

Investment and the Importance of Investment in the European Economy- Comparative Analysis

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Abstract

The activity of making an investment has a central role in economic life. In a broader sense, the investment involves on the one hand a long-term investment that is presumed to have favourable effects, an allocation of resources, saved capital, in profitable activities, in the hope of their recovery at the expense of future income, on the other part also implies the modification of the patrimony generated by the realization of some corporal, intangible and even financial immobilizations, also presumptions and a complex economic process, generator of other processes. Thus, this article presented the importance of investments in a country's economy and how the realization of an investment can be influenced by different factors through an analysis of graphs that represent investments as a percentage of GDP.

Key words: investments, GDP, capital market

J.E.L. clasification: E22, P45

1. Introduction

The first part of this article is composed of a theoretical approach to the notion of investment. It also addressed issues such as the investment process and sources of financing to make an investment.

In the economic life, the investment activity occupies a central place, both in the sphere of production of goods and services, and in the sphere of consumption. This is due to the processes of training and multiplying the effects that any investment project generates, regardless of the sector of activity in which it is implemented.

The realization of an investment price, in the sphere of the production of goods and services, has as effect the increase and diversification of the offer and, implicitly, if this is validated by the market, the increase of the incomes of the economic agents. At the same time, the increase in employment will be influenced directly or through the training effect. On the other hand, the increase of the number of employees and / or of their salary earnings leads, in the last instance, to the increase of the demand for goods and services.

In the second part of the project, an analysis was made of graphs in which investments were represented as a percentage of GDP in Romania, Hungary, Bulgaria and Poland. This analysis was performed over a period of ten years, namely, 2010-2020.

GDP is the main indicator of the national economy and is defined as the value of all goods and services produced in the economy minus the value of those goods or services used in their creation. It can be calculated using different methods: the production method, the expenditure method and the revenue method.

2. Literature review

The term investment or in other words the process of investing over time has been assigned a multitude of definitions. One of these definitions, presents investments as the acquisition of an asset to produce a capital gain at the time of its sale or to obtain a constant income, or a combination of them. Investments also involve the allocation of funds or capital to an enterprise, with the aim of making a profit. Although the definitions are multiple, the meaning is the same, namely, the

allocation of cash or capital at present to obtain a gain in the future, whether it is a constant income over time, or a capital gain obtained at the time of resale of the asset.

The investment activity has a complex content. This involves, on the one hand, a series of activities that involve effort consisting in formulating investment options, arguing and substantiating them within a project, in terms of economic efficiency, project selection and investment decision making, ensuring the financing budget of each project, creating the technical-economic conditions for achieving the investment objectives. On the other hand, the activity of investing cannot be detached from its effects consisting in fixed assets put into operation, the support of some jobs, increase of production and of gross domestic product or other implications in departmental or territorial plan. (Lazar, 2002)

As explained by Burja Camelia in the book *The Economic Efficiency of Investment*, in economics in a broad sense by investment is meant a present expense made to obtain a future profit. In a narrow sense, investments mean expenses for new fixed funds, or for the development and improvement of existing ones". (Burja, 2005)

The notion of capital investments represents "the totality of the expenses through which new fixed, productive and non-productive capitals are created or acquired, the existing ones are developed, modernized and reused." (Romanu, 1993)

There is a double link between investment and economic growth, on the one hand economic growth is influenced by the volume of investment, and on the other hand the quality of investment influences economic growth, this can be reflected in the economic efficiency of investment.

„Investments are a very sensitive area of human activity. The orientation of funds towards certain objectives is done according to needs, but also to the existing global trends, the state of the economy, the desires of consumers, even fashion, reasons why investments must always be treated with the utmost care by entrepreneurs. Investments directly or indirectly affect economic growth." (Romanu, 2000)

Thus we can say that investments according to the destination of allocated funds can be divided into two categories:

- Capital investments, these involve the purchase of goods, for example a factory or various equipment to produce goods that will be sold later;
- Financial investments involve the purchase of securities, such as securities, works of art, or the creation of bank deposits, etc.. (Florea, 1995)

Investments at the level of economic activities play an important role, both in the sphere of production of goods and services, and in the sphere of consumption, this being the factor that simultaneously influences demand and supply.

