

FOREIGN DIRECT INVESTMENTS AS A CATALYST FOR SUSTAINABLE ECONOMIC GROWTH IN THE REPUBLIC OF MOLDOVA

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Abstract: *The article examines the dynamics of foreign direct investments in the Republic of Moldova and their impact on the country's sustainable economic development. It highlights the essential role of foreign direct investments as a major driver of economic modernization, technological progress, and integration into the global market. The study analyzes the evolution and structural composition of these investments during recent years, focusing on sectoral trends, diversification of investment sources, and the increasing influence of innovation-oriented industries. Both internal and external factors that determine the country's investment attractiveness are explored, including macroeconomic stability, institutional reforms, and regional cooperation. Furthermore, the research investigates the contribution of leading investor countries to Moldova's competitiveness and industrial transformation. The findings emphasize that transparent governance, improved infrastructure, and consistent innovation policies are fundamental for strengthening Moldova's investment environment and ensuring long-term sustainable growth.*

Key words: *foreign direct investment, economic growth, modernization, sustainability, investment climate, competitiveness, challenges*

INTRODUCTION

Investments are the key element in economic development in any country. Foreign direct investment supports economic development by bringing financial resources, modern technologies and advanced managerial experience. It contributes to the creation of new jobs, the improvement of the skills of the workforce and the increase of the efficiency and productivity of local enterprises, thus generating a positive effect on the competitiveness of the national economy [1,4,10].

Investment activity plays a special role in the process of creating and renewing fixed assets through the construction of new objects, expansion, renovation or technical re-equipment of enterprises and objects in operation. Investment policy establishes the priority directions of the economy, ensuring the most substantial increase in the volume of production and gross domestic product.

Economic development involves a set of quantitative, structural and qualitative transformations, both in the economy and in scientific research, in the mechanisms and organizational structures, in the organizational culture [4,6].

Economic development is associated with sustainable development, within which the essential criterion becomes ensuring equal opportunities for generations that coexist and succeed each other to life on the planet, so that there is compatibility between the economic, socio-human, ecological effects, to combine harmoniously with social justice and democracy, both nationally and globally.

In the sense of economic progress, development expresses the evolutionary tendency to improve the overall performance of the functioning of the national economy reflected on the quality of life and the level of civilization, the development of technologies, the creation of new products, etc. Investments prove to have a profound innovative character within the national economy.

Leasing also represents an important form of investment that contributes to economic growth by facilitating access to modern equipment and technologies without requiring significant upfront capital [9]. Through investment projects the practical implementation of the solutions offered by scientific research and technological development, of world-class performance techniques and technologies is ensured, which leads to raising the technical level of production, improving and diversifying the quality of products and services, and increasing economic efficiency [11].

Financial equilibrium is one of the possible manifestations of the financial stability of the enterprise, which provides a guaranteed solvency in the long term operation of the enterprise.

The ability of an enterprise to timely finance its current activities, including in conditions of unforeseen shocks (unstable economic situation in the country, consequences of Covid 19, etc.), determines its degree of financial stability. To ensure the long-term development of the enterprise in the future on the basis of expanded production, it is necessary to continuously maintain a stable financial condition [8].

Issues of assessment of financial stability of enterprises are relevant at any stage of development of an economic entity, as in the process of implementation of economic and financial activities there is a constant circulation of capital.

MATERIALS AND METHODS

The methodological approach of this study is based on a combination of quantitative and qualitative research methods, ensuring both analytical depth and empirical accuracy in examining the dynamics of foreign direct investments (FDI) in the Republic of Moldova.

The research process followed several stages: identification of relevant theoretical frameworks, collection and systematization of statistical data, comparative and structural analysis, and interpretation of results within the context of sustainable economic development. The analysis was grounded on official data provided by the National Bank of Moldova, the National Bureau of Statistics, the Foreign Investors Association, and the European Commission, complemented by relevant scientific articles and policy reports.

