

ROMANIA, BETWEEN ETHOS AND DEVELOPMENT

Plopeanu Aurelian Petruș

University Al. I. Cuza, Iași, Faculty of Economics and Business Administration, Carol 1 Blv. No. 22, 700505, aplopeanu@gmail.com, 0740137858

Abstract

The aim of this study is to emphasize features and peculiarities of the European Union integration theory expansion towards incumbent countries like Romania. The political, economic and social challenges are perceived more intensely by our country, which will domestically perceive, at economic and financial levels, the effects of enlargement. The relation between EU accession in January 2007 and the effects towards economic growth, future labour market, financial and monetary policy, economic convergence and other economic variables (GDP per capita, current account, trade balance, exchange rate, consumer prices, inflation rate etc) are very important and I try to be persuasive in this direction.

Introduction

According to Transparency International, Romania continues to occupy not a very honourable place in the corruption top, if we are to take into account a political, social and economic perspective. On this account, Romania is being situated on the first place among the European Union's member states with the highest corruption rate, being outrun by Eastern European states and countries such as Estonia, Lithuania, Slovenia, Turkmenistan, Latvia, Hungary, Slovakia, Kazakhstan, Greece, Russia, Poland, Czech Republic and Bulgaria. Romania has obtained the "performance" of exceeding countries like Azerbaijan, Macedonia, Armenia, Tajikistan, Georgia, Bosnia Herzegovina, Ukraine, Kyrgyzstan, Uzbekistan or Serbia.

Together with the changing of the elective system in a proportional one, with votes given by uninominal colleges, we tried to apply a variant of elective system "made in Germany", considering the positive influence on the stability of the decisional political and institutional process's stability. By lacking a stable equilibrium from a political/institutional point of view, the macroeconomic goals cannot be achieved, as there will always exist, prevalently, a symptom of the so-called "solution-less equation", that is the "cvintica".

The ratification of the Lisbon Treaty by the Romanian Parliament in February 2008 represented a political confidence decision in the European project in the long service, and among the values and rights promoted by the European Union (individual rights, different types of freedom, solidarity, justice and the citizenship's status).

Romanian's Economic Outlook

The National Romanian Bank's currency politic interest rose up to a level considered to be quite a high one, reaching the value of 9,5 %, as opposed to the one existing in October 2007, when its value didn't surpass 7%. Although such a currency politic can draw speculative assets, that could disturb the exchanging rates of the national currency, henceforth successive risings of this currency up to 10,50% are expected, under the circumstances of a very unforeseeable inflation and the anxieties caused by the speculative attacks, against the background of the oil and natural gas prices' raising, of the expenses on the brink of the election campaign or the consumption costs.

In the Business Forecast Report of Romania launched by Business Monitor International Ltd, for the period 2008 – the end of 2012, it is specified that the established economical growth process will continue after the integration in the European Union until 2012, at an average growth rate of approximately 5,1%. The economic growth will be sustained also from the point of view of the macroeconomic concept of gross forming of the fixed capital (FBCF), that is, "the total value of an economic agent's acquisitions, less disposals, of fixed assets during the accounting/calendar period plus certain additions to the value of non-produced assets (such as subsoil assets or major improvements in the quantity, quality or productivity of land) realised by the productive activity of institutional units"¹¹⁴, which registered an increase of 28,9% in 2007, motivated on the one hand by the increase of the imports with 26,1% in the same period. Also, another stimulus of the Romanian Gross Domestic Product after the adhesion to the European Union was

constituted by the maintaining of an effective global demand from the part of the population, sustained at a level of 10,2% in 2007, which has increased the volume and the dynamic of the imports and of the Gross Domestic Product. Therefore, the imports of capital goods in order to modernize and develop technological advances the existing production capacities or for the endowment of green-field-like investments have determined the increasing of FBCF.

Change in inventories	-1,2
Net export	-8,7
Gross fixed capital formation	7,4
Government's actual collective final consumption	0,5
Households actual individual final consumption	8
Gross domestic product	6

Contribution of the use components to the GDP growth rate in 2007 as against 2006

Sursa: INSSE

For the first time in the post-adhesion history of Romania, the constructions domain has contributed in a greater proportion to the forming of the Gross Domestic Product than the agriculture sector, registering an advance of 33,6% in 2007. Furthermore, the services are the principal means when it comes to the conquering of new Gross Domestic Product's percentages, with a 55,8% share from the gross added value, whereas the industry contributes with 28,3%, according to National Institute Of Statistics.

