THE IMPACT OF FINANCIAL ANALYSIS AND FOREIGN INVESTMENTS ON THE ROMANIAN ECONOMY: A CASE STUDY ON ITALIAN CAPITAL

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Abstract
Economic and financial analysis plays a crucial role in evaluating company performance, significantly impacting financial and operational strategies. For example, for foreign capital companies, such as many Italian firms operating in Romania, financial analysis aids in navigating economic and regulatory challenges, managing risks, and optimizing resources. It is essential for assessing profitability, liquidity, and solvency, as well as for making comparisons across different markets or international subsidiaries.
The role of Italian capital in Romania has been substantial, particularly in the manufacturing and banking sectors. Beyond direct economic contributions, Italian capital has introduced managerial and technological know-how, crucial for modernizing local companies. The economic and financial analysis of these investments reflects both the positive contributions, and the challenges faced, such as bureaucracy and legislative instability, which can affect long-term financial performance.
Furthermore, the definition and classification of economic and financial analyses provide a conceptual framework for evaluating company performance. These analyses can be categorized by objectives (profitability, liquidity, solvency, activity) or methodology (vertical, horizontal, trend, comparative analysis), with each type offering essential perspectives on a company's financial health.
Thus, economic and financial analysis is a vital tool not only for understanding current financial positions but also for future planning, serving as a key determinant for the success of companies, including those with foreign capital.

Keywords
Economic and financial analysis, Italian investments, Company performance, Investment impact, Romania`s economy.

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Introduction

Financial analysis has evolved significantly over the decades, becoming an essential component within the economic sciences and a fundamental pillar of modern financial management. This discipline represents a systematic process through which an organization's financial data is examined to evaluate its performance and identify both strengths and areas of vulnerability. In a globalized economic era, characterized by fierce competition and rapid economic changes, the correct interpretation of financial data becomes crucial to ensuring the long-term success of a company (White, Sondhi, & Fried, 2003).

Another important aspect of financial analysis is the use of financial ratios to assess a company's financial health. Ratios such as Return on Assets (ROA), Return on Equity (ROE), and the Debt-to-Equity ratio are essential for understanding how efficiently a company utilizes its resources and the level of risk to which it is exposed. These indicators are often used in combination with trend analysis, which examines the progression of these measures over time to identify potential changes in financial performance (Wild, Subramanyam, & Halsey, 2014).

The primary objective of this research is to assess the impact of Italian capital on the Romanian economy, with a particular focus on the financial performance of Italian-owned companies operating in Romania. This research also seeks to understand the contribution of these companies to Romania's GDP, as well as the challenges and opportunities they face. By analysing key financial performance indicators such as turnover (CA) and Return on Equity (ROE), this study highlights the positive trends observed in the activity of approximately 829 Italian-owned companies, signalling a successful integration of Italian capital into Romania's economic landscape.

This study addresses several key research questions: What is the role of Italian capital in the Romanian economy? How does the financial analysis of Italian companies reflect their contribution to Romania's growth? What trends and patterns in financial performance can be observed in the period from 2012 to 2022?

The structure of the paper is as follows: the first section provides a review of the relevant literature on financial analysis and its importance. The second section explores the role of Italian capital in the Romanian economy, emphasizing key sectors and the impact of investments. The third section presents an analysis of financial performance indicators, followed by the research methodology. Finally, the results and discussion section highlight the main findings and offers insights into the contribution of Italian investments to Romania's economic development.

1. Review of the scientific literature

- The concept of financial analysis

According to Fraser and Ormiston (2016), financial-economic analysis refers to the process of examining financial data, such as balance sheets, income statements, and cash flows, to assess the financial health of an organization. This approach emphasizes the importance of accounting data as a starting point in financial-economic analysis, but extends its scope by including broader economic variables, such as macroeconomic conditions and industry-specific factors.

