THE IMPACT OF INVESTMENTS ON ECONOMIC GROWTH IN ROMANIA

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ABSTRACT
THE CONCEPT OF INVESTMENT HAS BEEN AND IS BEING DEBATED IN THE ECONOMIC THEORY OF ALL COUNTRIES, WITH MORE OPINIONS EXPRESSED ON THEIR CONTENT AND SCOPE.
ACCEPTING THE MOST COMMON APPOINTMENTS FOR DEFINING INVESTMENTS IS THAT OF SPENDING OR FUNDRAISING AT AN EARLY STAGE IN ORDER TO GET FURTHER EFFECTS, AND MANY ECONOMISTS FROM DIFFERENT COUNTRIES HAVE SOUGHT TO CAPTURE AS MUCH AS POSSIBLE ABOUT THE CONTENT AND THE MECHANISM OF INVESTMENT.
INVESTMENTS CAN BE ANALYZED ACCORDING TO THE DEGREE OF ORGANIZATION OF THE ECONOMY. THUS, AT THE MACROECONOMIC LEVEL, THE INVESTMENTS ARE EQUAL TO THE PART OF THE GROSS DOMESTIC PRODUCT INTENDED FOR THE CREATION OF PRODUCTION ASSETS WITHIN A DETERMINED PERIOD OF TIME, USUALLY ONE YEAR. AT THE MICROECONOMIC LEVEL, THE NOTION OF INVESTMENT CAN BE ATTRIBUTED TO SEVERAL MEANINGS: ECONOMIC, FINANCIAL AND ACCOUNTING.

KEY WORDS: ECONOMIC GROWTH, INVESTMENTS, FOREIGN DIRECT INVESTMENTS, INVESTMENT DECISION, NET INVESTMENTS

Investments are the financial, material and human expenditures incurred in various areas for the acquisition or realization of new fixed and current assets or the upgrading of existing assets in order to obtain a further flow of liquidity and to increase the wealth belonging to natural and legal persons.

The essential condition for the progress of an economic system at microeconomic or macroeconomic level is the creation of a fair relationship between the needs and resources of society, which are essentially depreciation and own profit or external resources

The defining elements of the investment concept are:

• the concrete material content of the investment effort, which considers the investment as an individualized structure of different resources in nature and volume that are involved in the realization of a project;

• the time-duration factor that reveals that any investment project has a life of its own, characterized by well-defined stages and moments, and during which the economic parameters of the project have an own evolution described, as a rule, in the cash flow chart;

• the notion of efficiency, according to which the entrepreneur (the project initiating agent) accepts the change of present availability of resources for a series of future effects (collections), which in total amount exceed the initial expenditures;

• the notion of risk, which results from the gradual phasing out of the expected effects; these future effects are however hopes and uncertainties.

The accounting definition considers investments to be similar to fixed assets, understood as movable or immovable, tangible or intangible assets, acquired or created for an enterprise, intended to remain sustainable, thus materializing in the enterprise itself. They can, in turn, be divided as follows:

- Assets related to exploitation;
- non-operating assets or non-productive assets, and other liabilities.

The economic definition considers investments as all the sacrifices of resources made today in the hope of obtaining results in the future, the total level of which will be higher than the initial expenditures.

An investment can also be represented by a purchase of equipment goods, but also by spending on an advertising campaign to develop a new product for a research and development program.

The financial definition is less restrictive, so an investment is a set of expenditures that will generate revenue or savings for a long period of time to repay or recover the initial costs. So, with regard to the economic definition, from the financial point of view, it is always necessary to cover the need for exploitation funds generated by different types of investments.

In economic theory, the notions of replacement investments and development investments are also used, but in practice it is difficult to distinguish them both as sources of realization and in terms of the effects obtained. Thus, any replacement investment produces specific changes to development or new investments.

The notion of investment is greatly amplified in the market economy, meaning that investment means the placement of liquid capital into various assets irrespective of the duration of their holding and the purpose of their holding, which may therefore be speculative and longer short.

However, economic, productive or business investments are considered essential in an economy.

According to the economist`s conception, sustained economic growth and prosperity depend heavily on the size of the capital invested and the efficiency or profitability of these investments, and an economic agent who ignores the investments is condemned to regress and disappearance in economic life.

The investment decision can be considered as one of the most important decisions taken at the company management level. The correct substantiation of investment decisions depends on the market position of the firm, the increase of its market share and the gaining of a competitive advantage over the competitors.