In investment, the demand for a company's products and its profitability are two motivating factors for them. To meet the increased market demand, new investments are needed to increase production. For an enterprise in the sphere of production of goods and services, its offer to be increased and diversified, an investment project must be made and, implicitly, if it is validated by the market, the increase of the incomes of the economic agents. The increase in employment will also be directly influenced by the training effect. Thus, the increase in the number of employees and / or their earnings ultimately lead to an increase in demand for goods and services.

The main attributes of investment are the following:

- Time: The expense is made now, and the reward comes after a period; thus, there is a time lag between the time the investment is made and the time the profit is made;
- Risk: This attribute represents the sacrifice made at the time the investment is made. And its profit and size are uncertain. In other words, if the expenses have a reasonable degree of certainty, the effects presuppose only hopes;
- The concrete material content of the investment effort: Investments represent a flow of values that have as a starting point a structure of resources diverse in nature and volume (financial funds, part of revenues and savings, human resources, etc.);
- Efficiency: An investment is accepted and triggered only when the effects, the absolute total amount of future revenues, are higher than the initial expenses.

Foreign direct investment (FDI) occurs when a company, a multinational company, or a person from one country makes an investment in the assets of another country or holds shares in its companies. It generally takes the form of acquiring holdings in an existing undertaking in the foreign country or setting up a subsidiary to expand the operation of an existing undertaking in that country.

There are 4 types of foreign direct investment, these types are differentiated according to the contribution of the flow of foreign equity participations in foreign direct investment enterprises:

- Greenfield: this type of investment involves the establishment of enterprises by or together with foreign investors (investments starting from scratch);
- Mergers and acquisitions: this means that foreign investors take over all or part of the businesses from residents;
- Business development: this type of investment also involves increasing the capital holdings of foreign investors in enterprises in the country of residence;
- Restructuring of companies: and lastly, this type of investment requires foreign investors to finance, through capital contributions, loss-making enterprises, in order to make them profitable.

Direct Investment impact on the economy is beneficial, as it develops new capacities, favouring the employment and consumption. Differently, the acquisitions may have some adverse effects, among consequences, being possible the withdrawal of some activities and jobs respectively. By the impact produced, the Foreign Direct Investment signifies a real potential for the economic development, the increase of the competitiveness and the performances of the host country companies. (Popa, 2020)

Indirect investments, also called "foreign portfolio investments", occur when companies, financial institutions or individuals buy shares in companies on a foreign stock exchange. These investments are not made with the intention of acquiring controlling interests in the issuing company. Thus, this type of investment is of a short-term nature and is made to take advantage of favourable exchange rate fluctuations or to obtain short-term profits for interest rate differences. These investments provide investors with the opportunity to diversify their portfolios and better manage the associated risks.

Foreign portfolio investment can also help strengthen domestic capital markets by improving liquidity and contributing to improving their functioning. This will ensure an optimal allocation of capital and resources in the national economy. In emerging economies, portfolio investment abroad can be a positive factor that contributes significantly to its development, creating significant wealth.

According to the constitution, the investments are divided into:

Net investments - are made up of amounts of money coming from the net national product and aim to increase fixed capital and stocks of raw materials and materials;

Gross investments - in the net investment is added the amortization which has as main purpose the replacement of the used fixed capital, showing the absolute increase of the fixed capital.

The autonomy of the management of investment resources is characteristic in the market economy, the investment fund is constituted by the economic agent, it resorts to bank loans, etc., looking, at the same time, for the respective amounts to be used judiciously, as efficiently as possible.

The sources from which the investments can be financed are the own funds of the enterprises, the issuance of shares, long-term or medium-term bank loans, allocations from the state budget, sponsorships, and from outside, they can be bank loans, direct capital investments. (Iloiu, 2002)

The main source of financing the enterprises is the self-financing that realizes the financing of the investments in the conditions of the autonomy of the economic agents. The state can intervene at the level of this activity, but only when the activity of the unit is of national interest or has majority state capital.

