

## STIMULATION OF ECONOMIC GROWTH IN ROMANIA BETWEEN REALITY AND DESIDERATE

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### **Abstract**

*Fragility of economical environment subject to a dynamic process of globalization in recent decades has been demonstrated abundantly, year 2007 representing an important point in terms of triggering the accentuated macroeconomic imbalances. The propagation of the financial crisis in the economic environment is clearly reflected by the contraction of the global economy after a long period of growth, the emphasizing of budget deficits, reducing wages, increase of unemployment. Romania was significantly affected by the global economic crisis, amid a long line of inadequate policies. The orientation excessive economic development through consumption and the unfavorable ratio between income and productivity are issues that have contributed significantly to the decline of the Romanian economy. Inadequate measures taken have worsened the effects of crisis: reducing foreign investment, increasing of trade deficit, reduction of living standards, decreasing the number of SMEs, worsening the institutional weaknesses etc.*

*In this paper, are addressed aspects which highlights the effects of economic policy measures promoted in Romania after the transition to market economy, on stages, specifying measures necessary to ensure the functionality of coordination mechanisms, in order to register determinant impulses of economic growth.*

**Cuvinte cheie:** *economic growth, economic and financial crisis, gross domestic product*

**Clasificare JEL :** *E61, E65*

### **1. Introduction**

Addressing the issues which allow to estimate the economic growth process requires a series of preliminary specifications which relate to identify the distinctive features of this in the notions's space that highlight the degree of development and the tendency of an economy on the analyzed period. In this way, it is necessary a differentiation in terms of scope and assessment indicators specific for the process of economic growth. Thus, the quantitative evolution of an economy, evidenced by indicators such as total gross domestic product or per capita, correspond to the economic growth process.

Practical, the ability of an economy to record an increase evidenced by the dynamics of indicators specified on the basis of using human and material resources at which there is manifesting a quantitative modification, reflects the content of the process. Instead, qualitative changes observed at the level of production factors that determines a economic progress correspond to economic development process. Although the distinction between the two concepts is clear, their simultaneous expression does not permit to identify the exact spore realised on account of the action of quantitative or qualitative factors.

Instead, it can be considered that the fundamental objective of both processes remains the raising of living standards. Therefore, identification of factors with direct or indirect effects on volume of production and the adoption of stimulus measures represent priority areas which must be included in economic development strategies (magnitude and duration of the last financial and economic crisis demonstrated the fragility of the global economic system and an unprecedented accentuation of economic interdependence but also impediments in the application of models and fundamental theories of economics).

So, the policies promoted in areas such as fiscal or social (often regarded as indirect-acting factors on economic growth) may rebalancing economic mechanisms at larger intervals of time. Thus, the level of fiscal

pressure can influence the amount of resources which remained available for saving, and thus for investment, influencing economic growth [1]. The role of institutions involved in ensuring the functioning of economic mechanisms becomes more important, as demonstrated by the rapid redress of the economies in which acted solids national institutions [2].

Unfortunately, the application of fiscal and budgetary policies are often performed in correlation with the interests of the parties in power, aimed at winning the elections. In this sense, in the election periods shall be recorded increases in the budget deficits amid increasing expenses with pension, salaries, etc.

In the context of the issues mentioned, in this paper are analyzed a range of information regarding the economic situation of Romania in the period 2000-2012, the paper being structured in the following sections: analysis of economic growth in Romania, tendencies in GDP and GDP per capita in Romania and EU after 2000, conclusions, references. The issues presented and analyzed in this paper converge to a general conclusion, which highlights the need for institutions capable of managing the economic mechanisms and to promote effective policies both in traditional sectors and the new ones.

## 2. The analysis of economic growth in Romania

Profound changes recorded in the economic and social plan since 1990, caused by the inclusion of romanian economy on the path of market mechanisms, have shown the limited ability of adaptation to new requirements on ensuring sustainable development. The perception of characteristics, mechanisms and specific policies of the new type of economy with difficulties had negative effects on the development of the economy. In addition, the defining elements of the economic environment determined a perpetuation of the problems with adverse implications for economic growth.

