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ECONOMETRIC ANALYSIS OF THE IMPACT OF FINANCIAL INDICATORS ON THE ATTRACTIVENESS OF FOREIGN DIRECT INVESTMENT IN ROMANIA

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Abstract:
The study highlights the importance of foreign direct investment, the impact of financial indicators, especially the unemployment rate, on Romania's attractiveness for foreign investors. The unemployment rate, a key indicator of the economic climate, directly influences investors' decision to invest in the country. A decrease in the unemployment rate reflects a healthy and stable economy, increasing investor confidence and helping to attract more foreign investment. Increased FDI not only stimulates economic growth, but also creates a continuity effect, attracting even more investors and strengthening the sustainability of the Romanian economy. The study also analyzes the impact of major economic crises, such as the global financial crisis and the COVID-19 pandemic, on FDI inflows and unemployment rates in Romania. Through econometric modeling, the study concludes that maintaining economic stability, reducing unemployment and retaining foreign investors are key factors for attracting FDI and stimulating long-term economic growth.

Key words: *foreign direct investment, unemployment rate,* global financial crisis, *COVID-19, sustainability*.

JEL Classifications: F21, C19

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1. INTRODUCTION

Foreign direct investment (FDI) plays a key role in Romania's economic development, having a significant impact on the modernization of industry, job creation and the integration of the national economy in the global context. The attraction of FDI is supported by government policies to reduce the gap between Romania and other European countries. By attracting foreign capital, FDI contributes to economic growth, bringing with it modernized management practices, advanced technologies and know-how, leading to improved productivity in various economic sectors. These investments support Romania's international competitiveness by facilitating access to new markets, strengthening trade relations with other countries, but also at national level by modernizing the infrastructure, creating jobs and thus reducing unemployment and the country's macroeconomic stability. Foreign investors are attracted to economies with a predictable and competitive tax regime, political and legal stability, low unemployment and inflation, stable exchange rates, stable exchange rates, developed infrastructure, a skilled labor force, low operating costs, natural resources and easy access to international markets. These factors contribute to an attractive business environment that can stimulate long-term economic growth and Romania's deeper integration into the global economy.

In this study we want to analyze the impact of the unemployment rate on foreign direct investment (FDI) because, in the period analyzed, we are facing two major crises: the US financial crisis of 2007 and the COVID-19 pandemic. The global financial crisis, even though it originated in the real estate sector in the United States, had devastating effects on economies all over the world, including Romania, and the pandemic represented another major challenge for the global economy. The analysis examines how these two crises have affected FDI inflows and, consequently, the unemployment rate in Romania. The aim of this study is to carry out a detailed and dynamic econometric analysis in order to highlight the relationship between the level of employment and the

attractiveness of the economy for foreign investors in Romania. To achieve this goal, the following objectives are set:
O1: To conduct a literature review to identify the main research trends related to the studied topic;
O2: To assess the impact of the global financial crisis and the Covid-19 pandemic on FDI flows in Romania
O3: To identify the determinants of Romania's attractiveness as a destination for FDI in times of crisis
O4: Assess the impact of the global financial crisis and the Covid-19 pandemic on unemployment in Romania
O5: Determination of an econometric model to assess the relationship between the unemployment rate and the attractiveness of foreign direct investments

2. LITERATURE REVIEW

FDI represents investments made by foreign firms in different countries to gain significant control over local businesses (Mallampally & Sauvant, 1999; Wu et al., 2012), as well as opportunities for growth and development, and potential challenges and risks (Sirin, 2017). With FDI, capital transfer between countries is promoted, and thus supports industrial upgrading and productivity growth in host countries. They play a key role in the development and sustainability of the host country, especially developing countries, by bringing in capital, technology and expertise (Te Velde, 2006; Razin & Slemrod, 2008). These investments are characterized by sustainability and active involvement in the host country's economy, affecting various economic performance indicators (Bissoon, 2012, Khan et al. 2023). Investors, which may be multinational companies, financial institutions or governments, bring with them management practices and expertise, advanced technologies, thus contributing to increased knowledge and technical capabilities, job creation and economic growth. FDI also influences the environmental and labour policies of host countries, creating new development opportunities, but also challenges related to compliance and adaptation to international standards. Thus, FDI management and strategies must be aligned with sustainable development objectives and economic policies that promote equitable growth and social protection.

