

## THE EVOLUTION OF THE MAIN MACROECONOMIC INDICATORS OF THE ROMANIAN ECONOMY

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### **Abstract**

*The economic and financial crisis from the last years continues to affect the economies of many countries at global level. The Gross Domestic Product of these countries has known a serious decline. Romania is one of the countries that try to redress from the decline of the last years. The measures taken in order to make the economy grow have proven to be ineffective in the fight with the recession. This has led to the bankruptcy of many companies, employees being laid off and the level of direct investments has decreased.*

*The paper aims to analyze how has evolved the economy through the analysis of the contribution of direct taxes in the composition of the general consolidated budget, of the evolution of the economic growth, of the evolution of the gross domestic product.*

*The results will show the image of how the economy works. The weight of private companies in the gross domestic product is of 70%, which shows the importance of this sector in the economy.*

**Key words:** performance, risk, risk management, gross domestic product, growth rate, unemployment.

**JEL Classification:** E20, E24

### **1. Introduction**

The evolution of the financial crisis has affected on long term the majority of the economic entities from Romania, which has brought about the application of risk management by those entities. The economic agents from Romania were taken by surprise by the evolution of the crisis and this resulted in the insolvency of some of them.

The managers with a proactive thinking shall take into account risk in obtaining financial performances so that to the performance measurement tools are added also various systems of monitoring and controlling the risks. The implementation of this combination ensures obtaining the long-term objectives of economic entities.

The authors of a recent study have made an analysis between risk management and companies' performance, stating three hypotheses:

- Between total risk management and the level of performance of the company there is a significant relationship;
- There is a superior positive relationship between total risk management and the level of performance of companies in the case of those that invest in innovation;
- Between total risk management and the level of performance of the company there is a positive relationship in the case of those that have a superior intellectual capital.[1]

As a result of this study it has been concluded that there is a strong correlation between total risk management and company performance so that it has been established as a final conclusion the fact that managers must ensure risk management in any moment ensuring the improvement of the corporate performance.

### **2. General overview of the economy**

The global economic environment has experienced a severe recession due to the economic and financial crisis. It has evolved rapidly in the economic environment through the banking system, particularly through the limitation of loans. The gross domestic product at global level marked a contraction of -0.6%, after 30 years of growth, in the various regions and countries recording decreases more significant or lower. For example, the European Union has been more affected (-4, 2% compared to 2007) in comparison with countries such as China or India, even though the authorities have taken extraordinary measures.

The consequences have arisen without delay and have had a negative impact on the majority of European Union States, including Romania. One of the most important criteria of the Maastricht Treaty (the one that led to

the creation of the European Union) on the budget deficit, which was supposed to be less than 3% of the total gross domestic product at Member State level, has proven to be difficult to be complied with by the Member States because of economic difficulties.

The Romanian economy has passed through different stages starting with the change of the political regime in the year 1989 and by this meaning passing at democracy. The changes have existed not only in the economic plan but also in the political, social and cultural plan.

The policies adopted by the different governments, that have led the countries, have proven to be not the right ones for the economic environment which has as result the reach of some record levels of the inflation rate (170,2% in the year 1991, 210,4 in 1992, 256,1% in 1993 and 154,8% in 1997), the accentuated depreciation of the national currency, the late application of reforms, the increase of the deficit of the foreign payments balance, severe problems at the level of the banking system, the increase of the level of public debt, low liquidity at the level of capital market, reduced volume of resources necessary for the well functioning the state institutions, the slow development of the private sector and ineffective support of SME s.

The Romanian economy has known a clear evolution process starting with the year 2000, characterized by the economic growth of the gross domestic product, the reduction of unemployment and the increase of the growth level of the population. The effects that appeared are the result of the measures taken in the fiscal area, measures reported in the diminution of the fiscal pressure on wages, capital, the mandatory contributions or the directs taxes supported by the economic agents.

### 3. The main indicators influencing the Romanian Economy

In what regards the stimulation of the private initiative, the relief of the business environment or the diminution of the underground economy, have been considered by the adoption of the flat tax rate, which supposes a certain tax rate applied to all revenues that exceed a certain limit. The flat tax rate has been applied for the first time in 1991 in Estonia. The use of the flat tax rate implies the reduction of the tax evasion.

