

Evolutions and prospects in Romania's economy

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Abstract. *As an EU member, Romania is firmly anchored in the global economy, making it sensitive to its developments, but also to its regression. The current period is still quite cloudy; Romania is still subject to major risks. As a result of deepening economic and financial crisis macroeconomic indicators have not had the sustained positive development.*

Romania's GDP in 2009 declined from 7.3% to -7.1%, in 2010 the decrease was about 1.2%, as in 2011 and 2012 to record slightly positive developments of 2.5% and 0.3%. For 2013 it is expected an increase of 2% for Romania's GDP, while global economic growth is still quite slow.

Since 2010 inflation rate is decreasing, going from 6.09% to 3.33% in 2012 and by the end of 2013 it should be around 3.4% according to the Economist Intelligence Unit. In 2010 the unemployment rate in Romania was at 7.3% reaching to 7% in 2012.

We will try in this article to make a brief analysis of the current situation of Romania, but also to see what its prospects for development are.

Keywords: growth, inflation, unemployment, external debt, balance of payments.

JEL Classification: E24, F43, O4.

REL Classification: 8E, 8F, 8G.

1. Introduction

Romania joined the European Union since January 1st 2007. EU economies that make up the Union are strong connected, and that made the financial crisis started in late 2007 in the US to spread rapidly among them. As the crisis was amplifying, economies of all Member States faced with various difficulties both in the real economy and the banking system; but the crisis depended largely on the level of development of countries and their vulnerabilities.

Being a financial crisis in the first instance, the current international crisis broke in the real economy by affecting the basic structure of economic activity. The transition from nominal to real was made through banking channel. Decreased liquidity in the banking system lowers economic activity which will lead in turn to a decrease in demand for domestic non-bank loans which might reduce the supply of domestic non-bank loans. On the other hand, the banking system will try to compensate the lack of liquidity by encouraging attracting bank deposits on term, which will increase the cost of domestic bank loans. This vicious circle will be out only by reducing the interest rate that is by taking by the banking system of a part of the cost recovery growth ⁽¹⁾.

Besides the contagion caused by external markets, Romania has been affected by an internal crisis, caused by a large external debt, a huge deficit of the current account and, last but not least, by delays in the implementation of any effective anti-crisis measures on short term with an immediate effect on the economy.

2. Romania's Macroeconomic Situation

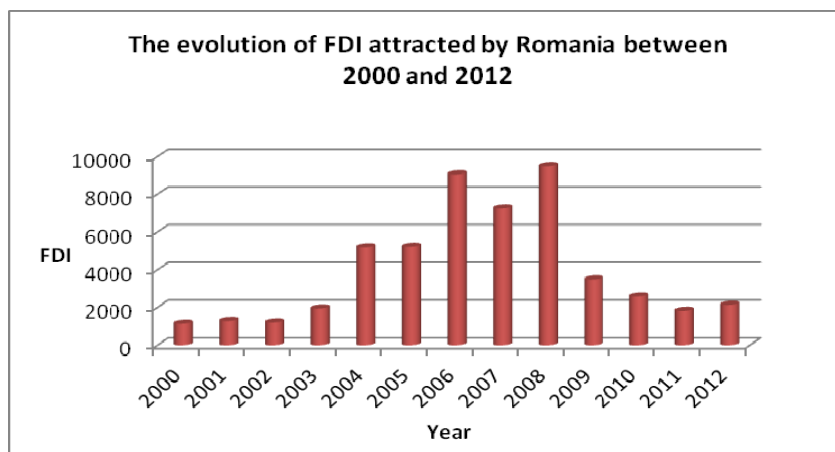
The crisis had a negative impact on the purchasing power of the population due to the depreciation of the domestic currency from 3.5 to 4.2 lei in a few months.

Another area affected by the crisis is that foreign direct investment, which reached from the level of 9496 million euro in 2008 to 2138 million on 2012.

Table 1. *The evolution of FDI and FDI stock in Romania period 2000-2012*

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
FDI	1147	1294	1212	1946	5183	5213	9059	7250	9496	3488	2596	1815	2138

Source: Annual Reports of the NBR.



