

# THE IMPLICATIONS OF INTERNAL DEMAND OVER ECONOMIC GROWTH IN ROMANIA

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*For reducing the distance from the average of EU step-by-step, in Romania we must speed up real economy. For this to happen in a long road, we need a dynamic economic environment, especially by developing activities with high tax. So, we must encourage the aggregated offer. Romania is a small economy with a net wide market. In Romania, economic growth is a lot influenced and sustained by consumption. This way, an analysis of the three types of consumption has to be made (population, enterprises and public), which compare the internal demand.*

*Keywords: economic growth, internal demand, demand for consumption goods, enterprises demand, public demand.*

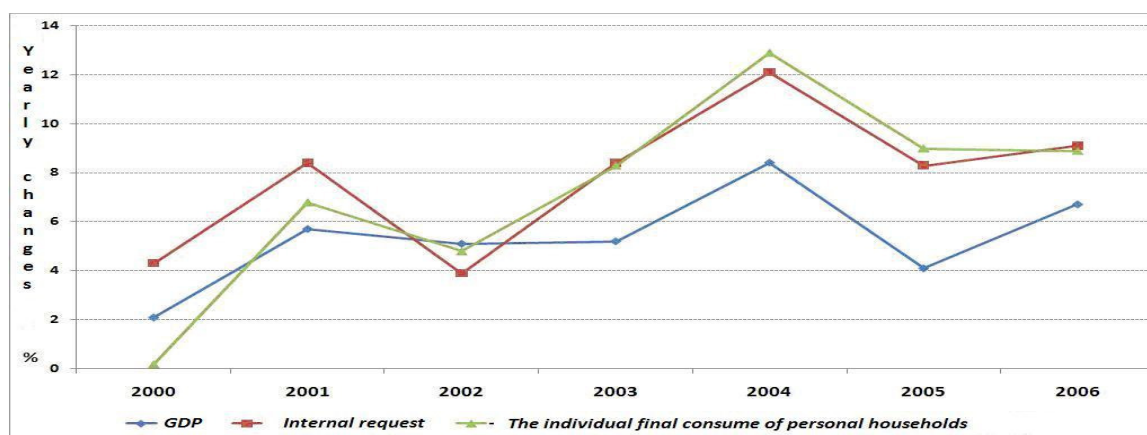
Internal demand represented for the time span 2001-2005 the main factor of growth, recording an yearly rate of 85%. An important factor of internal demand growth was consisted, at the end of 2004, tax reduction for the personal income and for the enterprises income by introducing the unique tax of 16%. Starting 2005, because of the stimulus measured of the private sector, the growth level of internal demand slowed and what has to be taken into consideration is that the area from the internal demand and consumption improved. This way, gross growth of fixed capital increased by 13%, and individual effective consumption by households by 9, 0%. Even in growth conditions of a real salary and consumption credits, private consumption recorded a smaller increase than in 2004, while the investments made in the private sector wire with 24,9%.

## **1. Household demand for consumption goods**

Household consumption is the key component of global demand. At a macroeconomic level, global consumption expenses made by the influence of multiple variables, such as: the available income, of all households, the cost of consumption regarding credit, the anticipation prices and delays in replacing long-time consumption goods.

Monetary income of households-express their capacity to place themselves in market relations – they have a generalized low level, even very low in same major household categories. This influences massively the average consumption pattern at a national level and the savings potential of developing investments.

Population expenses in Romania- sensibly follow the income trends, disappearances an residential areas, but an different socio-occupational categories, being relatively constant in time. In 2005, total expenses of population were at an average of 1149,33 units/month for one household (that means 94,8% from the total income level).These covered in an over-whelming way the common needs of consumption : food expenses, uneatable and survivals payment counting for 62,7% out of the total expenses (58,8% in 2004, and tax payment and other obligations represented 12,5% - similar to the previous year). The most spent on an average were the owner household (2305, 33 monetary units), and the least, the retired (889,09 units).