The increase of revenues from the income tax has not been significant in the year 2006. The years 2007 and 2008 have marked more important increases, not necessarily as an effect of the adoption of the flat tax rate but also as result of the expansion of the entire economy. However, the period 2009-2012 has marked a significant diminution of the revenues from the income tax, not only as effect as the global crisis but also as effect of the tax measures adopted (table no. 1).

The consequences that have appeared from the implementation of the flat tax rate have allowed the increase of net salaries from many employees, and, especially, for those with high incomes. All of these have contributed at the increase of the tax deficit and in the years 2009 and 2010 have demonstrated the vulnerability of the Romanian economy in the encounter with major negative phenomena.

Table no. 1. The evolution of the tax revenues and fiscal pressure from Romania in the period 1990-2012

Year	Total Revenues (RT) mil lei	Tax Revenues (VF) Mil. lei	Revenues from Direct Taxes (RDT)	Revenues from income tax (RIT)	Weight of RIT in RT	The weight of RIT in GDP	Fiscal Pressure (VFx100/PIB)
1990	33,16	30,45	19,48	6,05	18,24	7,05	35,49
1991	90,73	73,18	52,15	11,13	12,26	5,05	33,20
1992	221,67	201,94	150,85	31,94	14,4	5,3	33,49
1993	669,95	626,89	433,19	75,36	11,24	3,76	31,29
1994	1566,26	1404,14	1002,77	191,05	12,19	3,84	28,21
1995	2317,73	2080,28	1411,7	281,12	12,12	3,9	28,84
1996	3261,95	2925,58	1952,16	354,79	10,87	3,26	26,86
1997	7676,03	6700,01	4424,82	1077,96	14,04	4,26	26,49
1998	11782,46	10397,23	6344,61	1106,73	9,39	2,96	27,82
1999	17910,8	16427,3	10106,59	1703,74	9,51	3,12	30,10
2000	25109,54	23504,82	14394,79	2033,43	8,09	2,53	29,24
2001	35174,11	32669,87	19753,97	2220,6	6,31	1,9	27,99

2002	44752,11	41816,55	24835,47	3018,96	6,74	2	27,65
2003	56646,31	52789,36	29671,72	4416,71	7,79	2,34	27,92
2004	72137,14	64884,97	36875,07	6226,1	8,63	2,66	27,71
2005	87283,1	51548,6	16486,8	6534	7,48	2,3	17,9
2006	106975,3	63792,4	19105,2	7938,9	7,42	2,4	19
2007	127108,2	76365,8	26319	10558,3	8,3	2,7	19,5
2008	164466,8	94044,4	14532,4	13045,9	7,93	2,5	18,3
2009	156624,9	88324,3	31829,9	11893	7,59	2,4	17,5
2010	168598,45	93060,1	28926,1	10115,1	5,99	2	18,2
2011	181566,9	104687	30106,5	10309,1	5,67	1,9	19,1
2012	193148,2	114044,6	32782,9	10854,5	5,61	1,9	19,5

Source: data recorded on [www.insse.ro](http://www.insse.ro); [www.mfinante.ro](http://www.mfinante.ro), own calculus

The analysis of the annual rhythm of economic growth, measured through the dynamics of the gross domestic product, inflation rate, commercial deficit (established by the basis of the level of exports and imports expressed in the clause FOB), the unemployment rate, the weight of budgetary deficit in the gross domestic product or the weight of the private sector in GDP can offer us a series of relevant information regarding the situation recorded at the level of the Romanian economy.

An economy based on extensive development and preponderance of the industrial system with a productive potential inefficiently used, obsolete technologies, resource-intensive, with low productivity and results materialized in uncompetitive products on foreign markets has led to a trend of decline in the gross domestic product since 1988, this continuing also after 1990, amid the transition to a different kind of economy and of the reduction of demand on foreign markets for the Romanian products.

The years 2000 have brought a new direction in the economy of Romania, making important changes, so that the period between the years 2000-2008 has represented one of the best intervals for the Romanian economy, not only from the point of view of the economic growth but also in what concerns the number of unemployed people, the unemployment rate recording a decrease until 4% (it must be taken into consideration the fact that the number of employees has been inferior due to the fact that many Romanian have chosen to go abroad to work). Starting with the year 2008 the economy has begun to see the effects of the economic crisis, 2009 showing a negative growth (-7.1%) in comparison with the previous year, the tendency being maintained also in the year 2010.