In this way, we can mention:

- ✓ forced industrialization process, in an economy with a low level of technical facilities and assimilation of technical progress, which caused a reduction in international competitiveness;
- ✓ adopting a highly restrictive extern trade policy, which generated an imbalance in the market, characterized by the absence of necessary products to satisfy the needs of the population (determined by the reduced imports and excessive promotion of exports), as well as the tehnological at the level of economic agents;
- ✓ maintaining clear restrictions on the capital account and \using an artificial exchange rate;
- ✓ using a heavy fiscal system and a mechanism which allowed covering losses to the various economic operators on account surpluses made by others; economic agents structure (characterized by the existence of very large entities, difficult to manage and the problems arising from using of outdated machinery and equipment);
- ✓ forcing the process of liquidation of the external debt etc.

If at these details are added the inability substantiation and the applications of necessary measures from state institutions and political transformations occurred in political plan can be identified points defining the trajectory of romanian economy. We can identify a series of negative aspects which characterized the period 1990-1992, respectively:

- negative rhythm of economic growth, generated by the reduction of production, investment and trade deficit growth;
- rapid growth of inflation rate on amid nominal rise in wages, reduce of production and labor productivity;
- exchange rate instability;
- rising unemployment;
- deepening budget deficit (caused by increasing levels of public spending amid economic involution, the low level of revenue collection and inefficient use of resources);
- external debt growth.

The situation changed after 1993, registering improvements nearly in all indicators mentioned, except the deficit and the trade budget, until 1996. Implementation of structural reforms caused a break in the positive trend, favorable effects manifested only since 2000. In order to evidence the issues presented, we synthesized the evolution of important macroeconomic indicators in Table 1.

**Table 1 The evolution of the level of macroeconomic indicators in 1990-1999**

Indicators	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
$R_{PIB}$	-5,6	-12,9	-8,8	1,5	3,9	7,1	3,9	-6,9	-4,8	-1,2
$R_i$	5,1	170,2	210,4	256,1	136,7	32,3	38,8	154,8	59,1	45,8
$R_s$	-	3	5,4	9,2	11	10	7,8	7,5	9,3	11,4
$S_{BC}$	-3427,1	-1106,3	-1420,7	-1127,9	-411,1	-1557	-2470,5	-1980,1	-2611	-1092
%DBc/PIB	1	-3,2	-4,6	-0,4	-1,9	-2,6	-3,9	-3,5	-3,6	-1,8

Source: [www.mfinante.ro](http://www.mfinante.ro), [www.bnr.ro](http://www.bnr.ro), [www.insse.ro](http://www.insse.ro)

Legend:  $R_{PIB}$  – annual rhythm of growth rate of GDP;  $R_i$  – inflation rate;  $R_s$  – unemployment rate;  $S_{BC}$  – the trade balance sheet (mil. euro); %DBc/PIB – ratio of budget deficit consolidated to GDP.

The 2000-2008 interval represented most favorable period in terms of economic development. Thus, between 2004 and 2006 had been registered the highest levels of GDP growth rate, respectively 8.3 and 7.9, marking the end of the positive trend in 2008, with a level of 7.3. The average annual rhythm of economic growth was determined mainly by developments in construction, industry and services.

Obviously, the effects of economic crisis were felt in Romania, as evidenced by the worsening macroeconomic indicators which characterize the romanian economy. Years 2009 and 2010 recorded a negative growth rate (-7.1 and -1.1), with direct implications on the unemployment rate, whose level rise by more than 3 percent. Meanwhile, there have been reductions in staff costs and the resources allocated to realise productive investments.