**Graphic 1 – The Dynamics of gross domestic product (GDP), of internal demand and of final effective of population households in Romania.**

Following the dynamics of gross internal product and population consumption (graphic 1) we observe the superior growth of household consumption, influencing and determining the gross domestic product, acting as a factor of growth. At the beginning of analysed span time, individual consumption of population households was smaller compared to the internal demand, but starting 2002, was larger, and in the greatest case (year 2003) approximately even, and we can observe a trend of reducing the household consumption starting 2005.

Indicators	1999	2000	2001	2002	2003	2004	2005
Consumption index prices							
Total	145,8	145,7	134,5	122,5	115,3	111,9	109,0
Food goods	127,9	143,7	135,7	118,3	114,7	109,5	106,1
Nonfood goods	152,3	144,0	133,1	125,5	116,1	113,2	111,3
Services	184,0	153,9	135,4	126,8	114,8	114,7	110,5
The rate of expenses growth							
Total	131,7	140,6	140,9	126	119,5	132,7	114,9
Food goods	123,2	140,3	147,3	120,1	117	126,3	109,3
Nonfood goods	136,8	138,7	114,6	132,5	124,3	142,8	119,6
Services	155,2	144,7	167,8	134,5	120	136	121,2
Index of real salary gain	97,5	104,3	105,0	102,4	110,8	110,5	114,3

**Source: Anuarul Statistic al României 2000, p. 317, Anuarul Statistic al României 2006. p.223, 397, Institutul Național de Statistică**

**Table1. The price consumption indices and real salary evolution in the time span 1999-2005**

From table 1 we can observe the bigger growth levels of consumption expenses, overall, comparative with the consumption index prices starting 2001. However, this thing can be observed as a viable one for each category taken into consideration, especially in the case of services when the growth levels of expenses were superior to the index prices on the whole analyzed span. This shows that economic growth in Romania started and continued based on consumption. We must also appreciate the fact salary has been made also.

The consumption credit	2004	2005	2006
January	5.517.655	8.020.282	16.489.473,58
February	5.375.087	8.182.774	16.984.288,56
March	5.551.079	8.727.075	18.350.322,24
April	5.527.684	9.253.325	19.662.402,43
May	5.940.392	10.513.919	21.584.795,13
June	6.175.975	11.558.961	23.483.500,98
Julie	6.392.100	1.229.880.144	24.923.010,73
August	6.799.100	1.330.575.842	26.766.085,84
September	7.084.000	1.432.034.243	28.046.112,97
October	7.587.300	1.509.357.708	29.189.792,66
November	7.574.166	1.581.274.199	29.944.979,74
December	7.866.164	15.685.01045	30.375.687,30
Year Total	77.390.702	8.707.879.517	285.800.452,16

*Source: Banca Națională a României*

**Table 2. The evolution of consumption credit in Romania**

A special situation by its size it grew in three years can be observed in the case of consumption credit (table 2).

Analyzing the evolution of consumption credit in Romania (table 2) had a dynamics of growth from one month to another for the whole span considered. Until the half of 2005, this increased slowly but surely. Then a breakthrough was produced, the value of consumption credit grew in an exponential rate. Following the evolution of the total for the three years, we can observe that from one year to another, the value of consumption credit grew alarmingly high.

In December 2007, Romanians brought goods for wide use in a value of over 55.000 millions units, a number almost double reporting to the beginning of 2007. In exchange, the money borrowed for a house barely exceeds 14 billion units. This way it came that the credit value of consumption to be 4 times bigger than the ones for houses.

The risk of debiting the population comes as much from dynamics, but from structure as well. The population is debiting especially for buying goods of consumption (79% of the credit in 2006, unlike 75% in 2005), and on longer and larger terms (the percentage of long term credit got from 42,4% in 2005 to 61,1% in 2006). Because of these evolutions the defend bought using the credit is heading to lower values (both morally and physically ) much faster than the debt is whipped out, with a bad influence in the population fortune.

The dynamic of population debiting generated two main risks: debt service grew very fast, and the position of a net creditor population reduced consistently. Still, the level of concentrating the credits diminished and the debt rate as well.