One of the main functions of financial analysis is to provide useful information in the process of making strategic decisions. By interpreting financial data, management can determine the company's strategic directions, identify growth opportunities, and effectively manage associated risks. For example, profitability analysis can indicate whether a company has a sustainable and profitable business model, while liquidity analysis may suggest the need to adjust working capital management policies to ensure short-term financial stability (Palepu, Healy, & Peek, 2016).
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- The role and impact of Italian capital in the Romanian economy

Italian capital has had a significant impact on the Romanian economy, particularly in the post-communist period when Romania underwent a complex transition towards a market economy. Italian investments have been among the largest in Romania, contributing to the development of key economic sectors and the integration of the Romanian economy into the global market (Pellicelli, 2010).
One of the most visible impacts of Italian capital in Romania is the development of the manufacturing sector, particularly in industries such as textiles, clothing, and footwear. Italy, being a global leader in these fields, brought with it the necessary know-how and technologies to modernize Romania’s production capacities. This led to an increase in the competitiveness of Romanian industries in international markets and created a significant number of jobs in regions where production facilities were established (Federici, 2013).
Another important aspect of the impact of Italian capital is the transfer of knowledge and best practices in management and corporate governance. Italian companies introduced business models and management practices that were adopted by Romanian companies, contributing to their modernization and increased efficiency. Moreover, the collaboration between Romanian and Italian companies has resulted in the development of long-term strategic partnerships, which have been beneficial for both parties (Federici, 2013).

- Financial performance indicators

Financial performance indicators are essential tools to evaluate the financial health and economic efficiency of an entity. They are used to summarize information from the balance sheet and the income statement, providing a clear picture of various aspects of a company's financial performance.
There are several categories of financial performance indicators, each with a specific role in assessing different aspects of a company's operations:

1. Profitability Indicators

These indicators measure a company's ability to generate profits relative to the resources used. Commonly used profitability indicators include:

- Return on Equity (ROE): Calculated as the ratio of net profit to shareholders' equity, ROE measures how efficiently a company uses shareholders' invested capital to generate profit.
- Return on Assets (ROA): This indicator is calculated as the ratio of net profit to total assets, reflecting the overall efficiency with which the company's assets are used to generate profit (Palepu, Healy, & Peek, 2016).
- Return on Capital Employed (ROCE): ROCE is calculated as the ratio of operating profit to capital employed (including both equity and long-term debt). This indicator measures the efficiency of a company in using all available financial resources to generate operational profits. It is an important indicator for investors, as it reflects the company's ability to use capital profitably, considering both equity and borrowed funds (Ionașcu & Cîrstea, 2010).

2. Liquidity Indicators

These indicators evaluate a company's ability to meet its short-term obligations:

- Current Ratio: This is calculated as the ratio of current assets to current liabilities, indicating the company's ability to cover debts due in the next 12 months.
- Quick Ratio (Acid Test): Calculated as the ratio of current assets minus inventories to current liabilities, this measures the company's ability to cover short-term debts without needing to sell inventory (Wild, Subramanyam, & Halsey, 2014).

Solvency Indicators

These measure a company's ability to meet long-term obligations:

- Debt-to-Equity Ratio: Calculated as the ratio of total debt to shareholders' equity, this indicates the proportion of the company's financing that comes from borrowing.
- Interest Coverage Ratio: This is calculated as the ratio of operating profit to interest expenses, measuring the company's ability to cover interest payments from operating profits (Penman, 2013).

These financial indicators provide a comprehensive framework for assessing a company's profitability, liquidity, and solvency, which are critical for strategic decision-making and investment evaluation.

2. Research methodology

This study employs a qualitative approach, analysing financial data from 829 Italian-owned companies operating in Romania between 2012 and 2022, using data from the Orbis database, and data provided by the National Trade Register Office (ONRC).

The sample selection involved multiple steps. First, I applied filters in Orbis to identify companies with operations in Romania and managers/directors of Italian nationality. Next, I sorted the companies in descending order by their revenue in 2022 and selected

the top 3,000 companies. From this group, I performed an additional filter to retain only those with Italian shareholders, resulting in a final sample of 829 companies.
Financial data, including turnover (CA) and return on equity (ROE), were then processed to analyse trends and performance during the selected period.
However, the methodology has some limitations. The study relies on Orbis data, which may have gaps or discrepancies, and it excludes other foreign investments in Romania. Additionally, it does not fully account for external factors that might influence company performance, such as macroeconomic changes.
Despite these limitations, this approach offers valuable insights into the impact of Italian capital on Romania’s economy, focusing on the performance of Italian-owned companies in key sectors.