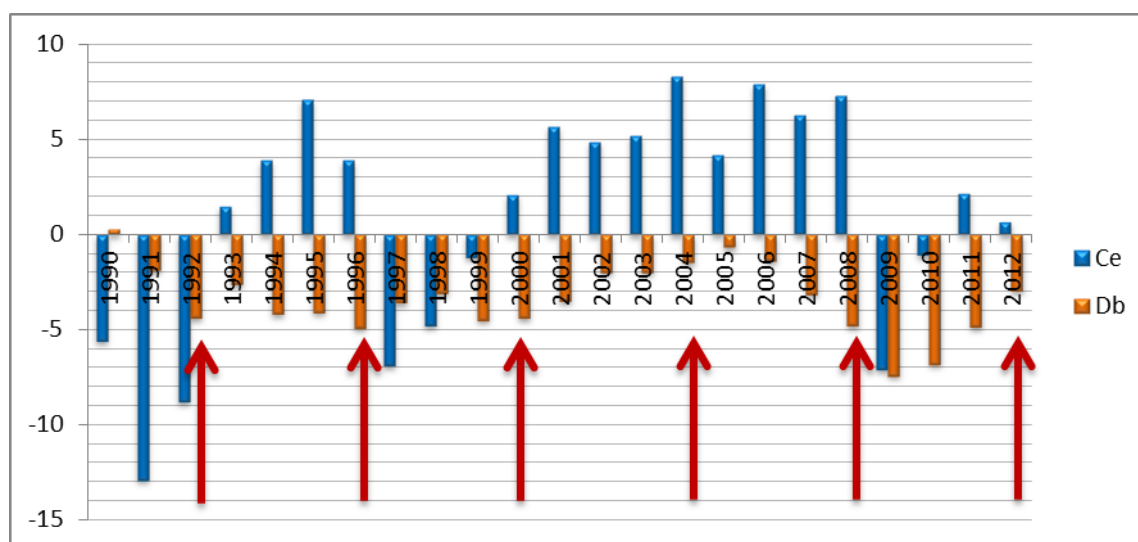
The situation was not favorable either public finance, deficit of consolidated budget reached 7.2% of GDP in 2009 and 6.8% in 2010. Thus, if in the period 2000-2008 can be observed an increasing tendency in real income, due to evolution of rates of economic growth (we can discuss and favorable effects on reducing tax rates at the level of profit tax from 25% to 16% or VAT) in 2009 and 2010 this was reversed, the fiscal deficit showing poor response capacity of an underdeveloped economic environment and unstable in the face of major events (table 2).

**Table 2 Evolution of macroeconomic indicators in 2000-2012**

Ind.	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
$R_{PIB}$	2,1	5,7	4,9	5,2	8,3	4,2	7,9	6,3	7,3	-7,1	-1,1	2,2	0,7
$R_i$	45,7	34,5	22,5	15,3	11,9	9	6,56	4,84	7,85	5,59	6,09	5,79	4,95
$R_s$	11,2	9	10,2	7,4	6,3	5,9	5,2	4	4,4	7,8	7	5,2	7
$S_{BC}$	-	-	-	-	-	-	-	-	-	-	-	-	-
	1684	2969	2611	3955	5323	7806	11759	17822	19109	6871	7577	7409	7313
%DBc/PIB	-4	-3,3	-2,6	-2,3	-1,1	-0,8	-1,68	-2,42	-4,8	-7,2	-	-	-
											6,51	4,35	2,52

Source: [www.mfinante.ro](http://www.mfinante.ro), [www.bnr.ro](http://www.bnr.ro), [www.insse.ro](http://www.insse.ro)

As we stated above, the economic development has been determined and by the political context. A gradual analysis of the budget deficit may reveal this aspect (Figure 1).



**Figure 1 Trends of the budgetary deficit correlated with political cycles in Romania**

Except the years 2004 and 2012, one can observe a growth of the budget deficit in election years. But, even in these years the parties in power have lost the election, as happened in the others election years. This situation demonstrates that budgetary measures are subsumed the policy options even if the electorate is based and on other reasons.

Moreover, from the studies conducted by various authors: Rabushka (1987), Easterly and Rebelo (1993), Engen and Skinner (1996), Oclean (2006), Fabrizia, Moly (2006), Weller and Rao (2008), Talpoş, et al (2008), we draw the conclusion that fiscal - budget policy may influence economic growth, but more often than not it is a political priority rather than a tool for the purposes of registration of economic effects [3-8]. More, a World Bank study (2010) concludes that fiscal adjustments that allow reducing fiscal deficits and reducing public expenditure generate stronger economic growth compared with an increase in taxes [9].