The service of population debiting, as a comparison to the available income continued its quick growth, searching the level from the euro zone. Still, the structure of monetary expenses is different. The credit for consumption generates 92% out of the debiting service and is the main tax payer to its growth, especially by the quantity effect. Credit in Romania has an increasing contribution to the debt service, on the basis of higher and higher interests with the increase of credit offered in Romania.

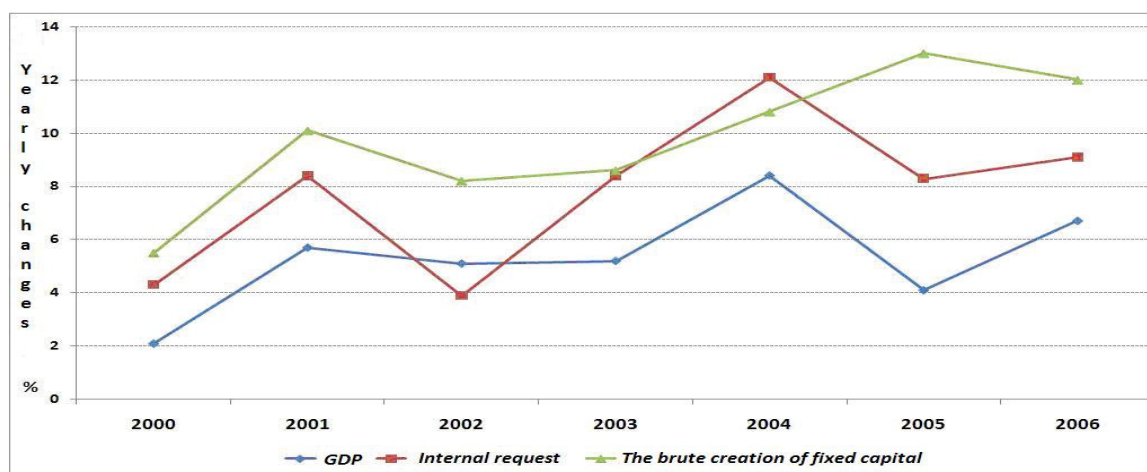
Speaking of financial reports for the credit institution, the activity of medium financial- bankers in Romania, is not going on in a self-developed way, but in close relation to their clients. As a consequence, their behavior influences in a wide way the architecture of financial reports of bank entities. This influence is more obvious in the situation of credit institutions with a large territorial network, placed in areas with an

unequal level of development. From here, we observe the differences in the economical-social development of different zones that operate the subsidiaries of credit institutions. This is because the organizational pattern present in Romania is the universal banks, with complete territorial networks and with wide competences of bank headquarters. Considering the monetary and credit availabilities, the maximum of discrepancy is recorded by the credits for the individuals, while the minimum is allocated to uncared and term made by clients, individual or legal person. In other words, there is a relatively large discrepancy in costumer behavior, when speaking of barrowed financial resources, respectively to savings.

## 2. The request of enterprises for goods of investments

Investments define a process which is characteristic, by excellence, to the enterprises that have the main function producing goods and services. As the ending of any production is satisfying the consumption needs, we have to admit that the investment has as main factor the demand. Investments restrictions care about the income level of savings.

Investment does not mean only spending a part of the income, but it means an immobilization of monetary funds considering the possibilities of recovering them on time. From this point of view, there are monetary funds that have to be recovered in the short-term limit, because, otherwise, the process of production can not go on or start again, but as well funds that can be recovered offer the deadline, and because of them is a way of financial liberty of the enterprising.



*Graphic 2. The dynamics of gross domestic product, of internal demand and of gross gain of fixed capital*

From graphic 2, we can observe the slower levels of growth of gross capital, compared to the gross domestic product ones. So, this too behaves as a factor of growth. Careering the gross gain of capital, overall, the situation is light full for future.

Excepting 2004, when the level of growth of the internal demand was a little larger, with approximately 1 percent, the percentage modifications of gross again of capital were larger, even larger than 4%.