Foreign investors are attracted to allocate capital in countries with strong macroeconomic stability and a predictable and stable business environment, which are essential for protecting their investments (Quinn & Woolley, 2001). Their preferences are towards countries characterized by low inflation, political stability, prudent fiscal policies and a robust national currency, all of which provide a conducive environment for long-term investment. In many countries of the world (including Romania), foreign capital investment leads to a decrease in the unemployment rate (Grahovac, 2017; Lozanoska and Djambaska, 2015; Ositaufere and Okafor, 2024; Sabado et al., 2023), except during periods of economic crisis (Magai and Mwaitete,2023; Strat et al., 2015; Warsame and Mohamed, 2023). Also, government policies significantly influence the attractiveness of FDI by creating an appropriate legislative framework for foreign investment, establishing clear and stable tax regulations, and implementing measures to protect foreign investors (Schneider & Frey, 1985). The political stability of the host country and the predictability of government and National Bank actions are essential in gaining investor confidence (Anis, 2023; Smoljic and Komjic, 2024). They avoid markets with marked political instability or significant fluctuations in government policies. Moreover, investment decisions are influenced by the stability of the national currency and the integrity of the country's banking and financial system (Antonietti and Mondolo, 2023). A stable currency and a sound financial system capable of managing economic crises minimize financial risk for investors. Foreign investors are also interested in countries that offer favorable prospects for development, growth and profitability. Aspects such as the availability of a skilled and productive labor force and its associated costs, including wage levels, are considered vital in assessing investment opportunities (Alguacil et al., 2011). Thus, a healthy business environment and a stable economic and social framework are essential for attracting and retaining FDI. The classification of FDI is shown in Figure 1:

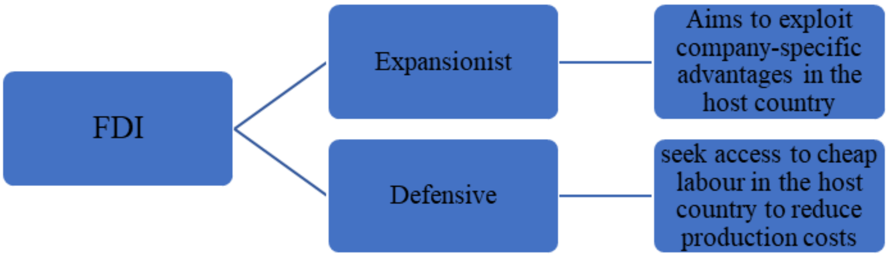

Figure No 1. Classification of FDI
Source: Authors' elaboration after (Chen & Ku, 2000)

FDI is considered an important element of national development strategies in world economies (Ghosh et al., 2012). This trend is due to the benefits of FDI, including job creation and economic sustainability. On the other hand, there are also drawbacks, such as local industry problems and dependence on foreign capital.

3. THE IMPORTANCE OF FINANCIAL INDICATORS IN THE ROMANIAN ECONOMY

Romania is implementing policies aimed at creating an attractive business environment for foreign investors, while simultaneously stimulating employment and thus lowering the unemployment rate, which contributes to the long-term stability and growth of the national economy.

FDI provides the capital needed for economic development, which is used to improve infrastructure, increase productivity and develop new economic sectors. These capital inflows contribute to GDP growth and are essential for the stability and prosperity of the Romanian economy. Analyzing the period 2003-2022, the increasing trend with a cubic (Macovei et al., 2024) pattern of FDI can be observed from Figure 2. Despite the global impact of the global financial crisis (Great Recession) and the COVID-19 pandemic, FDI inflows are increasing (O2).