For the first eight months of 2013 the situation is worse in comparison with the same period in 2012. Thus, the central bank reported a total of 1118 billion foreign direct investments, of which 339 million euro intercompany loans and 779 million as equity.

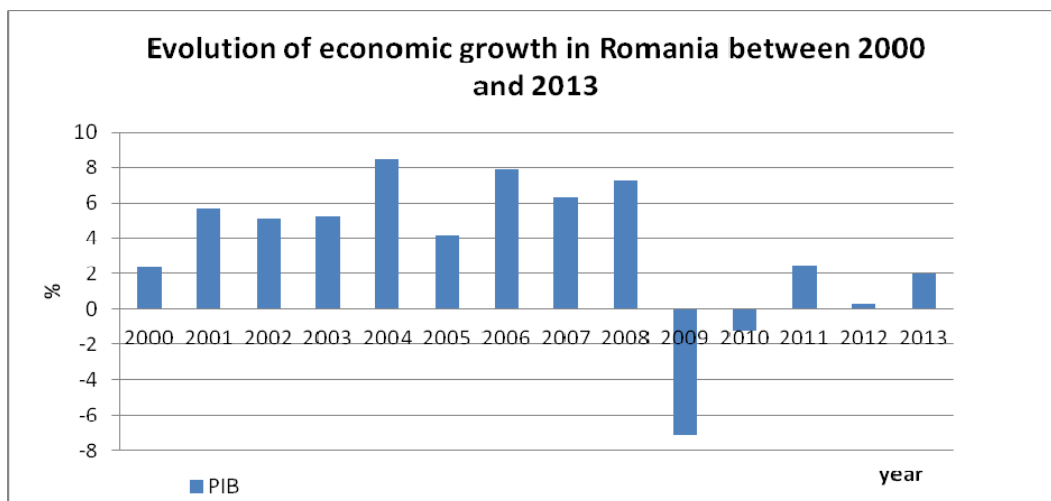
After three years of recession Romania has entered a period of growth, 2000 being the longest period of growth in Romania. However, until now, we have not seen a period of sustained growth to ensure the economic development that we need. Until the crisis Romania went through a period of economic growth, accounting for nearly 8% in 2006, but at the same time accumulating a huge external deficit of over 15% of GDP (in 2008).

Table 2. Evolution of growth rates in Romania for the period 2000 - 2012

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
GDP	2.4	5.7	5.1	5.2	8.5	4.2	7.9	6.3	7.3	-7.1	-1.2	2.5	0.3

Source: personal working after NBR reports.

The crisis was felt in Romania later than in other countries; in 2008 we had an increase of 7.3%. Only in 2009 Romania entered the recession, falling by 7.1%. The huge loan of 19.95 billion euro contracted by Romania in the spring of 2009 from the IMF, European Commission, the World Bank and the International Bank for Reconstruction and Development has helped to avoid falling back and to maintain closer to the flotation line in 2010. Romania's economy recovered slightly in 2011 due to a good agricultural year. For 2013 it was projected an increase of 2%, far below the level from 2008.



Financial stability is very important in price stability. However, the low level of inflation does not guarantee long-term financial stability. As can be seen from the table below, Romania recorded during 2000-2007 an average annual rate of deflation of 5.8 percentage points. However, Romania has had delays in disinflation.

Table 3. Evolution of inflation rate in Romania for the period 2000-2012

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Infl.	45.7	34.5	22.5	15.3	11.9	9	6.56	4.84	7.85	5.59	6.09	5.79	3.33	2.5*

* Partial data.

Source: www.insse.ro

Regarding the current period we are going through, we can observe that the inflation in Romania has decreased in the last three years. But even so remains one of the highest rates among EU countries. In terms of 2013, according to the latest report from the central bank (at November 2013) inflation in Romania stood at around 2.5%. On the other hand, the IMF estimates an inflation of 3.3% in 2013 for Romania, inflation that will continue to decline in 2014 until 3% and in 2015 until 2.9%.