The study applied comparative, structural, and trend analysis to assess the evolution, composition, and distribution of FDI by sector and country of origin. Linear regression and graphical representations were used to identify correlations and forecast future developments based on historical patterns. All figures were constructed using verified datasets, with 2025 values estimated through linear extrapolation.

The research integrates both statistical interpretation and theoretical perspectives to highlight the dual role of FDI—as a source of capital inflow and a catalyst of economic modernization. This methodological design ensures analytical accuracy and supports the evaluation of FDI's contribution to Moldova's sustainable development and competitiveness.

RESEARCH RESULTS

The empirical findings presented in this section highlight the main tendencies and structural transformations of FDI in the Republic of Moldova over the last years. Based on official statistical data and analytical processing of indicators, the results reveal both quantitative growth and qualitative changes in the composition of investment flows.

The analysis focuses on the dynamics of total FDI inflows, their distribution by economic sectors, and the geographical structure of investing countries. Through this multifaceted perspective, the research identifies the principal factors driving the increase of

foreign capital, the emerging areas of investment concentration, and the regional shifts reflecting Moldova's progressive integration into the European economic space.

Figure 1 provides a comprehensive conceptual model of the multifaceted impact of FDI on recipient countries, illustrating both the direct and indirect transmission mechanisms through which FDI contributes to economic development.

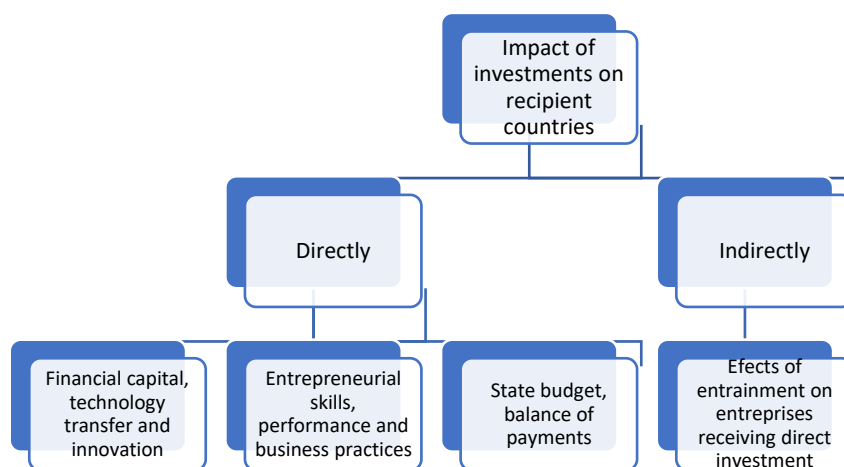


Figure 1. The impact of foreign direct investment on receiving countries

Source: developed by the author based on [9]

This schematic representation emphasizes that the effects of FDI extend beyond simple capital inflows, generating profound structural transformations in national economies.

The direct impact of FDI manifests primarily through three interrelated channels. First, foreign investments supply financial capital, enabling domestic firms and industries to expand production, modernize infrastructure, and enhance productivity. Alongside capital, foreign investors bring advanced technologies and innovations, accelerating technological diffusion and promoting efficiency gains across sectors.

Second, FDI fosters the development of entrepreneurial skills and modern business practices. The entry of multinational enterprises stimulates competition and introduces new management models, organizational structures, and production methods. Local firms, through partnerships, subcontracting, or workforce mobility, often adopt these improved practices, enhancing their performance and market adaptability.

Third, foreign investments contribute directly to the state budget and balance of payments by generating fiscal revenues, export growth, and currency inflows. These effects strengthen macroeconomic stability and fiscal sustainability, supporting the government's capacity to finance development-oriented policies.

The indirect impact is equally significant, reflecting the spillover and multiplier effects of FDI on the broader economy. Domestic enterprises that collaborate or compete with foreign-invested firms often experience positive externalities - for example, increased demand for intermediate goods, higher quality standards, and pressure to innovate. Moreover, the demonstration effect encourages local entrepreneurs to adopt more efficient business models and invest in employee training. These indirect benefits contribute to raising overall productivity levels and stimulating regional development.