Nongovernmental credit in 2006 recorded an increase of 53,7% compared of 53,7% compared to the end of 2005, in the fond of gaining 77.3% of the component in units and 33,7% of the component in the foreign exchange expressed in units. This, in the conditions when in 2005, increased by 34,5% in real terms, the structure considering the exchange own coin in relatively constant 40% units and 60% foreign exchange.

Nongovernmental credit in Romania represents approximately 13% from the gross domestic product, in other Eastern European countries, this represents over 50%, and in UE it tends to 160%.

### 3. Public sector demand

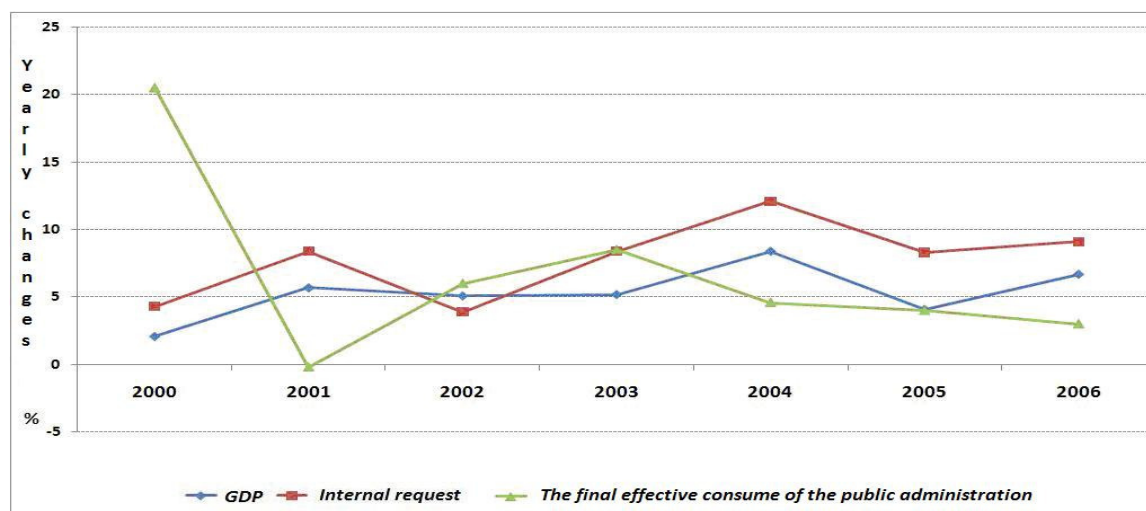
Even if public administrations are among the final consumption in a relatively low percentage, public expenses tend to represent a higher percentage in gross domestic product, in exchange of obligatory drawing.

Certain discrepancies from these percentages can be explained by the importance of stock in the redistribution process, but even by the fact that stock sells a significant part of public service. As a consequence of a higher growth of expenses than public income, the budgets are finalized more and more often with a deficit.

Budgetary deficit is caused by the accelerated growth of public expenses, by slowing the growth level of income or of conjuncture phenomena which transmit its influence by the foreign exchange rate and interest rate.

The effects in economy of the budgetary deficit are multiple. It increases the public debt by increasing in the future the returnings, the interests and the eligible fees every year for covering the public internal and external debts. In the condition of a big credit request for covering the budgetary deficit, the interest rate presents a trend of growth.

Starting 2000, the economic growth started to take a presence in Romania. Being aware of this aspect, and following by dynamics of gross domestic product and of state consumption (graphic 3) we realize that this consumption as an important factor for the growth of macroeconomics results at a national level. Then its role as a factor diminished very much, and even more, starting 2004, it is, more likely a consequence of economic growth. After high values in 2000 the public administration consumption fell radically in 2001 and starting 2003 fell on a constant rate each year, the percentage modifications being smaller than the internal demand ones, even by two percents.



*Graphic 3. The dynamics of gross domestic product, of internal demand and of the collective consumption for the public administration.*

We observe that the internal demand has an important influence over the way the economic growth is developed in Romania, which does not represent necessarily an optimistic aspect for our country.

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