published the statistical report regarding the evolution of investment in the year 2010 on European territory. The comparison between the evolution of the Romanian investment funds and that in other European countries is presented below.

**Table 1. The value of assets managed in Romania compared with other European countries – 2010 and 2009**

	<b>Total assets 31.12.2010 Million EUR</b>	<b>% of total (December 2010)</b>	<b>Total assets 31.12.2009 Million EUR</b>	<b>% of total (December 2009)</b>	<b>Evolution 2010/2009</b>
Austria	147.591	1,84%	138.603	1,96%	6,48%
Belgium	94.030	1,17%	96.950	1,37%	-3,01%
Bulgaria	229	0,0%	179	0,0%	27,93%
Denmark	135.442	1,69%	109.612	1,55%	23,56%
Switzerland	253.216	3,16%	158.450	2,24%	59,81%
Finland	61.506	0,77%	54.251	0,77%	13,37%
France	1.401.625	17,47%	1.421.395	20,14%	-1,39%
Germany	1.125.853	14,03%	1.019.672	14,45%	10,41%
Greece	9.128	0,11%	10.279	0,15%	-11,2%
Ireland	963.326	12,01%	748.629	10,61%	28,68%
Italy	232.059	2,89%	257.804	3,65%	-9,99%
Liechtenstein	31.078	0,39%	24.592	0,35%	26,37%
Luxembourg	2.198.994	27,41%	1.840.993	26,08%	19,45%
Great Britain	793.957	9,9%	638.312	9,04%	24,38%
Norway	63.243	0,79%	49.925	0,71%	26,68%
Netherlands	78.066	0,97%	79.020	1,12%	-1,21%
Poland	28.757	0,36%	22.592	0,32%	27,29%
Portugal	25.793	0,32%	28.463	0,4%	-9,38%
Czech Republic	4.883	0,06%	4.426	0,06%	10,33%
<b>Romania</b>	<b>1.350</b>	<b>0,02%</b>	<b>833</b>	<b>0,01%</b>	<b>62,06%</b>
Slovakia	3.763	0,05%	3.418	0,05%	10,09%
Slovenia	2.251	0,03%	2.239	0,03%	0,54%
Spain	169.568	2,11%	194.520	2,76%	-12,83%
Sweden	166.089	2,07%	126.402	1,79%	31,4%
Turkey	17.565	0,22%	16.281	0,23%	7,89%
Hungary	13.541	0,17%	11.071	0,16%	22,31%
<b>Total</b>	<b>8.022.903</b>	<b>100%</b>	<b>7.058.911</b>	<b>100%</b>	<b>13,66%</b>

Source: <http://www.despreinvestitii.ro/1775/piata-investitiilor-din-romania-vs-pietele-europene/>

One can notice in table no. 1 that the countries with the highest number of assets managed by investment funds are Luxembourg, France, Germany, Ireland and Great Britain, at the opposite pole are Bulgaria, Romania, Slovenia, Slovakia and The Czech Republic, although Romania has the greatest annual increase in assets +62%. The assets in Romania are comparable to those of countries like Slovenia and Slovakia, which have not registered such a spectacular increase. It is important to regard these evolutions overall, in the context of the market size.

Also interesting is the comparison between the value of the assets managed in relation with the GDP (estimate for 2010) in some Central and Eastern European countries.

## Economic Theories – International Economic Relations

**Table 2. The assets of the investment funds compared with the GDP – 2010**

	Total assets managed by funds in 2010 (million EUR)	Estimated GDP 2010 (million EUR)	Assets invested in funds relative to GDP
Bulgaria	229	35.900	0,64%
Poland	28.757	350.000	8,22%
Czech Republic	4.883	145.800	3,35%
<b>Romania</b>	<b>1.350</b>	<b>118.700</b>	<b>1,14%</b>
Slovakia	3.763	66.100	5,69%
Slovenia	2.251	36.500	6,17%
Turkey	17.565	557.100	3,15%
Hungary	13.541	97.800	13,85%

*Source:* <http://www.despreinvestitii.ro/1775/piata-investitiilor-din-romania-vs-pietele-europene/>

Romania is among the countries which invest the least in investment funds in relation to the overall size of the market. In Romania this percent is little over 1%, which is a lot less than in other countries like The Czech Republic, Poland, Slovakia, Slovenia, Hungary or even Turkey.

EFAMA has recently published a statistics regarding the evolution of international investment fund markets in the year 2010, which shows the differences between various countries, as BRIC (Brazil, Russia, India and China), the Central and Eastern European States or the developed states of the world.

**Table 3. The evolution of investment funds' assets in Q2-Q4 2010**

	Total assets managed Q2 2010 (million EUR)	Total assets managed Q4 2010 (million EUR)	Evolution Q4 2010 – Q2 2010
World	17.474.162	18.484.241	5,78%
Americas	9.771.958	10.168.290	4,06%
Brazil	658.109	733.758	11,49%
USA	8.557.323	8.846.488	3,38%
Europe	5.537.188	5.914.411	6,81%
Bulgaria	185	226	22,16%
Czech Republic	3.906	4.122	5,53%
France	1.211.452	1.210.280	-0,1%
Germany	228.137	249.748	9,47%
Hungary	8.376%	8.631	3,04%
Poland	16.884	19.155	13,45%
<b>Romania</b>	<b>1.065</b>	<b>1.282</b>	<b>20,38%</b>
Russia	2.587	2.932	13,34%
Sweden	128.313	153.756	19,83%
Turkey	15.037	14.627	-2,73%
Great Britain	559.954	639.435	14,19%
Asia & Pacific	2.077.503	2.295.557	10,5%
India	96.472	83.386	-13,56%
China	243.100	273.152	12,36%
Africa	87.513	105.983	21,11%

*Source:* <http://www.despreinvestitii.ro/1884/romania-vs-pietele-internationale-evolutii-investitionale/>

At the end of the year 2010 the assets managed by investment funds on the global market have increased compared to the first half of the year 2010 with 5,78% (percentage in EUR). Romania has one of the most significant rises (20,4% in EUR), being surpassed in its growth pace only by Norway (24,2%), Bulgaria (22,2%) and South Africa (21,1%).

At a continental level, the greatest assets are managed on the American continent, but the fastest growth is registered by the African continent.

## 5. CONCLUSIONS

At this time Romanian investment funds (open-end and closed-end) represent only 1% of the GDP compared to the European level, where the funds represent over 50% of the GDP, we can say that Romania has a long way to go until it reaches a level comparable with the European one.

Although there is a rising trend and both the number of investors increases every year (except the years 2007-2008 when the economic crisis came), and the volume of net assets, the Romanian investment funds represent 0,1% of the European investment fund industry (according to data from AAF and EFAMA), an insignificant percentage.

The reasons why Romanian investment funds have a long way until they reach the European level is due to the FNI history and due to the population's habit of using bank products when it comes to placing their savings.

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