

Investments – The Premises of the Economic Development and Expansion

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Abstract

This paper emphasizes the importance of investments in economic growth both on company level and on national level. An analysis is carried out regarding the factors which affect investments (interest rate, economic level, companies' profitability, evolution of demand, the trust in future etc.), with focus on Republic of Moldova. Likewise, it is analysed the improvement of the banking system activity, step up of legal persons' incomes taxing, upgrading of equities taxing, development encouragement and innovations implementations, and using the fiscal investments credit.

Key words: investment, development, interest rate, banking system, taxing

“The investments constitute the fundamental economic act which determines an increase of the global income so that an increase of the required savings shall derive from it, correspondent to the initial accomplished injection” J.M. Keynes [18].

The actual development level of humanity was obtained through a continuous investment process. The investment forms, identification of ways and possibilities of their making efficient as well as the identification of new finance resources have constituted the topic of discussions since the beginning of economic science, acquiring an increased importance nowadays, due to the dynamism and economic increase.

The investments at the national economy level or enterprises are presented as a newly created production active assembly and as any additional production implies an additional production active, the investment represents a major factor of the economic increase. The investment represents a process which developing in time, the efficiency being noticed only during its accomplishment.

As a premise of the economic expansion, investments are influenced by a series of factors, the most significant, such as: interest rate, savings volume, enterprise profitability, request evolution, trust in the future, etc.

The interest rate represents an important factor for the investments. The level and dynamic of interest rate influence the economic agents' credits request for investments and adequately for capital goods. When the interest rate is reduced, an urge for investments is created. This is correlated with the efficiency rate. When the efficiency rate is higher than the interest rate, the credits requests is increased and vice versa.

The development of the bank system in Moldova did not produce an economic increase, as it should. The perpetuation of certain exaggerated interest rates strongly affected our real economy. On the one hand, the bank credit became inaccessible for most of the economic agents, which determined the interruption of several enterprises activities and even their bankruptcy. On the other hand, the very expensive bank credit generated losses and the impossibility of recovering the costs by means of prices.

Consequently, the economic process growth is financed in Moldova 72% by own means, the bank credit percentage in the investments financing being only 5-6 during 2003-2004.

The interest rate is interesting also for the fact that it stimulates the saving – factor of great importance for the continuous growth. The stimulating interest rates favor the accumulation of certain important amounts in the bank system and the participation of the public in the investments formation. Unfortunately, the proportions that the inflation reached and the money depreciation disfavored many savings and the insufficiency of the incomes considerably reduced the population's savings possibilities. The actual level of the population's monthly incomes is situated under the consumption expenses level. The monthly consumption expenses per person exceeded the available income during the last 5 years with 3.4% in 2000, being reduced in 2004 up to 1.7%.

According to the statistical data, the alimentary consumption during 2004 was valued at 58% from the population's incomes, while in the USA this indicator acquired 15% and in Russia 34%.

The consumption growth is ensured by the financial means inlets having the origin in the Moldovans working abroad, which were increased from 125 billion \$ in 2000 to 12 billion \$ in 2003.

The remittent which constitute 25-30% from the gross domestic product (GDP), encouraged the emigration process of 39% of the active economic population, and the emigration, in its turn, stimulated the financial transfer in Moldova. The fear of not losing the money as a consequence of the risk presence motivates the people to direct their savings to the current consumption and less to investments.

It is mentioned the fact that the Moldova currency during the past years, the practice of the banks of giving certain attractive interest rates led to the growth of the bank deposits in 2004 by 85.1% towards the year 2003.

The interest rates for the credits and deposits in Moldova bank system lead to the following situation (table 1):

Table 1. The average interest rate for the credits

	January 2005	February 2005	March 2005	April 2005	May 2005	June 2005
The average interest rate for the credits in %	24.23	23.15	23.57	23.82	23.20	23.30
The interest rate for the bank deposits in %	15.94	15.73	15.14	14.57	13.90	13.90
Bank margin in %	8.23	7.42	8.43	9.25	9.30	9.40

The interest rate is also very important for the foreign capital attraction to accomplish economic objectives. The interest rate increase for deposits attracts the foreign capital, which is bitterly "remunerated" and enlarges the availability of increasing the bank deposits which may serve as investment sources for the economic agents within our country. The interest rate situation towards the inflation rate stimulated the perseverance and even the accumulation of the banks capital coming from the foreign invertors.

The percentage of foreign investments in the Moldova banks constituted 60.2% in January 31, 2004.

For the improvement of the activity within the Moldova bank sector, for the increase of its contribution to the country economy development, we consider necessary the implementation of certain measures such as:

- the stimulation of savings and their attraction in the bank system from which can be used as credit source;
- sustaining financially the small enterprises giving up to the real warranties abuse in the favor of a promising business plan;
- elaborating and adopting the law regarding the insurance of deposits;
- the recourses management efficiency by deposits at different terms at the client's request, as well as the cancellation of the minimum deposit amount;
- creating a new credit office which has as main activity objective the data and information collecting regarding the clients' portfolio, in order to make available to the banks different information, data and correspondent studies with the aim of increasing the credits quality and diminishing the fraud risk;
- acknowledgement by all crediting organizations of all debits and risk reduction modern analysis methods;
- accentuating the transparency in the bank field. Publishing a large amount of financial performance indicators by the commercial banks may create a healthy competition between the banks and contribute to the prior investment of the free temporary means by individual persons, juridical persons within the banks presenting a high safety degree in their activity.