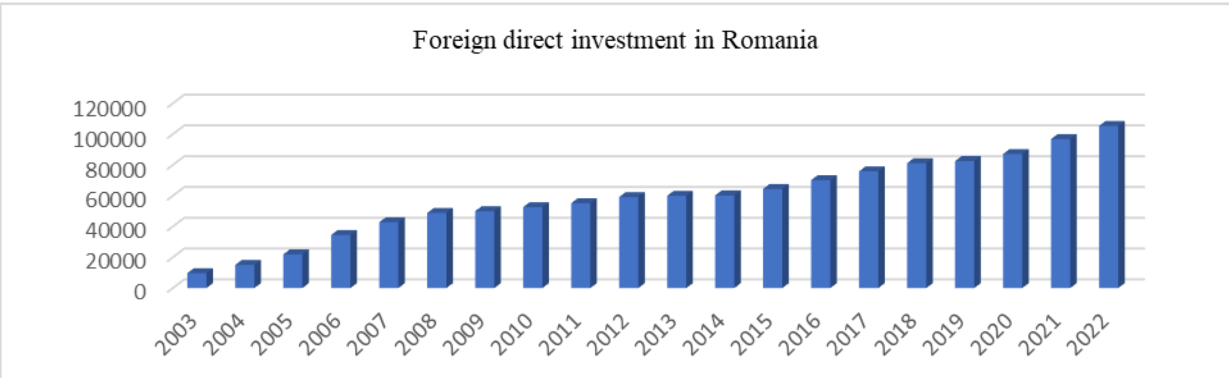

Figure No 2. Evolution of FDI in Romania, 2003-2022
Source: author elaboration, https://www.bnr.ro/PublicationDocuments.aspx?icid=9403

The FDI trend in Romania in the period 2003-2022 is upward, but according to Forbes Romania FDI registers a decrease of 5.06 billion euros in the first nine months of 2023, compared to the same period in 2022 (Forbes, 2023), thus generalizing indicates caution and uncertainty in the face of the current economic context (Ukraine-Russia armed conflict). Despite this, due to the relative stability in the regional geopolitical context and the potential for economic growth, Romania remains attractive to foreign investors. In a survey conducted by Ernst & Young based on five fundamental principles (investment in digital, sustainability as a competitive advantage, the need for new employees, fiscal flexibility and pragmatism, support for small and medium-sized enterprises from policy makers) (EY, 2022), it found that "more than half of foreign companies were planning to start or expand business in Romania, especially in the areas of supply chains and logistics" (DW, 2023). Many of these investments are directed towards the construction or modernization of production plants and technology development centers. This leads to improved supply chains through the use of disruptive technologies and increased operational efficiency. The automotive industry is one of the key sectors in Romania benefiting from substantial FDI, through the car manufacturers Dacia and Ford, and more than 500 automotive equipment/components manufacturers. In 2008, Ford Motor Company took over the Craiova car plant, investing in modernizing the plant (production line and developing new models), thus contributing to the annual FDI growth of 14.09%. Global IT companies such as Microsoft, IBM, and Oracle have invested heavily in Romania, opening development centers and regional operations. Competitive labor costs, the growth potential of the domestic market, the resilience of strategic sectors (IT, manufacturing and energy) and continued support from the European Union make Romania a financially attractive country. In addition, the economic and legislative reforms implemented before and after the economic crises have strengthened investor confidence in the stability and long-term potential of the Romanian economy. All this is conducive to the achievement of the O3 objective.

Future developments underline the importance of a careful and rigorous analysis of FDI trends, as geo-political events in recent years (Covid-19 pandemic and conflicts in Ukraine, Iraq and Gaza Strip) will significantly influence these foreign investments.