3. Results and discussions

Romania has become an attractive destination for foreign investments due to its strategic location, competitive workforce, and emerging economic opportunities. In this context, Italian investors have played a significant role in strengthening the economic ties between the two countries. At the end of 2022, there were 51,794 companies with Italian capital registered in Romania, with a total invested capital of $4,053,506 USD. These figures highlight not only the scale of the Italian presence in Romania's business environment but also the importance of these companies in supporting and developing the national economy.
This analysis will focus on key financial and operational indicators over the decade, including:

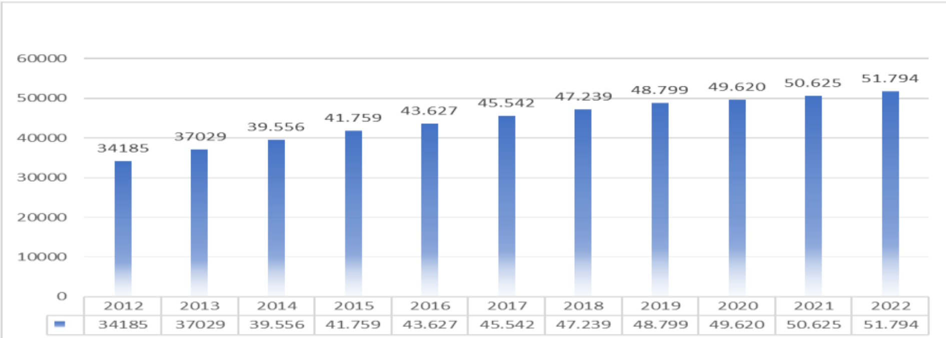
1. Growth in Number of Companies: Tracking the annual increase or decrease in the number of active Italian-owned companies in Romania.
2. Capital Investment Trends
3. Revenue and Profitability: Assessing whether the revenue and profitability of these companies followed a growth trend, stagnated, or declined, and how this relates to macroeconomic conditions.
4. Sectoral Distribution: Analysing the industries where these companies are most active and whether there were shifts in sectoral focus over time.

By analysing these trends, the study will provide insights into the impact and sustainability of Italian capital in Romania, as well as the broader economic implications for both countries.

1. Growth in the number of companies

Over the years, the number of companies with Italian capital in Romania has consistently grown, with the recorded data as follows:

Table no. 1: Companies with Italian capital registered in Romania, in the period 2012-2022

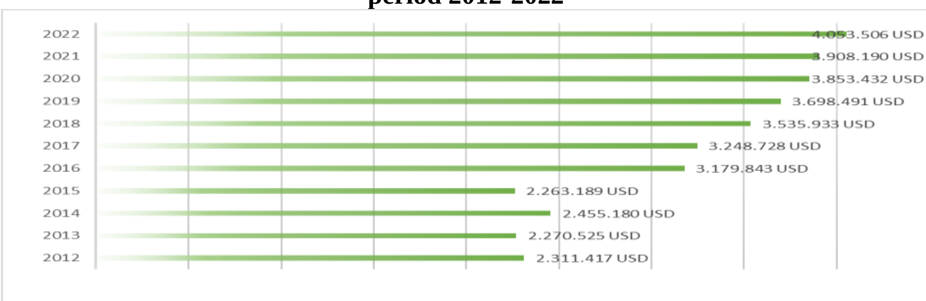


Source: ONRC (2022)

This sustained growth signals the growing attractiveness of Romania as a destination for foreign investment, particularly from Italian companies seeking to expand into new markets in Eastern Europe. The increasing number of companies indicates not only the success of individual businesses, but also the broader economic integration between Romania and Italy.

