

## THE PROBLEM OF INVESTMENT ATTRACTIVENESS OF THE NATIONAL ECONOMY OF THE REPUBLIC OF MOLDOVA

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### *Abstract*

*This article addresses the issue of investment attractiveness at the macroeconomic level. Some definitions of this economic category are given. In practical aspect, the author envisages the state of the investment environment in the Republic of Moldova of two three-year periods, covering three years of implementation of the National Strategy to attract investments and promote exports for the period 2016-2020 and three previous years. The structure of investments in long-term tangible assets, in the context of terms of ownership, sources of financing, types of activity is studied in detail. Special influence is given to foreign direct investment, its dynamics for the period of the last three years and in comparison with their values described in the above-mentioned strategy. The investment quote per head of population in the Republic of Moldova and in neighbouring countries Ukraine and Romania is reported. The results of the Doing Business report are presented, showing the place of the Republic of Moldova in the international rating, which includes 190 countries. The most attractive spheres for foreign capital are considered banking system and re-employment industry, as well as the reasons for this interest are indicated. The main problems that limit the inflow of investments into the economy of our state have been identified, the elimination of which would contribute to improving the investment climate in the country and increasing investment attractiveness.*

*Key words:* assets, attractiveness, investment, strategy

### INTRODUCTION

The successful development of the economy of any State depends on a large extent on the effectiveness of investment activity. Investment has a range of positive effects on the micro and macroeconomic levels. Thus, at the microeconomic level, production is modernizing, new technologies are developing, which contribute to increasing the volume of production of goods and services, improving quality and reducing costs per unit of production. All these effects contribute to the increase of income, profit and profitability of the financial and economic activity of the enterprise.

The results of investment activity at the macroeconomic level are reflected in the growth of revenues of the national budget, the increase in employment of the population, the provision of stable incomes for citizens of the state. However, it should be mentioned that the development of investment activity is determined by the investment attractiveness of the economy of the state or its sectors.

### MATERIALS AND METHODS

In order to exam the problem of attraction of investment in different forms for dynamic economic developing in Republic of Moldova, the appropriate data was used, mainly reflected in statistical reports in our country. This information was studied over the period 2013-2018. During this research the methods were used: analysis, synthesis, monographic, average values, others.

### RESULTS AND DISCUSSIONS

Analysis of special economic literature has shown that there is not yet a single point of view on the definition of the term "investment attractiveness." It should be mentioned that the authors distinguish between "investment attractiveness of the region" and "investment attractiveness of the enterprise."

In the context of this article, we are going to look at the investment attractiveness of the region and give a number of its definitions.

Thus, according to [5, 8] regional investment attractiveness is represented by a system of

existing opportunities, signs and means, which determine the potentially solvent demand for the implementation of investments in a particular country (or industry). We consider this point of view to be very correct, as it is always important for the investor to know that the invested capital will receive a proper return under certain conditions [5, 8].

On the other hand, investment attractiveness is interpreted as a set of facts: geographical, economic, natural, political, social. Knowledge of these factors allows the investor to make his idea of the investing feasibility in the objects of the region, industry, country [9].

There is another position on this issue. Thus, according to Savenkova E.V. it is possible to equalize the concepts of "investment attractiveness" with the concept of "investment entrepreneurship." Savenkova E.V. argues this identification by the connection of efficiency of investments and their attractiveness [6]. This is a fair assessment, but we consider this approach to be generalized, as it applies equally to investment attractiveness of the region, and to investment attractiveness of the enterprise.

The investment attractiveness at the macroeconomic level is defined by such factors as:

- a political situation in the country or the region;
- economic situation (GDP level, accumulation of the capital, volume of investment, etc.);
- a condition of the regulatory and legislative base regulating investment activities;
- tax system;
- level of investment risks [7].

In the Republic of Moldova special attention is paid to a problem of development of investment activity at the macroeconomic level. So for the last four years National strategy of investments attractiveness and promotion of export for 2016-2020 is carried out [4].

This strategy is directed to overcoming technological lag from the developed countries and building due to this export potential. The important role in the solution of these problems comes down to attraction of direct foreign investments [4]. The author conducted a research of a condition of investment activity

during 2013-2018, divided into two intervals – before strategy introduction (2013-2015) and its realization (2016-2019).

Table 1. Dynamics of the main macroeconomic indicators in the Republic of Moldova

Indicators	Overall average of 3 years	
	2013-2015	2016-2018
1. Gross domestic product, bln. lei	114.7	165.4
2. Gross capital formation, bln.lei	27.2	37.2
3. Long-term investments, bln. lei	20.5	23.5
4. The proportion of long-term investments in gross domestic product, %	18.3	14.3

Source: developed by the author on the basis of statistical data [1].

Analysis of the dynamics of the main economic indicators in the Republic of Moldova makes it possible to conclude the following:

Firstly, the growth is found in all absolute indicators. The gross domestic product during the period of implementation of the Strategy grew by 48.1% compared to the previous three-year period, achieving its highest point in 2018, and amounted to 184.8 billion lei. Gross capital formation amounted to 41.4 billion lei in 2018. This indicator has increased by 37% over the last three years compared to the previous three-year period. Investments in long-term assets increased by 14.6% in 2016-2018 and amounted to 27.5 billion lei in 2018. Secondly, a decline in relative indicators is noticed. The proportion of the second indicator in the first from table 1 decreased slightly, although the initial indicators have increased. The proportion of invested capital in total domestic product became 2 times less than previous indicator. It is necessary to note, that in 2011 the proportion of investment in general internal production had marked a maximal value, practically reaching a fifth part.

The share of long-term investments in gross capital formation was 75% in 2013-2015, while during the implementation of the Strategy - 65%, having decreased by 10 percentage points.