FDI acts as both a catalyst for structural transformation and a vehicle for integration into global value chains. Through a combination of capital accumulation, technological advancement, and skill transfer, FDI enhances the competitiveness of host economies. Its indirect effects, meanwhile, ensure that the benefits of investment extend beyond the firms directly involved, reinforcing long-term economic resilience and sustainable growth.

FDI generates a wide range of effects on host countries, encompassing both positive and negative dimensions that shape their economic and social development. Among the positive effects, FDI acts as a powerful stimulus for economic growth, contributing to the expansion of productive capacities and the modernization of national industries. The entry of foreign investors enhances competitiveness by introducing new technologies, efficient management practices, and innovation-oriented business models. These developments help domestic enterprises improve performance and integrate into international markets. Moreover, FDI plays a vital role in improving the quality of life by fostering the creation of better-paid jobs, promoting professional training, and expanding access to modern goods and services. It also contributes to reducing unemployment through the establishment of new enterprises and the diversification of economic activities. Additionally, FDI accelerates technical and technological progress, facilitating knowledge transfer and raising the overall level of productivity in the host economy [10].

At the same time, the negative effects of FDI should not be overlooked. One of the main challenges is the increasing dependence on foreign capital, which may expose the host country to external shocks and fluctuations in international markets. Furthermore, the influence of policies promoted by foreign investors can sometimes lead to economic or regulatory adjustments that primarily serve external corporate interests rather than national priorities [9]. In certain cases, this dependence may even harm domestic businesses, especially small and medium-sized enterprises that lack the capacity to compete with well-capitalized multinational corporations.

Figure 2 illustrates the dynamics of FDI inflows in the Republic of Moldova during 2022–2025, highlighting the steady upward trend and the estimated continuation of growth in 2025.

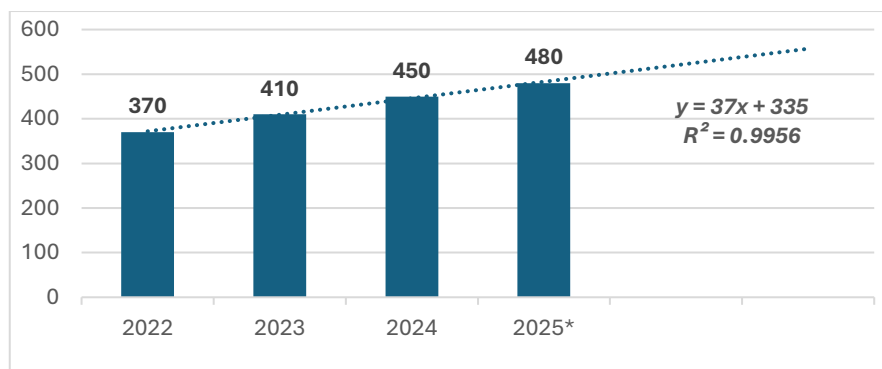


Figure 2. Evolution of foreign direct investments in the Republic of Moldova in 2022-2025, mil. USD

*- estimated value

Source: developed by the author based on [14]

The data presented in Figure 2 illustrate the evolution of FDI in the Republic of Moldova over 2022–2025, expressed in million USD. The trend demonstrates a steady and consistent upward trajectory, reflecting the growing investor confidence and gradual integration of the national economy into regional and global value chains [2,7].

Sources show that since 2022, a relatively high level of FDI has been recorded, according to the official website of the Investment Agency of the Republic of Moldova (Invest Moldova), the investment stock was over 300 million USD at the end of 2022, +15% compared to the previous year [12].

In 2022, FDI inflows amounted to 370 million USD, marking the post-pandemic recovery stage when investment activity resumed after the 2020–2021 contraction. By 2023, the figure increased to 410 million USD, representing an approximate 10.8% year-

on-year growth, driven primarily by improved macroeconomic stability and progress in structural reforms.

The positive momentum continued in 2024, when FDI reached 450 million USD, supported by government incentives for export-oriented industries and the digitalization of the business environment. The projection for 2025, estimated at 480 million USD, suggests a further expansion of around 6.7%, indicating sustained investor interest and gradual diversification of investment sources.