Investments can be seen as "an exchange between a present, certain monetary expense, and a hope of future cash flow."[1] The investment is considered to be "the total expenditures incurred for the expansion of existing fixed assets, the creation of new productive capacities, the reconstruction and modernization of the existing ones, thus ensuring the development of the economic activity and creating the conditions for achieving higher incomes".

The investment decision is based on complex and accurate information on the necessity, timeliness, duration and exploitation of investments, the volume of expenditure and financial resources, the flows of funds entering and leaving during the lifetime of the investment, ensuring profitability and liquidity, the duration of recovery invested capital, etc.

The way an entity grows and develops, its ability to remain competitive and to survive depends on the ability to generate steady flows of ideas for new products and new ways to improve existing products or to produce them at a cost but to ensure compliance with the environmental protection requirements imposed at national and international level. In other words, entrepreneurial ability is an essential factor in generating viable proposals for investment projects.

Net investments represent the expenses incurred for construction, installation and assembly works, for the purchase of equipment, means of transport, other expenses for the creation of new fixed assets, for the development, modernization, reconstruction of the existing ones, as well as the value of the services related to the transfer property ownership of existing fixed assets and land (notary fees, commissions, transportation, loading / unloading costs, etc.).

Net investment includes the following elements of structure:

-constructions-represents the whole of the works that make new constructions, reconstruction, development, modernization of buildings with industrial destination, agriculture etc. It also includes the assembly of the technological and functional equipment with the entire complex of operations, which assembles on the construction site their components, as well as the fixing on their foundations (including the value of the mechanical samples and discharges at the machines and technological lines);

- equipment`s (with and without mounting) - represent the machines, equipment, lines, and technological installations that can only function after assuring the assembly works, as well as those that can function independently. Also includes means of transport;

- geological and drilling works - all the works for: identification of new reserves of useful mineral substances, fluid or solid, within the perimeters under expo, in new and undergoing research structures; Promoting reserves of mineral substances useful in higher categories; specification of some characteristics of the reserves of mineral substances useful for their inclusion in the balance sheet reserve group; obtaining the design data of the energetic, industrial constructions, etc., to determine the structure and composition of the soil, the ground water regime, for the land on which the investment objectives are to be located;

- works performed for the extraction of useful mineral substances in the fluid state (drilling exploitation) as well as the works performed in order to increase the recovery factor and the speed of oil exploitation, by the injection of fluids into the deposit;

-other net investments - represents the expenses incurred for the purchase of working, production and breeding animals, vineyards, trees, woodland, acquisition of fixed-asset inventory

[1] Dragotă V., ș.a, Management financiar, Vol II, Ed. Economică, București, 2003, pag. 43

items, payment of research and design studies for investment objectives, bank commission for operations carried out in connection with investments.

In our country, the evolution of net investments by structure elements in the period 2008-2016 is the following:

Table no. 1

The evolution of net investments by structure elements in the period 2008-2016

-million lei-

Structural elements for investment	2008	2009	2010	2011	2012	2013	2014	2015	2016
New constructions	40145,8	34868,1	35841,2	38597,5	40788	34941,1	33088,5	41537,6	38735,2
Equipments	54130,1	36489,6	32227,7	43341,4	43558,3	40328,5	46007	48697	50860,8
Geological works	1477,1	271,2	985,1	1428,2	1670	2162	3201,7	3703,4	2021,9
Other expenses	3772,6	3310,4	3240,7	4448,7	3076	3417,4	3862,7	4950	4532,3

Source: http://statistici.insse.ro/shop/

As can be seen from the above table and figure, the largest amount of financial resources are invested in equipment throughout the analyzed period, with the exception of 2010 when investment in new constructions has far outpaced investment in equipment. Regarding the net investment trend during the analyzed period, it can be noticed that in 2009 and 2010 we witness a significant decrease of investment financial resources on all elements of the structure of investments. In the next period, respectively 2011 and 2012, we are witnessing an increase in investment resources, the main argument being that the effects of the economic and financial crisis during the period 2008-2010 have decisively influenced the volume of the financial resources invested in different domains of structure, the increase of the investment resources in the period 2011-2012 being transcribed in practice as an attempt to recover the economic and financial situation.

