

## ASPECTS REGARDING THE ROLE OF INVESTMENTS AND THE BUSINESS ENVIRONMENT IN ECONOMIC DEVELOPMENT

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### ABSTRACT

The paper presents an analysis of investments as the safest prospect for economic growth. In Romania, investments are needed to recover the economic gaps as compared to the European Union countries, but also to reduce the differences between regions.

Sustainable development of the country must solve the challenges of the transition from the industrial to the digital economy, of adapting and confronting climate change, of demographic change, to which the corrections of economic imbalances due to the consumption-based growth model must be added.

Investments can be made by the business environment (large companies, consortia, multinationals) operating in Romania. Financing can also be made through projects that are funded from the European Union budget.

Investment often stimulates job-creating economic sectors that will generate economic growth.

First of all, the investments must be financed by allocating funds through domestic possibilities, to which the attraction of foreign direct investments is added. An important role in this regard belongs to the legislative framework, which determines the removal of barriers for investment, but also to the attraction of Romania's economy which is different from one economic sector to another. In the article, the authors presented the main aspects of investments and aimed to highlight the effect of investments on the business environment.

**Keywords:** investments, business environment, economic development, economic growth

### INTRODUCTION

Investing in any economy provides the link between the present and the future. The concept of investment in a broad sense is synonymous with allocation, placement, endowment. In the narrow sense (financial-accounting), it is the expenditure incurred for obtaining material goods and services of high value and long periods of use (DUMITRASCU and DUMITRASCU, 2015; HADA ET AL. 2020).

According to some experts, investment is the commitment of resources in the hope of obtaining benefits in the future, or the action by which money or other resources are spent in the hope that other benefits will be obtained (STOICA, 2021; ANGHEL and AVRAM, 2018).

Investments include expenses for construction works, installations and assembly, the purchase of machinery and means of transport. To these are added expenses for the development, modernization and reconstruction of existing ones and those related to the transfer of ownership of existing fixed assets and land (HADA and IUGA, 2020).

A defining element of the investment process is the addition of the notion of time. In this context, the investment represents the expenditure that is certain for a future which is uncertain, from which follows that any investment involves an inherent risk. It is certain that a high level of capital investment in an economy determines an accelerated rate of development (ANGHEL and AVRAM, 2018).

Aisen and Veiga carried out an analysis on how political instability has effects on economic growth. They came to the conclusion that political instability is harmful causing a decrease in economic growth statistically and economically (AISEN and VEIGA, 2013).

The net investments in the Romanian economy were studied by Anghel, Anghelache, Marinescu and Dumbravă, revealing the successive developments in this field (ANGHEL et al., 2018).

Greenwood, Sanchez and Wang appreciated the incidence of financial development on economic development. They suggest that a less developed country could increase its production if the best practices in the financial sector are adopted (GREENWOOD ET AL., 2013).

The motivation for approaching this theme was influenced by the fact that investments made by the business environment and not only constitute the certain path to economic growth.

The objective of this paper is the analysis of investments and their role, it being known that through their creation new jobs are generated, growth and sustainable development are ensured.

## MATERIALS AND METHODS

In creating the article, the authors reviewed the specialized literature (HADA and IUGA, 2020; DUMITRASCU and DUMITRASCU, 2015; HADA ET AL., 2020; NĂSTASE, 2020) and analyzed the investment using data from the Statistical Yearbooks (INS, 2017-2021).

As a scientific research method, we used the analysis of net investments, by activities of the national economy in the period 2016-2020.

The distribution of investments by activities of the national economy was carried out taking into account the destination activities within the economic and social-cultural units, according to the new "Classification of the Activities of the National Economy", CAEN Rev. 1, approved by Order no. 601 / 26.XI.2002 appeared in M.O. no. 908 / 13.XII.2002 regarding the updating of CAEN approved by H.G. no. 656/1997 (ORDER 601, 2002).

The general legal framework regarding the support measures from the Romanian State granted in order to stimulate investments was regulated by means of the Emergency Ordinance of the Government no. 85/2008 regarding investment stimulation, with subsequent amendments and additions.

"The stimulation of investments, in accordance with the provisions of this emergency ordinance, is based on the following principles: equal treatment; transparency; the efficiency of the use of the facilities; confidentiality; the eligibility of financing funds" (OUG 85, 2008).

## RESULTS

Analyzing net investments is extremely important in the context in which they are necessary to stimulate economic and financial activity. The volume of investments fluctuated from one year to the other.

In *Table 1* we presented the net investments made in the 2016-2020 interval, on the total national economy, by sector.

The annual analysis highlights that for the analyzed period, the largest increase in the volume of net investments in the national economy was in 2019. During 2019, the net investment was 121,992.9 million lei, i.e. an increase of approximately 20% compared to 2018.

Higher volume of investments was acquired in the following branches: industry construction and trade/services. A high volume of investments compared to other years was also recorded in the field of performances, cultural and recreational activities. In industry, the highest number of investments was made in the processing industry, followed by the extractive industry.