The regression equation ($y = 37x + 335$) and the high coefficient of determination ($R^2 = 0.9956$) confirm the strong linear relationship between time and FDI growth, highlighting that the increase follows a predictable pattern with minimal deviations.

This near-perfect correlation implies that the external investment climate in Moldova has become more stable and that investment inflows are expected to grow at an average annual rate of roughly 37 million USD if current conditions persist.

Figure 3 presents the distribution and evolution of FDI in the Republic of Moldova by major economic sectors over the period 2020–2025, expressed as an estimated share in total FDI.

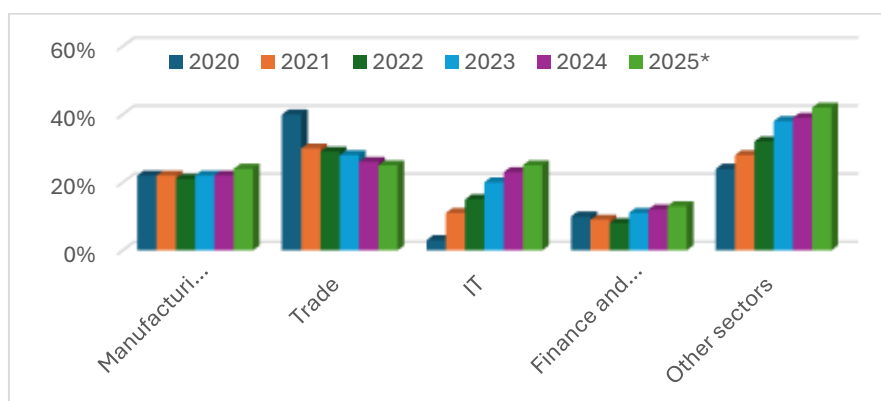


Figure 3. Evolution of foreign investments in the Republic of Moldova by economic sectors, 2020-2025 (estimated share in total FDI %)

*- estimated value

Source: developed by the author based on [14]

In 2020, the trade sector dominated the FDI structure, accounting for nearly 40% of total inflows, reflecting the strong dependence of Moldova's economy on import-export activities and the regional distribution networks of foreign enterprises. However, over the following years, its relative share slightly declined, stabilizing around 25–27% by 2025, suggesting the beginning of diversification in investment directions and the emergence of new growth poles.

The manufacturing industry maintained a relatively stable share throughout the analyzed period, fluctuating around 22–25%, which confirms its consistent but moderate attractiveness for investors. This stability can be linked to Moldova's competitive labor costs and access to European markets under preferential trade agreements. Nevertheless, the absence of a significant increase suggests limited progress in upgrading industrial value chains or implementing advanced manufacturing technologies [3,5,7].

A remarkable upward trend is visible in the information technology (IT) sector, whose share rose from approximately 5% in 2020 to about 25% in 2025. This expansion reflects the accelerated digitalization of the Moldovan economy, the growing number of IT parks, and government initiatives aimed at fostering innovation and export-oriented digital services. The IT sector is rapidly becoming one of the most dynamic destinations for FDI, capable of contributing to structural modernization and productivity growth.

The finance and insurance sector shows only a modest increase, from roughly 8–10% at the beginning of the period to around 12–14% by 2025, highlighting its supportive rather than leading role in attracting foreign capital. In contrast, the category of “other sectors” experienced the most substantial relative growth—from about 20% in 2020 to over 40% in 2025—reflecting increasing investment in areas such as renewable energy, construction, logistics, and professional services.

Overall, the data underline a gradual transition from commerce-dominated FDI to more diversified and innovation-driven investment patterns, with IT and emerging service industries gaining strategic importance.

This transformation signals the ongoing structural adaptation of Moldova’s economy to regional competitiveness requirements and global sustainability trends, while also emphasizing the need for consistent policies to maintain momentum in high-value-added sectors.

Figure 4 illustrates the geographical structure of FDI in the Republic of Moldova in 2024, identifying the principal investing countries and their relative shares in total FDI inflows.