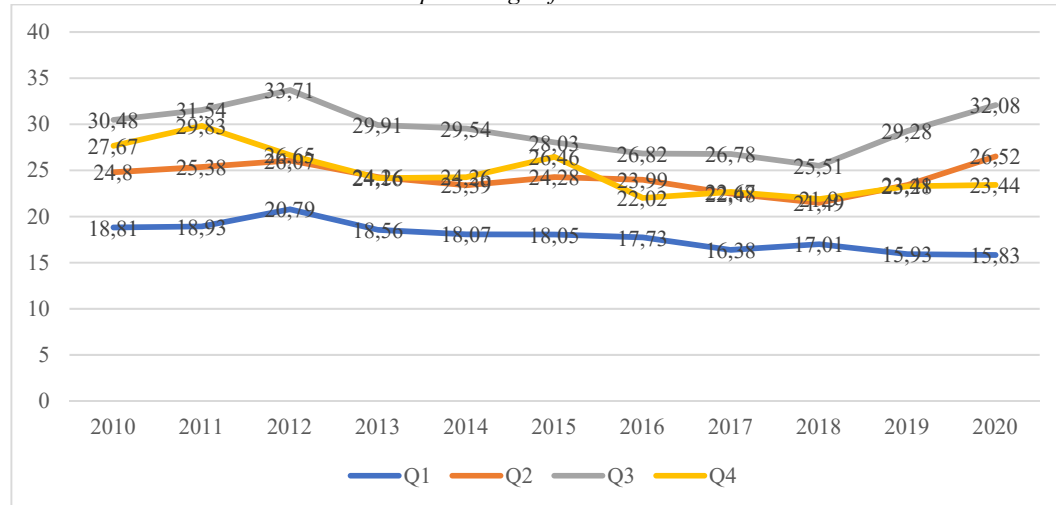
The funds that intervene in the self-financing process depend on the self-financing capacity and are the amounts from the amortization of fixed assets, provisions, amounts from the net profit.

External sources of financing intervene in the implementation of internal resources if they do not rise to the level required by the investment financing plan adopted. (Burja, 2005)

3. Research methodology

In the following, an analysis will be made of four graphs in which are represented the investments as a percentage of GDP made in Romania, Bulgaria, Hungary and Poland in the period 2010-2020.

Chart no. 1. Romania's investments as a percentage of GDP



Source: https://www.theglobaleconomy.com/rankings/investment_percent_of_gdp/

Chart 1 shows the investments made in the Romanian economy as a percentage of GDP. Investment is a component of GDP, which is a macroeconomic indicator that reflects the sum of the market value of all goods and services for final consumption, produced in all branches of the economy within a country within a year.

The chart can distinguish three lines, namely the blue one represents the investments as a percentage of GDP in the first quarter of each analysed year, the orange line represents the investments in the second quarter, the yellow line represents the investments in the third quarter and the colour one grey represents investments as a percentage of GDP in the last quarter of each year.

We can see that the highest percentage is in the third quarter for the entire period analysed, namely 2010-2020.

Also, the highest percentage of investments as a percentage of GDP recorded in the period 2010-2020 was in the third quarter of 2012 with a value of 33.71%. And the lowest percentage of investments was registered in the first quarter of 2020 with a value of 15.83%.

As can be seen in the graph for the entire period analysed from 2010 to 2020, the lowest percentage of investments was recorded in the first quarter of each year. And the highest values were recorded in the third quarter of each year analysed.

From 2010 to 2012, investments as a percentage of GDP had an increasing trend in the first three quarters, so the percentages increased from 18.81% to 20.79% in the first quarter, from 24.8% to 26.07% in the second quarter and from 30.48% to 33.71% in the third quarter. And in the fourth quarter the percentage increased in 2011 compared to 2010 from 27.67% to 29.83%, and in 2012 it decreased compared to 2011 from 29.83% to 26.65%.

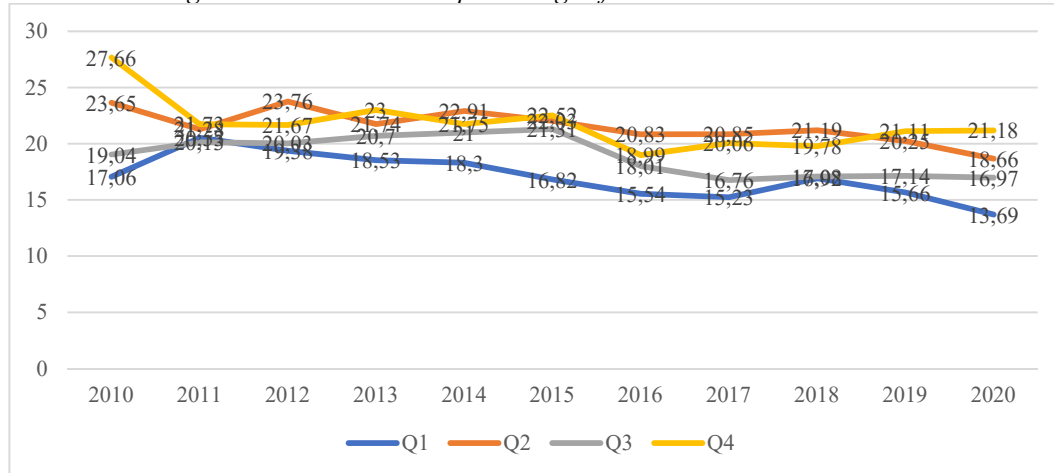
The evolution of the first quarter of the period between 2012 and 2020 shows a predominantly decreasing trend, registering a share of 20.79 in 2012 and reaching a share of 15.83 in 2020. Exception to the mentioned trend is the share registered in 2018 in the amount of 17.01% compared to 2017 in which a percentage of 16.38 was registered, this representing the only growth trend in the period 2012-2020.