Figure No 3. Evolution of the unemployment rate in Romania, 2003-2022

Source: author's elaboration, http://statistici.insse.ro:8077/tempo-online/#/pages/tables/insse-table

According to figure 3, the evolution of the unemployment rate in Romania in the period 2003-2022 is fluctuating due to the crises that occurred in the analyzed period, namely structural changes in the economy and society, the global financial crisis and the Covid-19 pandemic (O4). After the coup d'état in 1989 and the fall of the communist regime, Romania had to adapt to a market economy, and its integration into the European Union (January 1, 2007) implied major changes in the social-economic structure and labor market, affecting the unemployment rate. The global financial crisis felt in Romania in 2009 and 2010, respectively, had a major impact on the Romanian economy and led to an increase in the unemployment rate of 77.27% in 2009, due to the decline in global economic activity and investments. The high unemployment rate is a sign of economic instability and difficulties in the economy, which tends to reduce investor confidence and diminish foreign direct investment (FDI) flows. However, despite the increase in unemployment, this paradigm is being overturned in Romania by the fact that some sectors of the economy have continued to attract FDI due to favorable factors such as competitive labor costs, access to European markets and natural resources. This paradigm is also confirmed by Magai and Mwaitete (2023), Strat et al. (2015), Warsame and Mohamed (2023). The period 2012-2013, was the period of protests and political tensions, namely, street protests against austerity measures, corruption and the government at the time, disputes over changes to the Penal Code and amnesty and pardon laws, as well as significant protests against the mining project at Roșia Montană, all of which led to an increase in the unemployment rate in Romania. During the pandemic, many economic sectors were affected (Cosmulese, 2023; Melega et al., 2022a), leading to an increase in unemployment and social and economic instability. However, the Romanian economy gradually recovered thanks to the measures put in place, which led to a reduction in unemployment and labor market stability, attracting investors.

Analizând figura 3 se observă un trend descrescător al ratei şomajului în România ceea ce ne shows that the country's economy is healthy and stable and the risk of financial losses is low. Economies with low unemployment rates are often more attractive for long-term investment.

Based on the statistical data presented in Figures 2 and 3 we analyze the evolution of FDI using a regression model of the type:

$$IdFDI_t = \alpha + \beta 1 * IdUR_t + \beta 2 * IdFDI_{t-1} + \beta 3 * IdUR_{t-1} + \varepsilon , t = 2004, \ldots \qquad (1)$$

where: $IdFDI_t$ rrepresents the FDI index value at time t and is the dependent variable of the proposed model, the independent variables of the proposed model are $IdUR_t$ represents the unemployment rate index at time t, $IdFDI_{t-1}$ represents the FDI index value at time t-1, α, β1, β2 and β3 are the parameters of the regression model and ε is the random error variable.

4. MODEL ANALYSIS. EMPIRICAL DATA AND RESULTS

At this stage of the research, we aim to demonstrate that the model developed in this study accurately describes the economic problem under study and presents a high level of confidence. The aim of the study is to evaluate the evolution of FDI in relation to the changes in the Romanian economy.

In table 1 the correlations between the analyzed variables are predicted and an average and negative correlation between FDI and unemployment rate of -0.709 is observed, this is due to the increase in FDI (Figure 3) which contributes to the decrease in the unemployment rate by creating new jobs and stimulating economic activity in Romania. Rising unemployment leads to social and economic instability, having a negative effect on the attraction of FDI.

Table No 1. Table of correlations

		IdFDIt	IdURt	IdFDIt-1	IdURt-1
Pearson Correlation	IdFDIt	1.000	-.709	.991	-.757
	IdURt	-.709	1.000	-.650	.723
	IdFDIt-1	.991	-.650	1.000	-.728
	IdURt-1	-.757	.723	-.728	1.000

Source: Authors Computation with the aid of IBM SPSS Statistics, version 26

The Summary model shows the very strong link between $IdFDI_t$ şi $IdUR_t$, $IdFDI_{t-1}$, $IdUR_{t-1}$ on the model proposed for analysis.

Table No 2. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.995[a]	.989	.987	.10455576	1.434

a. Predictors: (Constant), IdURt-1, IdURt, IdFDIt-1

b. Dependent Variable: IdFDIt

Source: Authors Computation with the aid of IBM SPSS Statistics, version 26

According to table 2, the value of the correlation ratio is 0.995 and the value of the determination ratio is 0.989. The high values of the two coefficients explain the importance of attracting FDI in a developing country such as Romania, which leads to economic growth and reduction in the unemployment rate. FDI brings money and technology into a country and allows companies to grow and create new jobs.