The distribution reveals a high concentration of foreign capital originating from a limited number of European countries, reflecting both historical economic ties and regional integration trends.

The largest share belongs to Romania, which accounts for 30.1% of total FDI, confirming its leading role as Moldova’s key strategic and economic partner. This dominance is driven by cross-border investments in banking, telecommunications, trade, and energy infrastructure, as well as by cultural and linguistic proximity that facilitates business cooperation.

The Netherlands ranks second, with 20.5%, largely due to its status as a European financial hub and intermediary for multinational companies operating across Central and Eastern Europe.

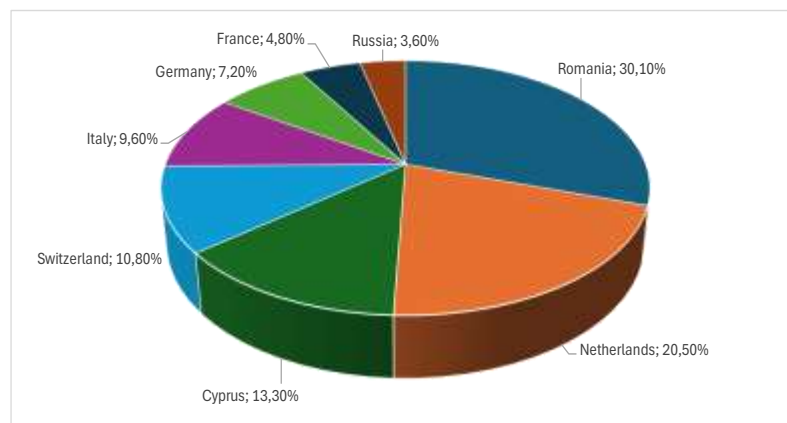


Figure 4. The main investing countries in the Republic of Moldova, 2024

Source: developed by the author based on [14,15,16]

Cyprus contributes 13.3%, a share reflecting the use of its favorable tax regime and investment-friendly legal framework, often serving as a conduit for reinvested capital from other regions.

Switzerland follows with 10.8%, primarily channeling investments into high-value sectors such as finance, manufacturing, and technology.

Italy holds 9.6%, maintaining its traditional involvement through small and medium-sized enterprises in manufacturing and construction, while Germany contributes 7.2%, with a focus on automotive components, logistics, and renewable energy.

Overall, the data highlight a clear westward orientation of Moldova's investment structure, with the European Union as the dominant source of FDI inflows.

This composition underscores Moldova's increasing integration into the European economic space, while also emphasizing the need for continued diversification and the attraction of investors from high-technology and innovation-driven economies to ensure long-term sustainable development.

CONCLUSIONS

The conducted research confirms that FDI represents a decisive factor for the sustainable development of the Republic of Moldova, serving simultaneously as a source of capital, innovation, and structural modernization.

The results demonstrate that Moldova is undergoing a gradual transformation from a trade-oriented to a more diversified investment structure, with a significant rise in the share of the information technology sector, which is becoming one of the principal engines of growth.

This structural shift towards digital and service-based industries highlights the importance of innovation, skilled human capital, and institutional transparency as key determinants of future competitiveness.

At the same time, the geographical distribution of FDI, dominated by European Union countries such as Romania, the Netherlands, and Italy, reflects the strategic reorientation of Moldova's economy towards the European market. This integration into the EU economic space brings both opportunities and challenges, requiring coherent policies to strengthen the investment climate, ensure fair competition, and align local regulations with European standards.

The research also points to several risks associated with external dependence, including the concentration of capital in a few sectors and the vulnerability to external economic or geopolitical fluctuations. To minimize these risks, Moldova needs to pursue an active investment policy aimed at diversification, sustainable infrastructure development, and incentives for green and innovative industries.

Future research could deepen the analysis by applying econometric modeling to assess the elasticity of FDI with respect to policy reforms, innovation capacity, and labor market dynamics, thereby contributing to a more precise understanding of the mechanisms through which foreign investments stimulate inclusive and sustainable growth.

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