The year 2011 has been characterized by a positive rhythm of economic growth, but the level of the gross domestic product has recorded a lower value than the potential one. The positive level of the economic growth has been determined by the increase of the supply of goods at national and external level, but also by the dynamics of the gross added value from agriculture and constructions. We notice that the budgetary deficit has started to decrease, from -6.8 in 2010 to -4.4, in 2011.

The economic growth has determined also a descendent switch at the level of the number of employees, the unemployment rate decreasing at 7.4% at the end of the year 2011. This has not been significant, on one way due to the reduced rhythm of the economic growth, on the other side as a consequence of the structural errors from the labor market (table 2).

**Table no. 2. The situation of some macroeconomic indicators in the period 1990-2011**

Year	GDP Bill. lei	Annual Rhythm	Inflation rate	Commercial deficit (mil. euro)	Unemployment rate*	Budgetary deficit in PIB	General budget deficit in GDP	Private sector in GDP
1990	857,9	-5,6	5,1	-3427,1	-	0,3	1	16,4
1991	2203,9	-12,9	170,2	-1106,3	3	-1,9	-3,2	23,6
1992	6029,2	-8,8	210,4	-1420,7	5,4	-4,4	-4,6	34,8
1993	20035,7	1,5	256,1	-1127,9	9,2	-2,6	-0,4	38,9

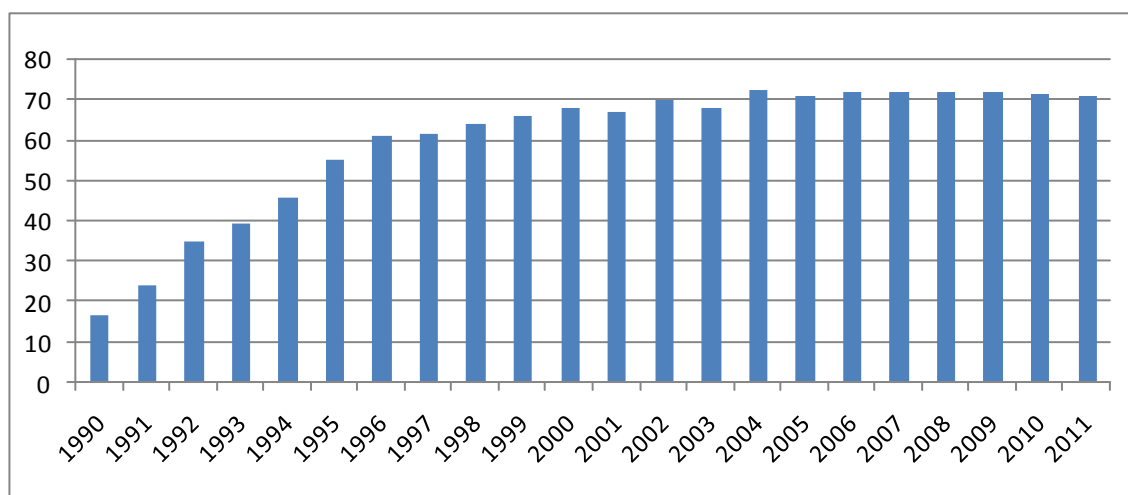
1994	49773,2	3,9	136,7	-411,1	11	-4,2	-1,9	45,3
1995	72135,5	7,1	32,3	-1557	10	-4,1	-2,6	54,9
1996	106919,6	3,9	38,8	-2470,5	7,8	-4,9	-3,9	60,6
1997	250480,2	-6,9	154,8	-1980,1	7,5	-3,6	-3,5	61,4
1998	373798,2	-4,8	59,1	-2611	9,3	-3,1	-3,6	63,7
1999	545730,2	-1,2	45,8	-1092	11,4	-4,5	-1,8	65,6
2000	803773	2,1	45,7	-1684	11,2	-4,4	-4	67,9
2001	1167242,8	5,7	34,5	-2969	9	-3,5	-3,3	66,8
2002	1512256,6	4,9	22,5	-2611	10,2	-2	-2,6	69,4
2003	1974276,1	5,2	15,3	-3955	7,6	-2	-2,3	67,7
2004	2473680	8,3	11,9	-5323	6,8	-1,5	-1,1	72,2
2005	288176,1	4,2	9	-7806	5,8	-0,7	-0,8	70,4
2006	344535,5	7,9	6,56	-11759	5,4	-1,4	-1,68	71,6
2007	416006,8	6,3	4,84	-17822	4,3	-3,14	-2,42	71,6
2008	514700	7,3	7,85	-19109	4	-4,82	-4,8	71,7
2009	501139,4	-7,1	5,59	-6871	6,3	-7,4	-7,2	71,8
2010	523693,3	-1,1	6,09	-7577	7,91	-6,8	-6,51	71,3
2011	556708,4	2,2	5,79	-7409	7,4	-4,4	-4,35	70,8