“At the Gross Domestic Product's increasing from the first nine months (of the year 2007), that is 5,8%, the services' contribution of 3,4 percentage points was equivalent to the industry's and constructions' total contribution of capital, that is 1,4 percentage points and 2 percentage points respectively. The agriculture has diminished the Gross Domestic Product's dynamics with 1,2 points, while the net product's taxes have had a neutral impact, with only 0,2 points. As far as the utilization is concerned, the final consumption of the population household remains with the greatest contribution to the Gross Domestic Product's increase, which values 7 points, although the gross capital forming had a contribution of almost 6 percentage points. The final consumption of the population has increased in nine months with 9,9%.”¹¹⁵

Net taxes on product	0,2
Services	3,5
Construction	2,4
Industry	1,2
Agriculture, forestry, fishery	-1,3
Gross domestic product	6

Contribution of the main activity branches to the GDP growth rate in 2007 as against 2006

Sursa: INSSE

The prognostication of the economic growth for the current year is situated at the level of 6,2%, which is a level above the average registered by the European Union. The motives that will determine this economic development rhythm will be the following:

- The accelerated and linear increasing, further on, of the internal global demand.
- The stimulation of the household expenditures, determined by the wage increases that will take place due to the migration (still at a high level) of the qualified workers/employees, especially in the Western European countries, that offer salaries above the amount and value of the residential ones (for example, the monthly nominal wage earnings, on an average, have been augmented with up to 30,7% in January 2008).

ROMANIA	-
---------	---

ECONOMIC ACTIVITY	2006	2007	2008	2009	2010	2011	2012
Nominal GDP, RONbn	34.5	40.5	492.6	547.7	609.3	642.6	708.7
Nominal GDP, US\$bn	122.60	165.60	201.10	223.50	253.90	264.40	297.80
Real GDP growth, % change y-o-y	7,7	6.0	6,2	4,9	5.2	4,6	4,5
GDP per capita, US\$	5,695	7,697	9,387	10,445	11,907	12,426	13,366
Population, mn	21.50	21.50	21.40	21.40	21.30	21.30	22.30
Industrial production index, % y-o-y, ave	7,1	5,5	4.8	6,2	5.4	5,4	5.2
Unemployment, % of labour force, eop	5,2	4,1	3,7	3,6	3.5	3.5	3.9

Sursa: BMI Ltd.

Also, the approach of the general elections, that will take place in november this year, will lead to the increasing of the public and fiscal expenses' ratio, that will stimulate the macroeconomic increase called "government consumption".

The Romanian current fund shortage has continued its "gallopade for a state of health", registering an increase rate of 66% in 2007, as compared to the similar period of the preceding year, reaching a record level of 24,7 billion dollars. The general context of Romania's integration in the European structure has recommended the increase of the technology, capital and other types of goods imports, in order to permit the Romanian economic agents becoming competitive on the external market. A so-called process of "catching-up" has been initiated, but any "creative destruction" supposes, the same as a revolution does, the replacing of the old order and structure with a new and notable one, that implies costs and investments. The same as in the other post-communist states, the Romanian post-integration costs have legitimated the alignment and the adoption of a new construction, which is why the last year's increasing of imports by 25% should have been, theoretically, prognosticated and anticipated in real terms. The balance of trade for 2007 had shown a deficit, the exports being increased only by 13,7%, not a very surprising situation in view of the new elements of the Pan-European context, reaching the sum of 25,8 billion dollars. The imports have gained such a dynamic because, at the same time as the 1st of January 2007 integration, the extra-community custom tariffs have been eluded, permitting thus commercial exchanges with EU member states with over 140% and with states outside the Euro zone with over 125%. Also, the internal global demanding has been determined by the decreasing of the interest's rate on the monetary market, which has permitted a more rapid and facile access to consumption credits. According to the estimations provided by BMI Ltd, in the period comprised between 2008 and 2012, the current Romanian account will register a decreasing deficit, from 14, 50% from the Gross Domestic Product in the current year to approximately 9, 60% from the Gross Domestic Product in 2012.