In the second quarter, the evolution in the period 2012-2014 showed a decreasing evolution registering a value of 26.07% in 2012, and a value of 23.39% in 2014. In 2015 compared to 2014 the percentage of investments increases by at 23.39 at a rate of 24.28. This increase is followed by a decreasing trend until 2018 reaching a value of 21.49%. Also, in 2020 compared to 2018, the share increased to 26.52 percent.

The third quarter shows a decreasing trend in the period 2012-2018, thus registering a value of 33.71% in 2012 and 25.51% in 2018. From 2018 to 2020, the trend becomes an increasing one, thus the percentage registered in 2020 reaches a value of 32.08%.

Regarding the fourth quarter, in 2012-2020 it registered both growth trends and decreasing investment trends as a percentage of GDP. The decreasing trend is present in the period 2012-2014, starting from a percentage of 26.65 in 2012 and reaching a percentage of 24.26 in 2014. The year 2015 shows an increase of the percentage compared to the previous year by 2.2 percent. In the period 2015-2018, it continues with a decrease in the percentage of investments from 26.46% in 2015 to 21.9% in 2018. The trend is changing in recent years, thus analysed from 21.9 percent registered in 2018 to reach a percentage of 23.44 in 2020.

Chart no. 2. Bulgaria's investments as a percentage of GDP



Source: https://www.theglobaleconomy.com/rankings/investment_percent_of_gdp/

Chart 2 represents the investments made in the Bulgarian economy, for the period 2010-2020.

As can be seen in the graph, the highest value of investments as a percentage of GDP was recorded in the fourth quarter of 2012, these having a value of 27.66 percent of GDP. On the other hand, the lowest value recorded in the analysed period was in the first quarter of 2020 with a value of 13.69% of GDP.

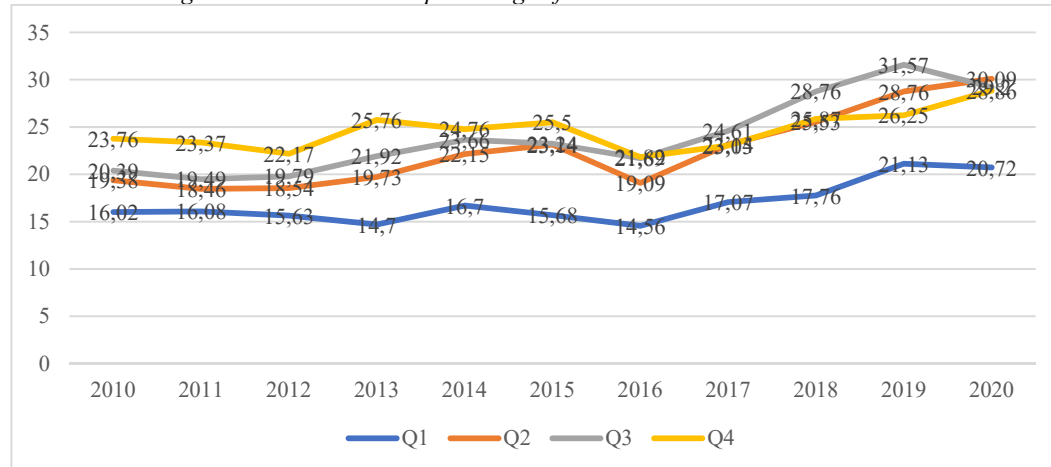
The evolution of the first quarter from 2010 to 2011 was an upward one, thus reaching a value of 20.53% in 2011 from 17.06 percent in 2010. From 2011 the trend has become a downward one thus reaching a value of 13.69 percent in 2020, except for a small increase in value in 2018, this being 16.92%.