Table 4. Evolution of unemployment rate in Romania for the period 2000-2012

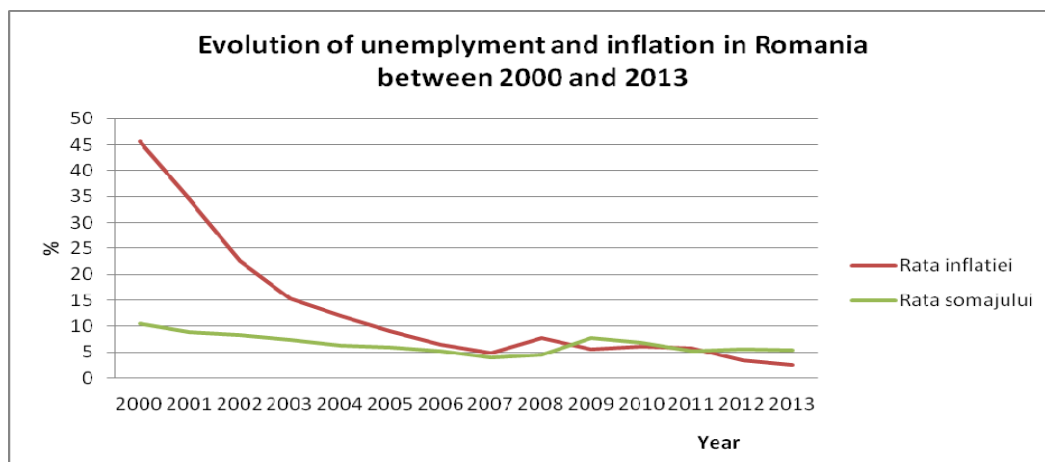
Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Unempl *	10.5	8.8	8.4	7.4	6.3	5.9	5.2	4	4.4	7.8	6.87	5.12	5.59

*The unemployment rate at the end of the year.

Source: www.insse.ro

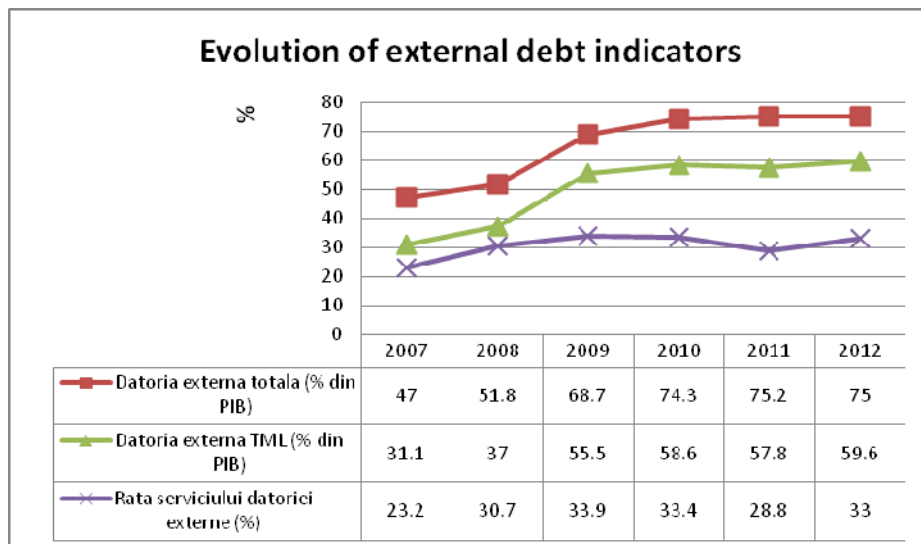
Unemployment is an imbalance in the labor market at national level, with causes both on microeconomic and macroeconomic level. Unemployment is one of the macroeconomic indicators reflected more directly in people's lives, compared to GDP, exchange rate or inflation. For 2013 the last time the NEA estimate unemployment at the end of October was 5.40%.

The rise in unemployment in Romania has been determined, on the one hand, by the demand for goods and services due to lower purchasing power of the population, and by the reduced domestic production in favor of (cheaper) products from import, on the other hand.



