SAVING - INVESTMENT – DEVELOPMENT

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Investment or investing is renunciation of consumption at present, to receive certain benefits in the future. The sacrifice who filed the present and the benefits or revenues, which are expected in future, represent one of the basic features of the investments and the investment process. This feature contributes the investing as a time gap between present and future.

With direct or indirect reinvestment of savings capital earnings (profits) are allowed, and taking into consideration the rapid flow of information, also means transfer of the capital from national to global level. Modern technology offers opportunities for increased flexibility of capital from the territorial aspect and the aspect of the type of industry. The Large transnational corporations (TZC),searching cheap raw materials, energy, labor and entrepreneurial are transferring the capital in order to maximize their profits.

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INTRODUCTION

Investments represents an increase of permanent capital funds. Capital funds of an economy aperar in three basic forms: buildings (factory halls, administrative buildings, etc.), Equipment (machines, installed technological lines) and stocks (raw materials, products and finished products). Capital funds, in particular, are given size. When performing the act of investing, they soar.

Investments are very important economic category. Investments, raising permanent capital funds de facto increase the capacity of the overall economy. Part of capital funds through use over time are spent. Their value trough functioning in production, is gradually consumed and transferred part by part to the value of the new product. This spending of capital funds is called depreciation or amortization. That means, while investments increase permanent capital funds, their use contributes to their spending and their reduction. Hence, the conclusion is that an economy which wants to keep existing scale and existing level of capital funds, must to invest in a scope that would allow replacement of spent capital funds.

If the economy invested under the amounts of depreciated capital funds, created a process of disinvestment. It is extremely negative phenomenon that reduces capital funds under the existing level. If the volume and value of investments in the economy are greater than the amount of depreciation, the economy will ensure not only compensation (replacement) of spent capital funds, but their increase.

Savings as a significant factor in investment

For a given level of disposable income, the decision how much to spend and how much to save is the same decision. On the other hand, what will save an amount of available funds for investment in any form. Expressed in the equation:

$$\mathbf{S = I}$$

S (*save*)

I (investment)

This equation indicates that saving equals investment, or the economy as a whole must be saving equals investment. National saving is divided into two parts: private savings and public savings.

Private saving is the amount of income that remains after payment of household, taxes, and payment of their consumption. Households are realizing income, paying taxes, and spending for personal consumption. Saving is the part of disposable income of households that are not spent. Ie:

saving = disposable income-consumption

Public saving is the amount of tax revenue and the government remains after payment of its consumption.

Households, especially those with higher income, are not imposing all available income for consumption. One part remains unspent and that part is called savings. In this sense the savings is delayed consumption of income.

Savings and investments are equal to the economy as a whole, but not for any individual household or company. Individual savings can be greater than its investments and may invest the surplus to the bank. Individual savings can fill shortages by borrowing from a bank. Banks and other financial institutions are making possible individual differences between saving and investment and thereby enabling savings of a person to finance investment in another entity (indirect investments).

Macroeconomic and microeconomic aspects of investments

Investment of an enterprise can view two aspects: the macroeconomic and microeconomic aspects. From the microeconomic perspective of an enterprise, investment funds are allocated to specific real good. Here we distinguish:

• **Investment return -** used to finance dilapidated, damaged and economically obsolete facilities and equipment

• **Investments in expansion -** which include investment in new equipment, new products, technologies and facilities,

• **Investments in modernization** - which include machinery, automation and computerization of production.

From the macroeconomic perspective the importance of investment in the businesssector is quite large and is reflected in the following activities:

- Increase the economic independence

- Increase the employment,

- Rational utilization of productive resources,

- Higher total income

- Ensuring continuity in production.

Factors which determine investment

There are 3 factors that determine investment: savings, interest rate, and expectations in the economy.

• Saving is a very important economic category, because of savings to finance investment, and investment play a huge role in increasing productivity and dynamics of economic growth.