The main factor to sustain and encourage of the economic growth, to improve the investments climate, to sustain the producers is the fiscal authority. The role of the fiscal authority to these desiderata may be obtained by applying the fiscal instruments such as interest rate, fiscal facilities, investment credits etc.

Within the world practical taxation, the most known fiscal instrument of stimulating the investment process in the physical capital is the fiscal investments credit. There are 3 characteristics of the concept and process of using this instrument. For example in Russia, the investments credit is defined as the right to postpone the term of paying the taxes to the state, being offered the possibility of diminishing the fiscal payments by following payment of an installment from the credit. The fiscal investments credit may be given for a period comprised between one year and 5 years in case of the organizations profits tax as well as in case of the regional and local interest rates.

In the countries with a developed economy, the fiscal investment credits are defined as the deduction from the income tax. We consider convenient the use within Moldova of the fiscal investment credit, which could allow the economic agents the deduction from the income tax of the enterprising activities of the amounts corresponding to a percentage from the capital investments and the expenses for the personnel training. Seeing that investments have a long term character, the allotment of facilities only during the first year of activity is not correlated with the period of their recovery. An important condition is the use of the fiscal investment credit only during a certain period corresponding with the entire use of the investment.

The fiscal investment credit may be used as an instrument of the regional policy, having a progressive character for the enterprises performing investments within disfavored areas. On the other hand, we cannot ignore the fact that the allotment of these facilities may generate the

social tension increase because all allotted facilities lead to the local budget diminution, from which are paid all budgetary workers and also is financed the region social infrastructure.

In order to stimulate the activity of the newly created enterprises, we consider necessary their release from income tax payment for a certain period of time, but not longer than 3 years.

Studies towards the impact that the zero tax may have denote that its application on the judicial persons income shall not be efficient as it would generate certain negative or quasi – negative consequences such as: diminution of the fiscal incomes within the state budget, the invariability of Moldova fiscal competitiveness at the international level, but also the foreign investors are interested in the economic and political establishment within the country than the zero tax application; the diminution of the fiscal pressure which, is dependent on other taxes for social insurances.

The increase of capital investments is conditioned by the income tax. We consider convenient the diminution of the income tax for judicial persons up to the equilibrium between the resources attracted by taxing and which can be used by the Government for necessities related to the continuous growth and the resources remained at the economic agents' disposal, also used for the economic growth financing.

The analysis of the budget incomes of Moldova between 1998-2005 show that the reduction of the income tax for juridical persons from 32% in 1998 to 18% in 2005 did not lead to the budget income, but - on the contrary - produced their growth, which denotes that the optimal interest rate ensuring the maximum budget has not been found yet. In our opinion there are still diminishing reserves up to 15% (table 2).

Table 2. The dynamics of incomes and income tax for juridical persons in Moldova between 1998-2005

Years	1998	1999	2000	2001	2002	2003	2004	2005
	executed							discount
Budget income resulted from the income on the enterprising activity/ billion lei	178.6	233.4	275.6	349.7	427.6	577.5	779.4	857.1
Income tax for juridical persons in %	32	28	28	28	25	22	20	18

In the context of the fiscal simulation of the investments processes within the Moldova economy, a major importance is given to the foreign investments attraction by creating an attractive fiscal climate. In this context, settling the issue regarding the mandatory dividend is important. In Moldova, the dividends payment from non-residential persons prevailed over income taxes, which leads to the double fiscal imposing, which can be avoided only those foreign investors coming from the states having different agreements with Moldova (table 3).

Table 3. Main foreign investors and the countries which have agreements with Moldova regarding the avoidance of double taxation

Countries	Of concluding the agreement	The percentage from the total investments
Russia	10.04.1997	36.4
USA	-	10.2
Spain	-	9.5
Holland	-	7.7
Germany	extension of the Soviet agreement	4.8
France	-	4.1
Switzerland	10.06.1999	3.8

Table 3. (cont.)

Great Britain	-	3.2
Romania	03.11.1995	1.3
Bulgaria	04.03.1999	0.3
Poland	03.10.1995	*
Ukraine	06.01.1996	*
Uzbekistan	20.09.1995	*
Byelorussia	03.10.1995	*
Hungary	18.07.1996	*

* non significant investments percentage

An important tendency for the economic activity development, which started to become more visible within the transnational corporation since 1970, is the innovations application at a high level, having as main scope the economic growth.

The development stimulation and innovation implementation by applying the innovation the fiscal instruments supposes:

- o the diminution of the taxable income for activities related to the research-development;
- o allotment of the fiscal credit and establishment of certain fiscal facilities for the research institutions in order to stimulate the activity correlation with the producing enterprises, as well as for the settlement of the issue regarding the research and constructions offices financing etc.

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Investițiile – premisă a dezvoltării și expansiunii economice

Rezumat

Articolul evidențiază importanța investițiilor în creșterea economică atât la nivelul firmei, cât și la nivel național. Se realizează o analiză a factorilor care influențează investițiile (rata dobânzii, volumul economiilor, rentabilitatea întreprinderilor, evoluția cererii, încrederea în viitor etc.), cu particularizare pentru Republica Moldova. De asemenea, se fac propuneri privind îmbunătățirea activității sistemului bancar, impozitarea veniturilor persoanelor juridice și a dividendelor, stimularea dezvoltării și implementării inovațiilor și introducerea creditului investițional fiscal.