After 2005 Romania has returned to moderate growth accompanied by an annual inflation expressed by one figure and a falling unemployment rate, even though this is due, in large part, to the migration of Romanians abroad. According to statistics, more than a quarter of immigrants have higher education, which makes the negative effects of migration of Romanians abroad to be two: on the one hand the state loses the money he invested in the education of an immigrant and on the other hand he loses "a brain " that can make a significant contribution to the economic development of society. And labor migration may influence differently the quality of human capital in the country of origin and country of destination.

Another macroeconomic indicator affected by crisis is external debt. Romania's total external debt increased slightly in the last year to 101 billion euro (71% of estimated GDP for 2013), due to higher state external debt in the medium and long term.



Current account of payments balance recorded during January - September 2013 a deficit of 595 million euro from 4.8 billion euro in the same period a year earlier.

Table 5. *Current account of payments balance*

	January - September 2012 ^a			January - September 2013 ^p		
	CREDIT	DEBIT	NET	CREDIT	DEBIT	NET
CURRENT ACCOUNT (A+B+C)	44 883	49 683	-4 800	49 506	50 101	-595
A. Goods and services	39 482	44 387	-4 905	43 994	44 350	-356
a. Goods (export fob - import fob)	33 521	39 060	-5 539	36 480	38 962	-2 482
b. Services	5 961	5 327	634	7 514	5 388	2 126
- transportation	1 819	981	838	2 630	947	1 683
- tourism - traveling	852	1 072	-220	923	1 143	-220
- other services	3 290	3 274	16	3 961	3 298	663
B. Income	1 050	3 500	-2 450	911	3 633	-2 722
C. Current Transfers	4 351	1 796	2 555	4 601	2 118	2 483

* provisional.

Source: <http://www.bnro.ro>

3. Challenges for Romania

The European Commission has assumed for the next period of time a strategy called "2020" which has three interlinked priorities:

- Increase should be based on knowledge and innovation. Innovative solutions are important to end the crisis because they stimulate competitiveness and employment growth.

- Increasing foster social inclusion by promoting an economy with a high rate of employment.
- Economic growth transforms the economy into a sustainable and competitive one. In a world with high prices for energy and resources, the EU should promote an increased competitiveness and productivity through a reduced but more efficient level of consumption of non-renewable energy resources.

The priorities proposed by Europe 2020 agenda for the EU are:

- Stabilizing employment rate of the population aged between 20 and 64 to 75%.
- Investments in R & D to reach 3% of EU GDP.
- Objectives "20/20/20" climate / energy targets should be met (including an emission reduction increased to 30% if the conditions permit this).
- The rate of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree.
- The number of people at risk of poverty should be reduced by 20 million.

Romania is still far from achieving these goals:

- Employment rate in Romania was still low in 2012, by 63.8%.
- Poverty reduction continues to be a challenge for Romania, in 2011 40.3% of the population being at risk of poverty and social exclusion - almost two-thirds more than the EU average of 24.2%.
- Romania does not have a system of education and training comparable to the EU. Early school leaving is at a level of 17.3%, higher than the EU average of 13.5%.
- Weak business environment and insufficient support of research and development accompanied by heavy funding of SMEs is another challenge for Romania.
- Economic competitiveness and productivity in industry and services remains low.
- The health sector is characterized by significant inequalities in terms of access to services and quality.

Conclusions

Romania has been less affected by the crisis than other countries due to its lower exposure to foreign toxic assets.

Romania still benefits from cheap and well qualified labor force in relation to other East-European countries, which may encourage investors either foreign or domestic. In the same time, Romania has to apply the principles of sustainable development by adopting a (more) rational use of resources to achieve a balance between economic growth and development and the natural environment.

In order to catch up with EU countries, Romania should enter on an upward trend based on performance and competitiveness in all economic sectors.

Note

- ⁽¹⁾ Ideas presented in the article „*Financial and economic crisis in Romania: vulnerabilities and opportunities for economic recovery*”, author Mihaela Daniela Niculescu, presented at The International Conference „Economics and business administration – economic of sustainable development. Economic forecast: the return of growth” organized by Ecological University from Bucharest, between 4 and 5 April 2013.

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