În terms of net investment by sources of financing in our country, the situation in the period 2008-2016 is the following:

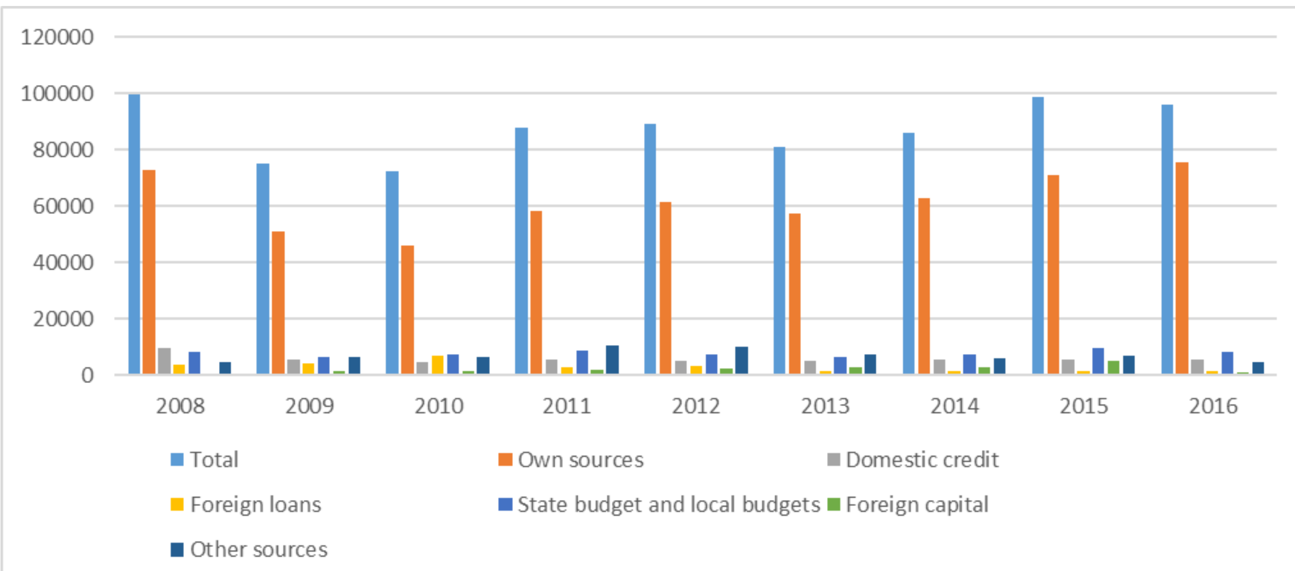
Table no. 2

Net investments by source of funding

-million lei-

Source of funding	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total	99525.6	74939.3	72294.7	87815.8	89092.3	80849	86160	98888	96150.3
Own sources	72659.3	51055.1	45801.1	58447.4	61341.8	57421	62713.4	70887.4	75373.8
Domestic credit	9681.5	5500.1	4388.6	5466	4895	4971	5393.7	5351.2	5493.9
Foreign loans	3604.7	3991.6	6747.2	2841.1	3130.4	1567.6	1560	1410.1	1266.8
State budget and local budgets	8165.5	6599.9	7251.8	8725.8	7276	6578	7554.8	9506.7	8442.1
Foreign capital	581.5	1327.3	1505.2	1998.1	2246.6	2917.2	2966.5	4934	1010.1
Other sources	4833.1	6465.3	6600.8	10337.4	10202.5	7394.3	5971.7	6798.7	4563.5

Source: http://statistici.insse.ro/shop/



As can be seen from the data presented above, the evolution of net domestic investments did not have a linear trend, the value of the resources used as an investment oscillating from year to year, the lowest value of net investments, in 2010. As far as the sources of financing are concerned, one can observe that the own resources of the entities have an overwhelming share in the total net investments made.

A pragmatic problem facing development economists in today's modern economies relates to the influence of foreign direct investment (FDI) on the economic performance of less developed countries.

Foreign direct investment is the category of international investment in which enterprise resident in one country (the direct investor) acquires an interest of at least 10 % in an enterprise resident in another country (the direct investment enterprise)" (UNCTAD. 2010).

Indeed, the empirical literature briefly recognizes the potential benefits of FDI from the host country. Biswas stresses that it represents the benefits of foreign direct investment from host countries: improves the competitiveness of host countries' economies on the international scene as well as better access to world markets, foreign direct investment improves the quality of products and processes in different sectors. In addition, profits generated by FDI contribute to the income tax in the host country. Job opportunities are created, especially in highly-intensive sectors of technology. The agricultural sector is a case in this respect. In addition, foreign direct investment in manufacturing will in most cases increase productivity levels in the local economy.