The analysis of investment activity involves its examination in terms of ownership forms.

Table 2. Structure of investment in long-term tangible assets by ownership forms (%)

Share of long-term assets by forms of ownership:	Overall average of 3 years	
	2013-2015	2016-2018
a) public	33.70	30.33
b) private	47.7	48.6
c) mixed – without foreign participation	0.5	0.4
d) foreign	7.6	10.7
e) common enterprises	9.5	10.0
Sum total:	100	100

Source: developed by the author based on data from the National Bureau of Statistics [1].

Table 2 shows that during the period of implementation of the National Strategy there were no significant changes in the structure of investments in long-term tangible assets.

About half of them comes from private form of ownership and about third from public ownership. Common enterprises account for 10%. Looking at the structure of investments in dynamics, it can be noted that public investments decreased by 3.4 percentage points and foreign investments increased by 3.1 percentage points. The remaining structural indicators remained unchanged. It should be noticed that the share of mixed enterprises has decreased significantly during the past decade. In 2009, they accounted for 18% of total investments in long-term tangible assets.

Table 3. Structure of investments in long-term tangible assets by source of financing in the Republic of Moldova (%)

Source of financing	Overall average of 3 years	
	2013-2015	2016-2018
Investments in long-term tangible assets - sum total	100	100
Financed from the budget of:		
a) the state	8.7	7.1
b) administrative territorial units	4.5	5.2
c) own funds	58.3	63.9
d) foreign funds	6.9	6.2
e) other funds	21.3	17.6

Source: developed by the author based on data from the National Bureau of Statistics [1].

The important issue in investment activity is considered the source of financing as presented in Table 3.

The information provided in Table 3 shows that more than half of investments in long-term tangible assets have been realized from the own funds of active economic agents, and during the period of implementation of the National Strategy their share has increased by 5.6 percentage points.

Financing from the State budget is less than 10%, although in 2018 it reached the point 10.5% and in 2016 it was 4.5%. The distribution of investments by type of economic activity is of interest.

Table 4. Structure of investments in long-term tangible assets by main types of activity in the Republic of Moldova (%)

Types of activity	Overall average of 3 years	
	2013-2015	2016-2018
1. Agriculture, forestry and fish industry	9.7	9.8
2. Food and pharmaceutical industries	12.7	13.0
3. Production and supply of electric power, heat, gas and hot water	4.7	5.0
4. Construction	10.3	12.4
5. Wholesale and retail trade, technical maintenance and vehicle repair	12.3	11.6
6. Information services and communication	7.2	6.5
7. Transactions with immovable property	13.8	8.6
8. Transport and storage	4.8	5.7
9. Social sphere*	24.5	27.4

Source: developed by the author based on data from the National Bureau of Statistics [1].

\*The indicator "social sphere" represents investments made in health care, education, public administration and defense, etc.

The information, presented in Table 4 shows, that above 20 per cent of real capital investment were made in sphere of social development. It is important to say, that this proportion increased by 2.9 percentage point in the period of National Strategy realization. In the economic sphere can be noticed the following investments in the last three years: food and pharmaceutical industry (13%), construction

(12.4%), wholesale and retail trade, vehicle maintenance and repair - 11.6 % and almost 10% - agriculture, forestry and fish industry. There have been no significant changes in the noted sectors of our national economy. At the same time the value of investment, made in real estate decreased by above 5 percentage points, and there is a small increasing of investment in sphere of transport and storage (by 0.9 %). This information is self-explanatory. The decline in foreign direct investment began in 2008. The economic crisis has affected the confidence of foreign investors in the ability to rebuild the economies of developing countries, including the Republic of Moldova.

The level of foreign direct investment per capita in the Republic of Moldova is US \$1,052, while in the neighbouring countries Ukraine and Romania US \$1,696 and US \$3,899, respectively. The lag is noticeable, the level of our country is 3.8% lower than Ukrainian and 3.7 times lower than in Romania [2, 3].

The reasons for the lack of foreign direct investment are known: political and economic instability, especially in the tax policy. Tax legislation is often interpreted differently. Entrepreneurs have distrust of justice and the judiciary. There are cases of abuse by supervisory authorities. There is monopoly practice and disloyal competition [www.1new.md/economica].

Banks are the most attractive to foreign investors, accounting for about a third of investment and the processing industry - about a fifth of all foreign investment. These trends are not random, as the banking sector is exposed to less risks because of its strict schedule. And the food and pharmaceutical industry mainly works on imported subcontracting raw materials and is focused on marketing finished products on the European market [www.1new.md/economica].

It should be noted that according to the latest Report of World Bank the place of the our country in international ranking, that has covered one hundred ninety states became slightly worse, than for example two years ago. If to compare with data of 2018, the place of the Republic of Moldova has gone down and now the country is on 47th place. The

evaluation was carried out according to 10 indicators. There was an improvement in the indicator "business setting up." If in 2018 the Republic of Moldova was on 7th place, in 2019 - on 14th place. But on such indicators as obtaining a building permit, access to credit resources, access to electricity, registration of property rights, payment of taxes and execution of contracts, the Republic of Moldova received worse ratings than in 2018 [10].

## CONCLUSIONS

The analysis of the investment environment in the economy of the Republic of Moldova makes it possible to conclude that our state should work further to improve the investment climate and increase investment attractiveness. The analysis of the macroeconomic situation showed that the results obtained during the three years of implementation of the National Strategy to attract investments and promote exports for the period 2016-2020 did not reach the expected level. The state has problems related to tax regulation, observance of the rights of participants in the investment process, which hinders the inflow of investments into the economy of the country.

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