Table No 3. Anova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.056	3	5.019	459.075	.000[b]
	Residual	.164	15	.011		
	Total	15.220	18			

a. Dependent Variable: IdFDIt
b. Predictors: (Constant), IdURt-1, IdURt, IdFDIt-1
Source: Authors Computation with the aid of IBM SPSS Statistics, version 26

Table 3 shows that the values of the variance components are: estimated explained variance 15.056, estimated residual variance 0.164 and estimated total variance 15.220. With a Fisher coefficient F = 459.075 and a Sig. value of the F-test less than 0.05, the determined model explains the significant dependence between the indicator between $dFDI_t$ şi $IdUR_t$, $IdFDI_{t-1}$, $IdUR_{t-1}$ by a multiple linear correlation. From a statistical point of view, the sig. value is below 0.05, which indicates that with 95% probability the multiple linear model is valid.

Table No 4. Coeficienții modelului

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.091	.024		3.755	.002
	IdURt	-.100	.039	-.103	-2.569	.021
	IdFDIt-1	.835	.037	.908	22.406	.000
	IdURt-1	-.020	.041	-.022	-.496	.627

a. Dependent Variable: IdFDIt
Source: Authors Computation with the aid of IBM SPSS Statistics, version 26

According to table 4, the model equation obtained for the DME has the following non-standardized form:

$$IdFDI_t = 0.091 - 0.100 * IdUR_t + 0.835 * IdFDI_{t-1} - 0.020 * IdUR_{t-1} + \varepsilon, t = 2004, \ldots \quad (2)$$

In Romania according to equation (2) the increase in unemployment rate leads to a decrease in FDI, a conclusion confirmed in numerous papers (Grahovac, 2017; Khan et al., 2023;Lozanoska and Djambaska, 2015; Ositaufere and Okafor, 2024; Sabado et al., 2023). The decrease in the unemployment rate leads to encourage foreign investors to invest in Romania due to the political, economic and social stability, except during the periods of global financial crisis and COVID-19 pandemic (Figures 2 and 3) where the Romanian economy with high unemployment rate led to an increase in FDI confirming that the economy is growing. Government policies in Romania are designed to encourage foreign investors to invest in the country (Cimpoeșu, 2023). Social stability and improving infrastructure, especially in Transylvania (A1, A3, A10) and Walla Walla (A0, A2, A3, A4), due to higher tax revenues in recent years and funds from European projects, lead to the country's attractiveness to foreign investors. These positive conditions promote a safe and profitable environment for foreign business.

The attraction of FDI in the Romanian economy leads to new foreign investors according to equation (2). The presence of foreign investors in Romania is a positive signal to other potential investors, which shows that the market is receptive and profitable, reducing the risks associated with investing in this region of Europe (Melega et al., 2022b). Many foreign companies have invested in Romania, a developing country, contributing to the continuous development in various areas of supply chains and local business networks. This increases operational efficiency and reduces production costs, attracting new investment.

The model equation obtained for the DME has the following standardized form:

$$IdFDI_t = -0.103 * IdUR_t + 0.908 * IdFDI_{t-1} - 0.022 * IdUR_{t-1} + \varepsilon, t = 2004, \ldots \quad (3)$$

According to equation (3) foreign investors in Romania are more important than the unemployment rate in attracting new investment. They ensure continuity and contribute directly to the sustainability of the Romanian economy through capital, technology and expertise, thus creating new jobs and stimulating economic growth. The transfer of technology and skills improves competitiveness and modernizes local industry. Foreign investment also increases Romania's international ties, facilitating access to foreign markets and bringing economic stability.