ROMANIA – BALANCE OF PAYMENTS							
	2006	2007	2008f	2009f	2010f	2011f	2012f
Exports, US\$bn	33.00	43.10	47.20	54.90	64.60	75.60	89.50
Imports, US\$bn	47.80	68.80	76.80	87.50	95.90	105.90	114.90
Trade balance, US\$bn	-14,80	-25,80	-29,60	-32,60	-31,30	-30,30	-25,40
Current account, US\$bn	-12,50	-24,70	-29,20	-28,80	-28,70	-28,10	-28,70
Current account, % of GDP	-10.20	-14.90	-14.50	-12.90	-11.30	-10.60	-9.60
Forex reserves, US\$bn	28,10	37,20	45,50	48,80	56,00	60,90	66,50
Import cover, months g&s	7.0	5,60	6,80	6,50	6,80	6,70	6,80

Sursa: BMI Ltd.

Under the circumstances, the inflation remains a hardly foreseeable and comprisable between the prognosticated variation's boundaries disequilibrium. Its fighting by means of renowned anti-inflationary policies remains the main attribution of the National Bank of Romania, as well as the prices' stability. The rise of the energy price (present under the form of raw materials, oil and natural gas) can be inflationary, that is why the National Authority of Regulation in the Domain of Energy has transmitted the signal regarding the establishing of 8, 5% higher prices in 2008, at natural gas destined to household users, after another increase at the end of the year 2007, motivated also by the more numerous modifications of the tariffs for the distribution of natural gas. Furthermore, the Unions' pressures concerning the salaries' raising remain very high, the recent debates from the transportation and the vehicle construction domain enhancing this supposition. Moreover, the labour power deficit from several productive domains sustains this hypothesis of the raising of the salaries that gets reflected in a stimulation of the household' demand.

The decision of the monetary authority of increasing the referential interest has also been influenced by a particular dynamic of the consumption loans or the ones tendered for purchasing a residence. Also, the financial operation of this increase has also been founded on the ground of avoiding the risk of the side effects' manifestation of the inflationary shocks caused by the offer's nature (according to the National Bank of Romania). This risk was being amplified by the following:

“(i) the unexpectedly great range of the demands recorded by prices at the food products and the anticipation, from the offer's point of view, of the shock's prolonging effects caused by the 2007 drought (intensified also by the raising of some of these prices on the international market).

(ii) the high share held by the agro-food products prices' component in the IPC basket.

(iii) the implementation in the first part of the year 2008 of some administered prices' adjustments.”¹¹⁶

Romania's economic freedom and macroeconomic effects

There is also this notable fact: the Heritage Foundation and the Wall Street Journal have drawn up the well-known top of the freest states¹¹⁷, if we are to take into account 10 criteria, beginning with the degree of freedom experienced in the local business community and continuing with the freedom of commerce, of the monetary and the financial market, up to the observance of the propriety law, the freedom of the labour market, and the corruption degree reached by a certain state. In accordance with these elements, the economic freedom's index achieved by Romania in 2008 on a scale from 1 to 100 reached the value of 61, 5%, which situated us on the 68th position from a 162 countries' specimen. This outline has undergone a slight improvement in comparison with the year 2007, under the circumstances of an evident progress of the monetary market and the drawn investments. Therefore, the freedom of the business community

accumulates a score of 74, 1%, which means that the internal legislation allows an approximate approach of what a questionable market supposes, the local and foreign investors being well-protected and the profits certain to be realised. The best obtained score is assimilated to the freedom of carrying on commercial activities, Romania having such a free domain on an 86% percentage. This is due to the fact that the national commercial policy gets harmonized with the UE common commercial policy as well as with the common customs tariff, the scheme of generalized preferences, the measures concerning commercial safety as well and the different preferential agreements with tertiary states. The fiscal sector is also not considered according to regulations one, being free in an 85, 6% proportion. The freedom towards the “public power”, that is the government, reaches only a value of 70, 8%, the encroachments of the state in the economic domain being yet enough overpowering, although the public expenses are claimed to be reduced with approximately one billion euros, in order to diminish the excessive deficit and to coordinate and render the economic policies coherent. The freedom degree of the investments sector is relatively low, having a value of only 60%, whereas the one of the financial sector reaches a proportion of 50%. The freedom towards corruption has been registered as reaching a percentage of 31%, and the one towards the property law of only 30%. Furthermore, the freedom of the labour market barely reaches the 55, 3% value, due to the fact that the syndicates and employers do not communicate coherently and efficiently.