2. Capital Investment Trends: Monitoring changes in the amount of capital invested by these companies over time, indicating investment confidence and growth potential in various sectors.

Table no. 2: Value of Italian capital of companies registered in Romania, in the period 2012-2022



Source: ONRC (2022)

It is observed that throughout the analysed period, the value of the capital invested followed a relatively upward trend, reaching its peak in 2022. This indicates growing confidence from Italian investors in the Romanian market, driven by factors such as Romania's improving economic stability, favourable business conditions, and the increasing attractiveness of sectors like manufacturing, real estate, and services.

The highest investment in 2022 suggests that Italian companies saw continued opportunities for expansion and profit in Romania, likely leveraging its strategic location in Europe, competitive labour market, and access to both the European Union and neighbouring non-EU markets. This upward trend also reflects the strengthening economic ties between Romania and Italy, with Italian companies becoming an integral part of Romania's business landscape.

3. Revenue and Profitability

Turnover (Revenue) provides an overview of a company's commercial success. An increase in turnover generally suggests higher demand for the company's products or services. By analysing turnover over a period, trends of growth or decline can be identified, which may reflect changes in business strategy, market conditions, or consumer behaviour.

Table no. 3: Average Values and Turnover from 2012 to 2022

Year	Average Turnover (USD)	Turnover (USD)
2012	19,428	174,853
2013	30,181	935,610
2014	7,660	4,795,473
2015	7,141	4,677,520
2016	7,286	4,903,298
2017	8,933	6,333,539
2018	9,052	6,599,197
2019	8,852	6,595,107
2020	9,268	7,349,477
2021	9,993	8,244,164
2022	11,650	9,657,582

Source: Own processing from the Orbis database. 2024

The turnover of companies with Italian capital in Romania has seen significant growth in recent years. For example, the turnover increased from 174,853 USD in 2012 to 9,657,582 USD in 2022.

This substantial growth indicates a considerable expansion of these companies' activities, suggesting a strong upward trend and a solidification of their position in the Romanian market. The increase reflects not only the rising demand for their products and services, but also the successful adaptation of these companies to the local economic environment.

Such a dramatic rise in turnover is indicative of successful business strategies, market penetration, and possibly the diversification of operations, highlighting the increasing importance of Italian investments in Romania's economy.

Furthermore, this increase in turnover directly contributes to the overall economic growth of Romania, as these companies generate jobs, pay taxes, and stimulate demand in various sectors of the economy. The increase in revenue is thus a key indicator of the broader impact of Italian FDI on the stability and prosperity of the Romanian economy.

ROE (Return on Equity) is an indicator that measures a company's profitability in relation to its equity. It is calculated by dividing the net income of the company by the average shareholders' equity over a specific period.

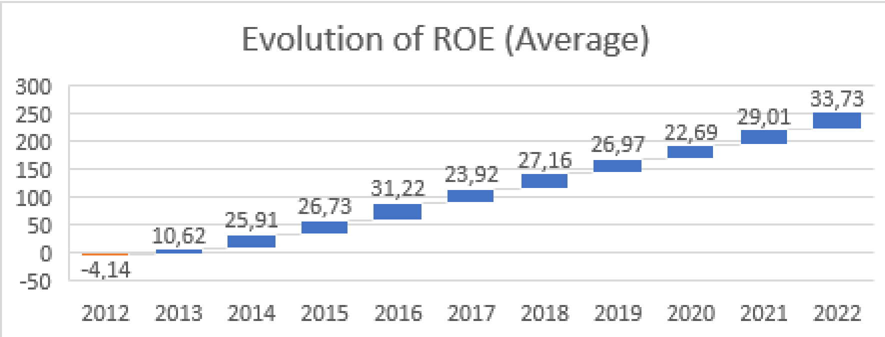


Figure no. 1: Evolution of ROE (Return on Equity)
Source: Own processing from the Orbis database. 2024

The maximum ROE in 2022 suggests that the average of this indicator for the 829 companies reached its peak in terms of utilizing equity capital and generating the best financial results during the analyzed period. This strong performance indicates that these companies have effectively leveraged their equity to drive profitability, reflecting successful business strategies, efficient management practices, and favorable market conditions.