A significant evolution was also registered in construction, the increase in 2019 compared to 2016 being 44.5%. In 2019 as well, the investments in education were the most significant in the studied period. The situation is identical in the field of hotels and restaurants (2,120.7 million lei).

**Table 1. Net investments, by activity of the national economy**

- million lei current prices-

Activity	2016	2017	2018	2019	2020
<b>Total</b>	<b>96162.9</b>	<b>90668.7</b>	<b>101702.5</b>	<b>121992.9</b>	<b>116592.8</b>
Agriculture, forestry and fishing	4371.3	5878.2	5475.1	5552.0	5345.9
Industry	33395.4	27822.9	30506.0	33915.3	30553.5
Construction	9921.4	9956.9	11646.3	14334.5	14181.7
Wholesale and retail trade; repair of motor vehicles and motorcycles	10005.9	10821.2	10470.0	13618.2	11965.0
Transportation and storage	8356.9	8704.7	8991.4	11689.6	10237.6
Hotels and restaurants	1695.2	1434.4	1568.6	2120.7	1717.9
Information and communication	3614.8	3442.8	3894.1	4836.8	5377.2
Financial intermediation and insurance	845.8	985.7	956.9	1151.3	2987.2
Real-estate activities	8456.6	5457.6	8664.2	10524.8	9901.6
Professional, scientific and technical activities	2232.3	2171.4	2434.0	3428.6	2123.0
Administrative and support service activities	2372.0	2885.5	2525.5	3108.4	2658.5
Public administration and defence; compulsory social security	7857.4	8373.7	11262.3	13028.6	15376.7
Education	560.7	580.3	508.7	638.6	520.8
Human health and social work activities	1173.1	1123.1	1485.2	2435.1	2204.5
Arts, entertainment and recreation	493.8	462.7	523.6	812.5	410.0
Other service activities	810.2	567.9	790.3	797.9	1031.7

Sources: [www.insse.ro](http://www.insse.ro)

The total volume of net investments in 2016 was 96,162.9 million lei, down 2.75% compared to the previous year. Investments in industry are the most important, followed by those in trade, real estate transactions and transport and storage.

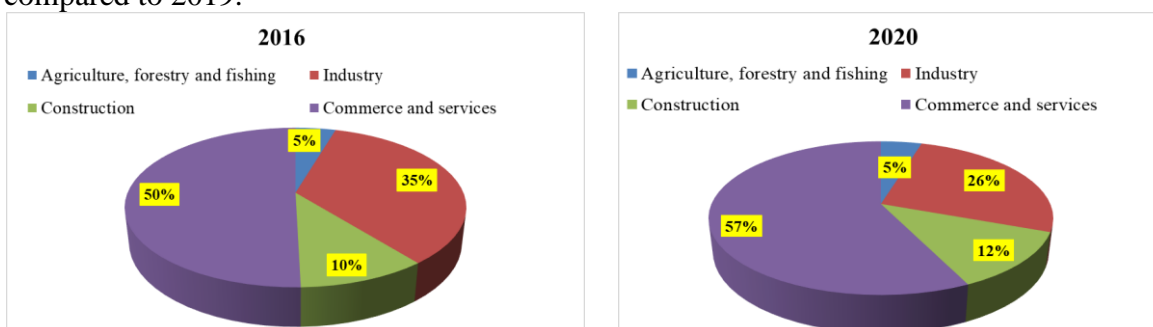
In 2017, the total volume of net investments decreased by 5,494.2 million lei compared to the previous year. The investments made in agriculture were, in 2017, 34.47% higher than in 2016.

Investments in industry decreased compared to 2016, but were mainly directed towards the manufacturing industry branches (70.18% of total industry). In the extractive industry, investments in 2017 were reduced by 10% compared to 2016.

From *Figure 1* we found that services have the largest share (50% in 2016 and 57.5% in 2020), but it should be mentioned that the structure of investments in industry has improved during the analyzed period. Significant investments were made in services, wholesale and retail trade, motor vehicle and motorcycle repair, transport and storage, and real estate transactions. Investments in industry decreased by 9.0%, while investments in

construction had an upward trend in 2020 compared to 2016. The branches in which a larger volume of investments was made were trade and services.

Investments in the national economy in 2020 registered a decrease (5,400.1 million lei), compared to 2019.



**Figure 1.** The structure of net investments, on the main activities of the national economy

Sources: [www.insse.ro](http://www.insse.ro)

At the origin of an investment there are previous accumulations of direct investors or of investors who wish to employ their savings.

Investments can be analyzed and presented by activities of the national economy, forms of ownership, financing sources and structural elements.

Funding sources are particularly important in a business. There are many avenues through which funding can be obtained, but they must be carefully considered. Next, we analyzed the net investments by financing sources:

Own sources include the amounts from self-financing, used to make the investments: "the profit, the depreciation fund, amounts from liquidation, the sale of fixed assets and any other sources available to the unit, etc."