• The interest rate is the main determinant of investment, because it reduces the opportunity cost of money capital used to purchase the investment goods. When making investment decisions always compares the rate of return (returns on investment) with the interest rate. If the rate of return, which *de* *facto* reflects the profitability of investment is higher than the interest rate, the investment is worthwhile and *vice versa*.

• Expectations of the economy play an important role. Business people, managers, and entreprenuers, are always looking to the future. If you expect "good times" lively economic activity and high profits in the future, they invest more. Conversely if the expectations are pessimistic, ie if business people predict recession.

Foreign direct investment

Foreign direct investments are venture capital companies,from foreign countries in the capacity of enterprises of the host country and they acquired ownership control.

Foreign investors invest their money in a project that they think will bring a high profit. The risk they take in the investment is entirely theirs, and the country in which they invest has no financial obligation toward them.

Todays era of globalization, generally accepted view is that the best solution to compensate for insufficient domestic savings is attracting FDI. FDI also play a key role in the transfer of knowledge and technology, create jobs, increase productivity and competitiveness with the ultimate effect, higher economic growth and poverty reduction.

The concept of promoting foreign direct investment should be consisted of the following three activities:

Image Building

Promoting the advantages of the country as a location for foreign direct investment.

→

Investment Generation

Providing FDI with direct promotion.

→

Service for investors

Services for foreign investors

Companies in developing countries lack the knowledge, investing in development, marketing, modern management, new technologies, quality market. These qualities companies can obtain the entry of FDI. The competition is huge. All countries, rich and poor, large and small investors like them because they bring economic growth, employment, rising living standards, and greater citizen satisfaction rating of politicians.In this ferocious competition, each country tries to offer something special, something different, something that no others can. Investors and countries that are trying to win their interest have different goals. The first ones are attempting to achieve optimization of profit and risk, while the others to achieve possible higher net profit as a difference between the benefits that FDI brings and concessions given to the developer.

The sole purpose of any investment is profit. Safest way for the investor is to invest their money in their own country where the best known laws, economic trends, market and mentality. When investing abroad, investors are faced with growing economic and political risk varies from country to country. So the only reason that can cause investors to invest their money in another country is higher profits. In this case, profit is put in combination with risk. Each investor makes optimization of these two factors and is willing to accept certain combinations of the amount of profit, rate and degree of risk of investment. Normally, higher risk requires higher profit rate, and *vice versa* at lower risk investors would accept a lower profit rate.

When assessing the attractiveness of a country for investing, investors are guided by a number of economic and political factors that affect investment. These factors that motivate investors are usually called benefits that are offered by the country. They can be benefits in a broader sense and benefits in the narrow sense. Benefits in a broader sense, ie the general economic situation, economic, political and legal stability, size of the country, geographical location and availability of certain factors of production (eg human capital and natural resources) are the most important factors for foreign investors. In an effort to increase the profit rate of foreign investors, the country offers a range of benefits that aim to reduce risks and costs of FDI - benefits in the narrow sense.

Conclusion

Saving is a basic and cheapest source of funds that can finance the planned investment activities. Saving is an important prerequisite and basis for economic development. Greater savings leads to greater investment, and consequently, to higher rates of economic growth. Many people believe that they for saving they need a big part of their income. But in fact it is not. To save a little deposit is important and it is possible. It is very significant savings to be regular, ie to build a habit of patiently saving as a way of life, such as Culture and of course, responsibility for their own future. Savings gives us a greater sense of security because it is easier to face the future unexpected expenses or buying needs.

Investments are very important segment for every national economy because it allows to open new jobs, to increase productivity, to activate natural resources, to perform the modernization of existing facilities etc. Investments represent a key factor for the development of a country, especially in transition.

Attracting foreign investment would bring more jobs which would reduce poverty and achieve rapid economic progress. To attract foreign investment, the state should offer you better terms, and well educated staff. But to attract foreign investment a major role has it's stable legal and judicial authority and order.

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