In the year 1990, the number of unemployed people was almost zero

Source: Statistical Yearbook of Romania 2011; data recorded on [www.mfinante.ro](http://www.mfinante.ro); [www.bnr.ro](http://www.bnr.ro)

The weight of the private sector in the creation of the gross domestic product has been significant in the last years and this thing has been ensured by the sale of different packages of shares detained by the Romanian state in different companies and also by the existence of a high volume of investments with direct effects on the level of the activity performed. Thus, we can notice that starting with 2005 the input offered by the private sector, in the creation of the gross domestic product, has reached a value of over 70% (Figure 1).

Figure no.1. The contribution of the private sector in the creation of the gross domestic product



The figures mentioned in table 3 show us the performance of the Romanian economy in what regards the main economic and financial indicators recorded by the active economic agents from Romania in one of the most important periods from the last 20 years. It can be noticed that the Romanian economic environment is quite

unstable, this thing is due to the fact that exterior powerful phenomena affect it but also due to the fact that a series of measures promoted by the authorities have not had the anticipated results, on the contrary, they caused serious problems to the economy, problems referring to unemployment and bankruptcy of many companies.

Table no. 3. Main economic and financial indicators recorded by the active economic agents from Romania in the period 2000-2010

<b>Indicators Year</b>	<b>Turnover</b>	<b>Gross Investments</b>	<b>Direct Exports</b>	<b>Gross Added Value</b>	<b>Gross result of the exercise</b>
2000	1.396.332	265.650	110.491	336.959	-567
2001	2.023.201	393.710	183.653	443.683	31.002
2002	2.675.915	412.743	282.738	520.535	4.886
2003	3.457.431	423.853	374.511	664.413	10.526
2004	4.508.430	627.490	537.400	892.590	22.226
2005	5.126.140	736.680	597.780	1.048.590	28.474
2006	6.275.350	874.570	704.180	1.278.500	43.569
2007	7.699.050	1.458.790	823.690	1.600.820	43.204
2008	9.547.900	1.431.020	977.270	2.211.560	32.105
2009	8.524.240	990.480	927.910	1.934.440	12.876
2010	9002400	915200	1232410	2006190	55820

Source: Statistical yearbook 2009, 2010, 2011, National Institute of Statistics

The impact of the crisis on the private sector has been seen in the diminution of the level of the most important macroeconomic indicators. The most affected sectors have been real estate brokerage services, constructions and trade. Romania went standings in the World Bank's ranking regarding the competitiveness of the business sector, having the 55 position from 183 states [2].

In order to ensure a positive trend of the economic growth, it is imposed a permanent support of the business sector and especially of SME-s (these being the majority), the assimilation of new technique and technology, the creation of risk management strategies so that it ensures the increase of labor productivity and the competitiveness of the economy in the international plan, as well as the efficient usage of available resources, the creation of new jobs and the modernization of the social protection systems. In the last years, the European Union has offered the possibility to access huge amounts of funds needed for the development of different sectors of the economy. Unfortunately, these funds have not been absorbed as it has been supposed.

#### 4. Conclusions

As we have seen from all the results presented, the Romanian economy has passed through the same problems as other states from around the globe, not only those from the European Union. The economic and financial crisis has highlighted the fact that the global economy is not stable in case different risks take action and this is due to the fact that different banking, economic and financial channels are interrelated and a problem in one channel can lead to severe problems in the other channels.

In what regards the case of Romania, it can be stated that the economy has been affected by significant diminution of the gross domestic product expressed in real terms in the first ten years after the revolution, by the lack of existence of a correlation between the economic reality and the legislative measures, the increase of the inflation rate, according to the National Bank of Romania, the inflation rate in 2013 has been of 5.3% which shows the increases in the prices of different products and services in the economy.

Many economic agents have had no choice but to go into insolvency which can only highlight that the economy is struggling to recover and the incapacity of these economic agents to find solution, thus, it is

necessary a better collaboration between the state and the private sector so that the legislation will be correlated with the necessities of the economic agents and manage to decrease the number of unemployed people.

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