The second quarter of the analysed period showed an evolution like that of the first quarter. As can be seen in Chart 2, the evolution of investments as a percentage of GDP for the period 2010-2020 was a decreasing one with small increases in three moments, namely in 2012 when the value reached 23.76%, with an increase of 0,11 percent compared to 2010 with a value of 23.65%. The second increase was in 2014 with a value of 22.91%, 1.17 percent higher than the previous year. And the third increase was registered in 2018 with a value of 21.19 percent, 0.34% higher than in 2017.

Regarding the trend of the third quarter, we can see from the chart that from 2010 to 2012 investments had an upward trajectory, reaching a value of 20.03 percent from 19.04% recorded in 2010. 2012 to 2015, the trend of investments made in the Bulgarian economy remained at about the same values of 20, 21 percent. The trend was decreasing in the next period from 2015 to 2020, so in 2020 the registered value was 16.97%, 4.34 percent less than in 2015.

The fourth quarter recorded the highest values compared to the other quarters, but the trend for the period 2010-2020 of the quarter was generally decreasing. From 2010 to 2015, the value of investments as a percentage of GDP in the fourth quarter decreased to 22.52%, by 5.14 percent less than in 2010 when the value was 27.66. And from 2015 to 2020, the value of investments decreased by 1.34% reaching the value of 21.18 percent.

Chart no. 3. Hungarian investments as a percentage of GDP



Source: https://www.theglobaleconomy.com/rankings/investment_percent_of_gdp/

Chart 3 shows the investments as a percentage of GDP in Hungary over a period of ten years, namely 2010-2020.

At the level of the Hungarian economy, the investment trend as a percentage of GDP in the period 2010-2020 was an ascending one.

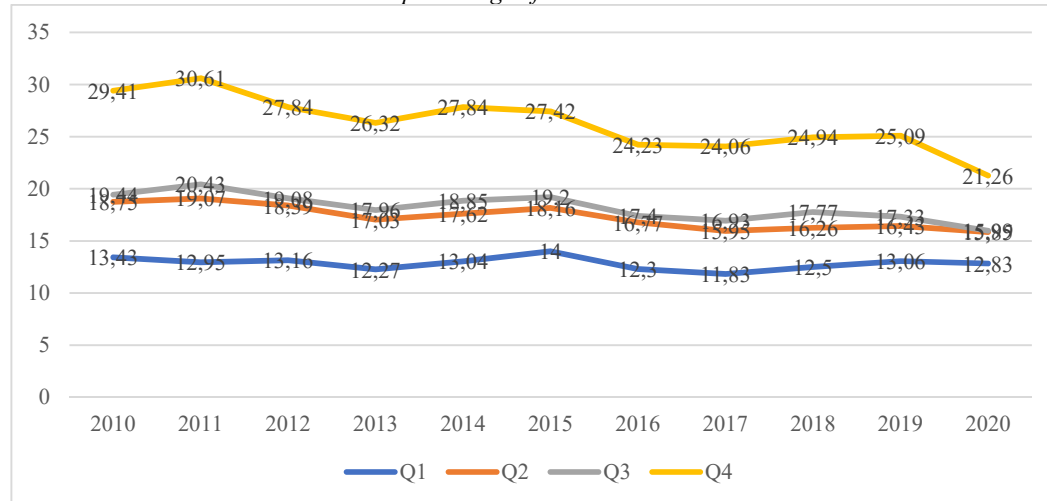
As can be seen in the chart in the first quarter, the evolution of investments can be said to have been constant because the percentage of investments made remained at similar values from 2010 to 2016, these values between 14 and 16% of GDP. From 2016 to 2020, the percentage of investments increased to 20.72%, 6.16% more than in 2016.

An evolution like that of the first semester can be observed in the second semester, so during 2010-2013 the values of investments were between 18 and 19 percent of GDP. From 2013 to 2020 the trend was an increasing one, so in 2020 the value of investments as a percentage of GDP was 30.09%. An exception to the upward trend took place in 2016, thus registering a decrease with a GDP value of 19.09%.

In the third quarter of 2010 the value of investments as a percentage of GDP was 20.39%, the trend of the value of investments in the next two years was a decreasing one, so in 2012 the registered value was 19.79%. Until 2014, the evolution of investments was increasing, thus reaching a percentage of 23.66 of GDP. This growth continued in the following years less in 2016 when the value of investments as a percentage of GDP suffered a small decrease to 21.69%. The maximum point registered in the evolution of investments made in the third quarter was in 2019 reaching the value of 31.57% of GDP.