The maximizing benefits of FDI for the host country can be significant. including technology spillovers, human capital formation support, enhancement of competitive business environment, contribution to international trade integration and improvement of enterprise development. Moreover, further than economic benefits FDI can help the improvement of environment and social condition in the host country by relocating 'cleaner' technology and guiding to more socially responsible corporate policies. All of these benefits contribute to higher economic growth. which is the main instrument for alleviating poverty in those economies.[1]

The National Bank of Romania consider foreign direct investment: paid-up capital and reserves of a non-resident investor holding at least 10 percent of the votes or of the capital subscribed share of a resident enterprise, the loans between that investor or the group to which it belongs and the resident undertaking in which it invested, as well as the profit reinvested by it.

The types of foreign direct investment (differentiated by contribution of foreign equity investments in foreign direct investment enterprises):[2]

- Greenfield: Establishment of businesses by or together with foreign investors (investment started from scratch);

- Mergers and acquisitions: full or partial takeover of businesses by foreign investors from residents;

- Business development: increasing foreign capital holdings in foreign direct investment enterprises;

-Restructure of enterprises: financing by foreign investors through capital injection, foreign direct investment enterprises with losses, in view their profitability.

The main objective of this study is to empirically analyze the impact of foreign direct investment on economic growth of Romania during 2008-2016. For this purpose, annual time series data is collected from different sources like the National Institute of Statistics website, the Public Finance Ministry website and the National Bank of Romania publications.

The dependent variable used in this study is gross domestic product growth rate as a measure of economic growth rate, while foreign direct investment net inflow is taken as independent variable.

Next, we proceeded to build the econometric model using the representative indicators. From an econometric point of view, these indicators are endogenous (effect) and exogenous

[1] Selma Kurtishi-Kastrati, The Effects of Foreign Direct Investments for Host Country's Economy, European Journal of Interdisciplinary Studies, Vol. 5, Issue 1, 2013, pag. 26

[2] BNR – Publicații periodice, Investițiile străine directe în România în anul 2016, 2017, pag. 6

variables (cause). The economic growth indicator will have the quality of an endogenous variable, while the foreign direct investment indicator will have the quality of an exogenous variable.

Thus, the econometric model will have the following form:

Economic growth rate = a0 + a1 · Foreign direct investment net inflow + u

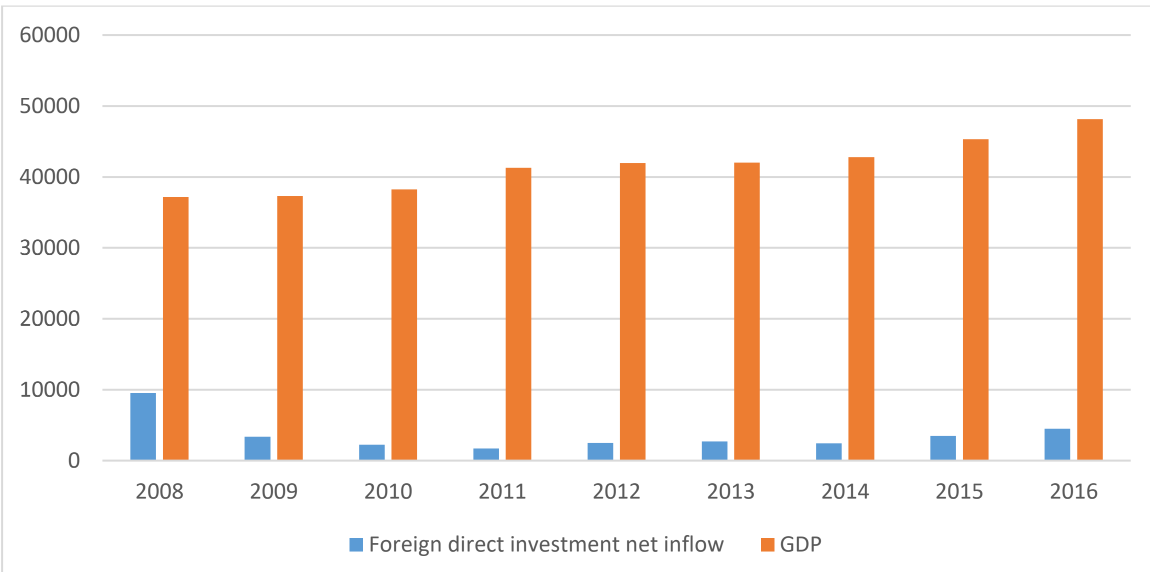
The data that quantitatively characterize the two variables are presented in Table no. 3. It should be noted that the analysis carried out covers the period from 2008 to 2016.