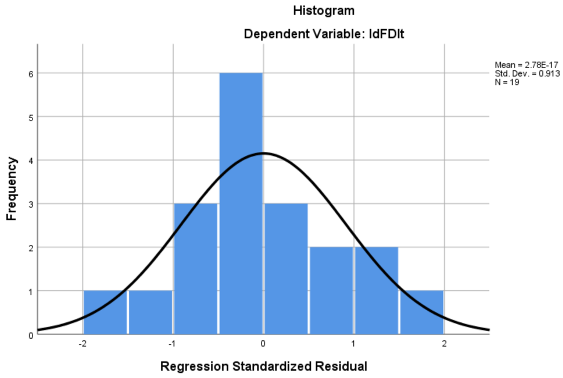

Figure 4. Histogram

Source: Authors Computation with the aid of IBM SPSS Statistics, version 26

Figure 4 shows that the histogram does not follow a normal distribution. The deviations of the histogram from the normal distribution suggest that there were significant economic events, namely the global financial crisis and the COVID-19 pandemic, which had an impact on the Romanian economy during the analyzed period. This indicates that the two exogenous factors caused significant changes in market behavior and in the distribution of economic data. The global financial crisis led to a dramatic decline in asset prices, an increase in unemployment (Figure 3) and a reduction in economic output, while the pandemic caused significant disruptions in supply chains, forced the Romanian government to impose strict social distancing measures and led to a reduction in economic activity.

5. CONCLUSIONS

Foreign direct investments (FDI) are essential for the country's economic development, bringing not only new capital but also modern management practices and disruptive technologies. In Romania, government policies encourage the attraction of foreign investment because FDI contributes to increasing productivity in various economic sectors, modernizing infrastructure and promoting sustainable economic development. Political and legal stability, a competitive tax regime and access to a skilled labor force (low unemployment rate) are key factors contributing to an attractive business environment.

According to the study, the unemployment rate has a direct influence on Romania's international attractiveness, determining the level of confidence of foreign investors. A high unemployment rate reflects various problems in Romania (2003-2005, 2009-2010) and discourages foreign investors, while a low unemployment rate (2018-2022) indicates a healthy and stable Romanian economy, increasing investors' confidence in growth potential and business opportunities, making Romania more attractive for FDI. The fall in unemployment in recent years creates a favorable economic and social environment that attracts more FDI, contributing to the continued growth and development of the Romanian economy. Thus, the unemployment rate is an important barometer of economic sustainability and directly influences the level and quality of foreign investment in a region.

The study also explores how the global financial crisis (Great Recession) and the COVID-19 pandemic have affected FDI inflows and unemployment rates, highlighting the challenges Romania has faced in maintaining economic stability. In this context, an interesting paradigm for Romania's economic development emerges. While the GDI continuously increased over the period under analysis (2003-2022), unemployment rates increased significantly during the two crises, which underlines that the Romanian economy was not immune to the destabilizing effects of these crises. Thus, even though FDI remained an important engine of growth in times of crisis, they were insufficient to fully offset the negative effects on the labor market, highlighting the complexity of the relationship between attracting foreign investors and domestic economic stability. Government policies therefore aim to improve these aspects in order to maintain and increase FDI inflows, thus contributing to Romania's sustainable economic development.

Econometric analysis confirms that the unemployment rate directly influences the attraction of foreign investors. Low unemployment rates indicate a strong and healthy economy, increasing investor confidence and helping to attract more foreign direct investment. Such an increase in investment not only stimulates the economy through job creation and improved infrastructure, but also creates a knock-on effect whereby existing investment attracts new investors, thus increasing long-term economic sustainability. These factors not only support economic growth, but also strengthen Romania's position as a preferred destination for foreign investment, thus ensuring sustainable and globally competitive economic development.

In conclusion, attracting foreign direct investment to Romania depends on a combination of financial factors, including macroeconomic stability, a competitive fiscal regime, access to local finance and developed financial infrastructure, political and legal stability, and access to a skilled workforce. All these factors contribute to an attractive business environment that can stimulate long-term economic growth and Romania's deeper integration into the global economy.

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