At the UE level, Romania and its index of economic freedom is being situated on the 30th position, out of 41 European countries, surpassing UE member states like Slovenia, Greece and Poland, and non-member states, such as Turkey, Croatia, Ukraine or Russia.

What remains interesting is the simulation concerning the evolution of the whole Europe’s degree of freedom, as contrasted with the global medium in the period of time 1995-2008. A progressive trend can be remarked, beginning with 1995, the Europe’s medium of 66, 8% being in expansion, as compared to the registered global medium of only 60, 3%. Moreover, the Asia-Pacific area has registered a negative trend of 58, 7%, as compared to the global standard. Also, the Americas have registered an insignificant advance of only 61, 6%, in an obvious decrease, as opposed to the end of the 1990s and the beginning of the year 2000.

Half of the top of the freest world states is formed by European countries, and here we have Ireland, Switzerland, Great Britain, Denmark, Estonia, Holland, Iceland, Luxembourg, Finland and Belgium. Apparently, this is due to the improvements of the constitutional performances (for example, the reduction of taxes and duties) and to the positive reforms applied to the business community, which has become even more attractive and welcoming.

And then we have the natural question concerning how the financial policy (plus the budgetary included policy) and the precise pointing at the inflation can be both reconciled. The inflationary outbreak supposes a specific approach of the national monetary authority; in this sense, the declared purpose consists of hardening the promoted monetary policy.

In the first quarter of the year 2008, the inflation ratio surpasses 8%, under the circumstances of raising the prices for natural gas and combustibles. Another explanation may consist of the insufficiency of the offer if we are to relate it to the accelerated increase of the internal effective demand, which leads to prices’ raising. As Daniel Dăianu estimated, an excess of demand in an open economy can supply both the external deficits, as well as the inflation, but in our case, this demand surplus has had repercussions on the external deficits by means of the national currency’s rise in value as well as of the deflationist process.

Towards the end of the year 2007, due to the raising of the energy prices on the world market and as a result of the summer drought, the inflation has resumed its increase in a most alarming way. The external deficits have accentuated due to the internal credit’s expansion, which has determined the augmentation of the current account deficit. We must not forget in this sense the liberalization of the current account, the role of the consumption credit, the banking system after the European Union adhesion, as well as the new realities of the labour market.

Furthermore, there must not be minimized at all the especially aggressive impact towards the fiscal-budgetary policy, represented by the liberalization of the capital account. The arrival of external funds, speculative ones on many occasions, combined with subsidies coming from un-repayable European Funds, plus increasing budgetary incomes (even if the reduction of the profit tax would combat the supposition) gets transformed into inflationary expenditures (increased effective demand). Under these circumstances, the so-called “crowding-out” becomes almost non-existent. The “crowding-out” represents the result of a state government’s action that tenders for loans by means of the bonds’ emission – in order to finance its

various expenses – that leads to the increase of the interest's ratio on the market and on many occasions to the incapacity of the economic agents and of the natural persons to tender new loans. On the other hand, the increase of the interest's ratio leads to the drawing of external (speculative) assets, that lead, also, to the appreciation of the national currency, resulting a “crowding out” effect upon the exports from the native land, that become even more expensive for the non-resident importers that possess another currency. According to the Mundell-Fleming trilemma , there has been demonstrated that a fixed exchange rate, the capitals' circulation freedom and an independent monetary policy cannot exist concomitantly.

Bibliografie

1. The Romania Business Forecast Report, published by Business Monitor International Ltd, 2008-
2. www.oecd.org
3. www.mediafax.ro/economic
4. www.insse.ro
5. www.bnr.ro
6. www.heritage.org