Table no. 3

-millions euro-

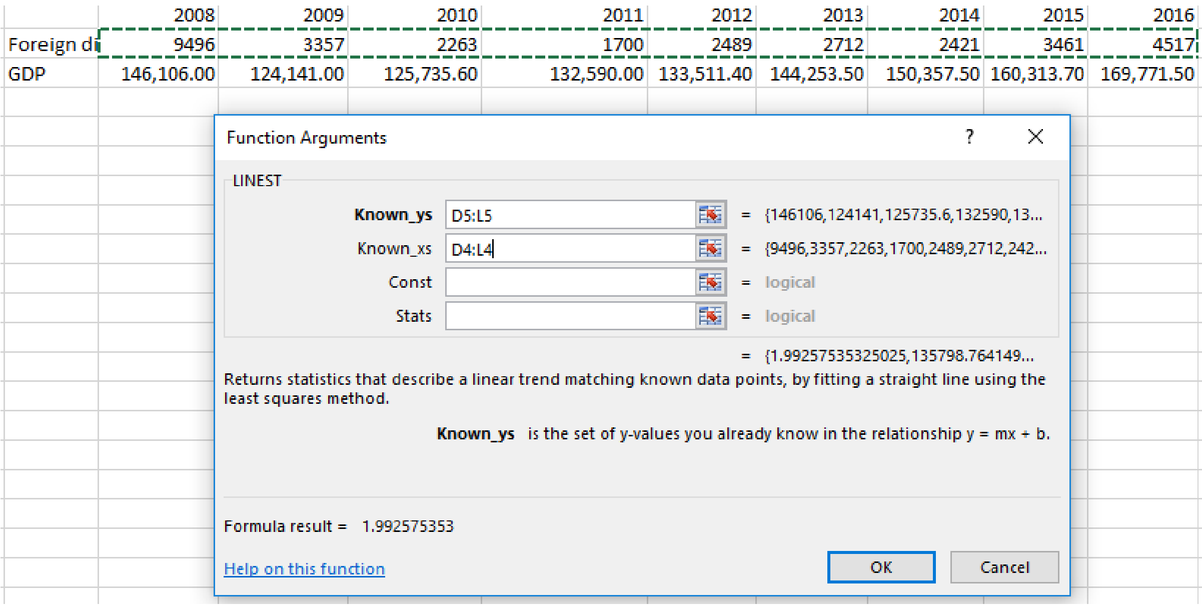
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016
Foreign direct investment net inflow	9496	3357	2263	1700	2489	2712	2421	3461	4517
GDP	146,106.0	124,141.0	125,735.6	132,590.0	133,511.4	144,253.5	150,357.5	160,313.7	169,771.5

Source: for "Foreign direct investment net inflow" - the National Bank of Romania publications and for GDP – http://ec.europa.eu/eurostat/



As seen in the diagrams, the evolution of the two indicators is similar. Both the GDP and the balance of the FDI have a significant increase in 2008, and remain at a relatively constant level in the period 2009-2015.

The next operation is to estimate the model parameters. with the help of estimators. For this purpose the least squares method will be used. The regression table obtained with Microsoft Excel is shown below:



Based on the parameters obtained (a and b), the regression model becomes:

$$GDP = 135798 + 1.99\ FDI$$

As can be seen from the above figure, the positive value of the regression parameter estimator shows that there is a direct link between the two variables, the net foreign exchange inflow rate influencing the economic growth rate in the same way. In other words, the EUR 1 million increase in foreign direct investment flows will see a growth of 1.99 million Euros of Gross Domestic Product.

Conclusions

To emphasize the role of investment on economic growth must take into account the dual nature of investment in that it is not enough just to consider investments as mere monetary expense, but must be considered simultaneously two meanings that correlate permanent:

- value meaning, that is, the investment is an expense, representing an advanced and currently consumed financial resource, in order to achieve future effects;

- the physical meaning, that is, the investment is an action, a concrete work, in which the material and technical means are involved, as well as the people with their managerial knowledge, with their abilities and interests.

The non-correlation of the two aspects makes an investment unrealizable or reduces its efficiency, as has often been shown in the experience of mankind.

Fourthly, economic and financial theory distinguishes between real (economic and extra-economic) investment and financial placement (as investments in the financial market), starting from the fact that in the current economy there are two markets:

- a real market with real assets, the most important economic investments in the economic field, as they are in fact the only creators of real wealth;

- a financial (or fictitious) market, with financial assets, obtained through investments or investments, which, in effect, attract and place existing resources in an economy.

The analyze made with the regression models conclude that foreign direct investment can generate economic growth, that is way Romania should strengthen its economy by implementing investment strategies that provide confidence in the romanian business environment and in the national development plan.

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