This high ROE not only signals the individual success of these companies but also highlights their contribution to Romania's economic development. The improved profitability of these companies indicates their capacity to compete in international markets, bringing increased financial resources to the Romanian economy. The increased ROE also suggests that Italian companies are increasingly important players in Romania's industrial and service sectors.

4. Sectoral distribution

The diversity of industries highlights Romania's competitive advantages as a destination for international investments. Each sector brings unique opportunities and challenges, but, overall, this variety contributes to the creation of a robust and dynamic economic environment.

Tabel no.4: Activity sectors of the selected companies

Activity sector	Number of companies
Agriculture, Horticulture & Livestock	50
Banking, Insurance & Financial Services	2
Business Services	73

Activity sector	Number of companies
Chemicals, Petroleum, Rubber & Plastic	50
Communications	7
Computer Hardware	2
Computer Software	18
Construction	45
Food & Tobacco Manufacturing	16
Industrial, Electric & Electronic Machinery	55
Leather, Stone, Clay & Glass products	9
Metals & Metal Products	66
Mining & Extraction	2
Miscellaneous Manufacturing	10
Printing & Publishing	3
Property Services	33
Public Administration, Education, Health Social Services	8
Retail	16
Textiles & Clothing Manufacturing	103
Transport Manufacturing	25
Transport, Freight & Storage	47
Travel, Personal & Leisure	5
Utilities	17
Waste Management & Treatment	3
Wholesale	134
Wood, Furniture & Paper Manufacturing	30

Source: Own processing from the Orbis database. 2024

The diversification of business sectors not only reflects the economic stability of Romania but also makes it an attractive destination for foreign direct investment (FDI). This diversity indicates not only a flexible and adaptable economy, but also one that can offer strategic advantages and valuable resources to external investors.

By spreading their investments across different sectors, Italian companies not only contribute to economic diversification but also stimulate job creation, technology transfer, and innovation in the local market. This diversity in sectoral focus underlines the importance of Italian FDI in Romania’s long-term economic stability and growth.

5. Macroeconomic Implications of FDI

The growing presence of Italian companies in Romania contributes significantly to the country's economic stability and development. As Italian investments continue to rise, they have a direct positive impact on Romania's GDP, creating new jobs, boosting productivity, and improving the industrial base. The success of these companies is a key driver of economic integration, making Romania an attractive destination for further foreign investments.

Moreover, the increasing revenue and profitability of Italian companies in Romania suggest that these businesses have become essential pillars of the country's economic growth. The expansion of Italian businesses not only benefits the companies themselves but also supports broader macroeconomic objectives such as higher employment, greater industrial output, and improved financial stability.

Conclusions

The main objective of this article was to explore both theoretical aspects and practical applications of financial analysis, with a special emphasis on evaluating the financial performance of Italian-capital companies in Romania.

The results of the analysis demonstrated that these companies recorded a positive evolution, with a significant upward trend in financial performance throughout the studied period. Performance indicators, including revenue (CA), return on equity (ROE), and return on invested capital (ROCE), highlighted a prosperous activity and a valuable contribution of Italian capital to the local economy.

This research emphasizes the importance and success of integrating Italian capital in Romania, reflecting how these investments have contributed to economic development, increased competitiveness, and generated added value. The financial analysis of Italian capital companies revealed not only their individual performances but also the overall positive impact on the Romanian economy.

Recommendations

Attracting new investments: Romania should improve its investment climate by simplifying procedures, improving infrastructure, and offering incentives, especially in emerging sectors like renewable energy and technology.

Expanding sectoral presence: encouraging Italian investors to explore new sectors such as digital services and green energy would diversify and strengthen Romania's economy.

Supporting local companies: collaboration between Italian firms and Romanian businesses could boost innovation and further integrate Romania into the global market.

Future research: future studies could explore post-2022 data or focus on investments from other countries to gain a broader perspective on foreign direct investments in Romania.

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