The fourth quarter of the analysed chart shows an upward evolution almost for the entire analysed period except for two moments. The first moment when the trend decreased was registered in 2012 with a value of 22.17, with 1.79% less than in 2010 when the value was 23.76. And the second moment of fall was recorded in 2016 reaching a value of 21.82% of GDP. The maximum value of investments as a percentage of GDP registered in the fourth quarter was in 2020 with 28.86%.

Chart no. 4. Poland's investments as a percentage of GDP



Source: https://www.theglobaleconomy.com/rankings/investment_percent_of_gdp/

Chart 4 shows the investments made in the Polish economy as a percentage of GDP.

The first quarter, as can be seen in the graph, shows a constant evolution, the value of investments as a percentage of GDP for the entire analysed period registers values between 11.83% and 14%. The highest value of 14% was registered in 2015, and the lowest value of 11.83% in 2017.

The second quarter registered values between 15.85% and 19.07%, at the same time being the lowest and highest value found in the analysed period. From 2010 to 2013, the value of investments as a percentage of GDP decreased by 1.72 percent, thus registering a value of 17.03%. By 2015, the percentage of investments made in the Polish economy increased to 18.16%. By 2020, the percentage of investments has decreased to 15.85%.

The value of investments in the third quarter of 2010 was 19.44% of GDP. Until 2013, the trend was downward, reaching 17.96 percent. In the next two years the trend was upward, and the percentage of investments made in Poland increased to 19.2%. From 2015 to 2020, investments suffered a decrease, so in 2020 the value of investments as a percentage of GDP was 15.99%.

Regarding the fourth quarter, the evolution of investments was both increasing and decreasing. A small increase took place from 2010 to 2011, going from 29.41% to 30.61%. Until 2013, the trend was decreasing, and the value of investments this year was 26.32%. From 2013 to 2015 the percentage of investments increased from 26.32% to 27.42%. It followed a decrease in the following years, reaching a value of 21.26% in 2020.

4. Findings

Investments play an important role in a country's economy, it also helps in both the social and economic development of the country. As analysed in the graphs above, investments can be influenced by several aspects, and for an investment to take place, investors must perform a series of steps called the investment process.

The graphs show that in all countries the percentage of investments can increase and decrease from one year to another, including from one quarter to another.

5. Conclusions

In the market economy marked by the competitive system, it is necessary for the actions of economic agents to be based on the coordinates of a high economic efficiency, the essential condition for ensuring their competitiveness.

We can say that investments play an important role in any economy, because it contributes to the economic and social development of the country. It also influences the demand and supply in the production sphere. On the one hand, the investments contribute to the increase of the supply of goods

and services by increasing the productive capacity of the economic agents, and on the other hand it generates additional demand to the economic agents supplying the components of the investment objective. workforce.

A very important element in the process of investing is the source of financing the investment, to achieve a functional balance, investors do not use in the process of finalizing investments only their own sources, which are often insufficient, but make a combination of them with additional financing sources. in other words, external sources of financing.

Investment is a component of GDP, which is a macroeconomic indicator that reflects the sum of the market value of all goods and services for final consumption, produced in all branches of the economy within a country within a year.

An analysis was made of four charts in which are represented the investments as a percentage of GDP made in Romania, Bulgaria, Hungary and Poland in the period 2010-2020.

In Romania, the highest percentage of investments as a percentage of GDP registered in the period 2010-2020 was in the third quarter of 2012 with a value of 33.71%. And the lowest percentage of investments was registered in the first quarter of 2020 with a value of 15.83%.

In terms of investment in Bulgaria, the highest value as a percentage of GDP was recorded in the fourth quarter of 2012, with a value of 27.66 percent of GDP. On the other hand, the lowest value recorded in the analysed period was in the first quarter of 2020 with a value of 13.69% of GDP.

At the level of the Hungarian economy, the investment trend as a percentage of GDP in the period 2010-2020 was an ascending one. The highest value recorded was in the third quarter of 2019 with 31.57%, and the lowest value was in the first quarter of 2016 with a percentage of 14.56.

And the last country analysed was Poland, which recorded the highest value of investments as a percentage of GDP in the fourth quarter of 2011 with 30.61%, and the lowest value was 11.83% in the first quarter of 2017.

6. Acknowledgement

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