**Table 2.** Net investments, by financing source

- million lei current prices-

Financing source	2016	2017	2018	2019	2020
Own sources	75367.8	72135.3	79087.9	94341.0	87328.0
Internal credits	5512.5	4476.8	5563.0	6626.3	6550.1
External credits	266.8	520.2	490.9	848.1	579.0
State budget and local budgets	8442.1	9152.1	10805.8	13068.5	14529.5
Foreign capital	1010.1	515.3	1009.2	1891.5	2324.4
Other sources	4563.5	3869.0	4745.7	5217.4	5281.9
<b>Total</b>	<b>96162.9</b>	<b>90668.7</b>	<b>101702.5</b>	<b>121992.9</b>	<b>116592.8</b>

Sources: [www.insse.ro](http://www.insse.ro)

Internal and external credits include the amounts drawn as loans, for the investment, from inside the country or from abroad.

Funds from abroad include investments made from sources received from international organizations, governments or foreign institutions, etc.

The other sources category includes donations, leasing, or other unspecified funding source used for making investments.

In 2016, the predominant source of investment financing was from own sources (*Table 2* and *Figure 1*), followed by sources provided by the state budget, as well as local budgets and internal credits.

In 2019, the financing source with the largest contribution to net investments was from own sources (94,341.0 million lei), increasing compared to 2016, being the maximum of the analyzed period.

The structure of net investments by financing sources in 2016 versus 2020 is presented in Figure 2.

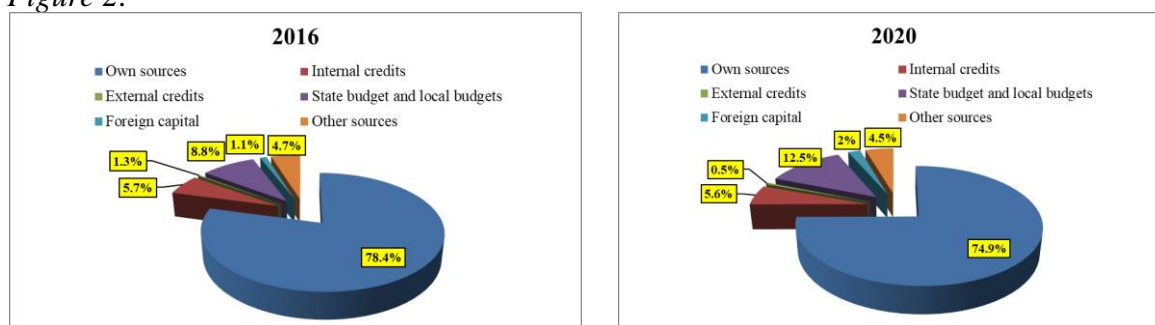


Figure 2. Structure Net investments made, by financing sources

Sources: [www.insse.ro](http://www.insse.ro)

Table 3. Net investments, by structural elements

Years		Investments total	Construction	Equipment	Geological works	Other Investment expenditures
2016	million lei current price	<b>96162.9</b>	38736.4	50872.0	2021.9	4532.6
	%	<b>100.0</b>	40.3	52.9	2.1	4.7
2017	million lei current price	<b>91045.5</b>	34064.3	48289.4	1778.3	6913.5
	%	<b>100.0</b>	37.4	53.0	2.0	7.6
2018	million lei current price	<b>101702.5</b>	38488.3	54374.3	1597.0	7242.9
	%	<b>100.0</b>	37.8	53.5	1.6	7.1
2019	million lei current price	<b>121992.9</b>	50022.4	62435.0	2149.4	7386.1
	%	<b>100.0</b>	41.0	51.1	1.8	6.1
2020	million lei current price	<b>116592.8</b>	52801.8	54553.6	1774.2	7463.2
	%	<b>100.0</b>	45.3	46.8	1.5	6.4

Sources: [www.insse.ro](http://www.insse.ro)

The investments include the following structural elements: constructions, machinery, geological and drilling works and other investments.

The analysis of investments by structural elements shows that investments in construction (Table 3) increased from one year to another in the studied period from 38,736.4 million lei to 52,801.8 million lei (increase by approximately 36%). Investments in machinery, geological works and other expenses had the same upward trend.

The link created between investments and economic growth implies a double meaning: investments determine economic growth through their volume, and the quality of the investments made influences economic growth (NASTASE, 2021).

The role of investments in the process of economic development is recognized, having a significant contribution to the advance of the economy and the improvement of the standard of living of the population.

Investments in the economic circuit have the role of training and multiplication, which they determine in any project carried out in one or another sector of activity.

## DISCUSSION

From the article on the role of investments in Romania and their effect on the business environment, it appears that investments are the main element that determines economic growth and implicitly the sustainable development of a country. In order to obtain the desired effect, the investment must be used efficiently, regardless of whether it is domestic or foreign in the expected effect.

Investments have a compensatory role in employment, implementation of projects and investments, ending with the creation of new jobs and the increase of the staff employed in the economy.

For investors, including foreign ones coming to Romania, incentives were provided to contribute to the improvement of the economic development of the country, especially to the acceleration of industrialization in disadvantaged regions and to the growth of SMEs.

The authors' conclusion is that Romania must channel its investments towards those areas that, in the context of the national economy's resources, are the ones that bring growth with additional added value. The article is a short synthesis, which will be expanded in other analyses that will be carried out by the authors.

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