### 3. Tendencies in evolution of GDP and GDP per capita in Romania and the EU after 2000

Real GDP growth rate in the EU and Romania recorded sinuous developments during the analized interval, determined by the promoted policies, economic particularities and manifestation of economic - financial crisis in 2008 (table 3). At EU level, the positive trend in the period 2000-2008 was discontinued in 2009, supported contraction was 4.4%. Subsequently, there was registered a return of increasing trend, but the negative evolution of economies of countries (Greece, Portugal, Slovenia) and an insignificant increase in others (Italy, Cyprus, Spain, Denmark) influenced the rhythm of economic growth. In this way, an aspect which should be mentioned is the variations registered at the level of countries in the EU.

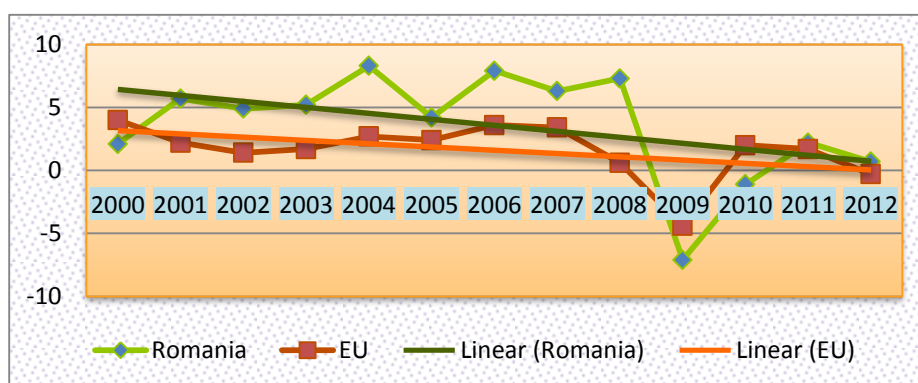
The only state that has not been affected in 2009 was Poland, then resume the process of economic growth in most countries, but in different proportions. Compared to the EU average growth for the period 2002-2011 (1.4%), the highest levels were recorded in Slovakia (4.8%), Lithuania (4.5%), Poland (4.2 %), Romania, Bulgaria, Estonia and Latvia (3.9%). On the opposite side were Italy and Portugal (0.3%), Denmark (0.6%), France and Greece (1.1%), Germany (1.2%). Interestingly, many of the countries with the highest average growth experienced the strongest contraction in 2009: Lithuania (-14.8%), Latvia (-17.7%), Estonia (-14.3%) [10].

**Tabel 3 Gross domestic product per capita, current prices (cp), billion dollars**

Years	Romania				EU			
	GDP, cp	Rg	GDP/capita	GDP/capita growth - %	GDP, cp	Rg	GDP/capita	GDP/capita growth - %
2000	37,3	2,1	1671,5	3,4	8540,0	4	21900,2	3,6
2001	40,6	5,7	1817,9	5,7	8623,8	2,2	22818,1	2
2002	46	4,9	2031,2	5,2	9426,2	1,4	23415,8	1
2003	59,5	5,2	2742,2	8,3	11478,2	1,7	24208,8	1
2004	75,8	8,3	3502,9	8,7	13248,5	2,7	25425,3	2,1
2005	99,2	4,2	4589,4	4,3	13858,5	2,4	26665,3	1,7
2006	122,7	7,9	5686,9	8	14772,2	3,6	28359,7	2,9
2007	170,6	6,3	7916,7	6,4	17091,9	3,4	29961,3	2,8
2008	204,3	7,3	9496,9	7,5	18458,7	0,6	30575,9	-0,1
2009	164,3	-7,1	7649,5	-6,4	16453,7	-4,4	29337,7	-4,6
2010	164,8	-1,1	7683,8	-1	16367,1	2	30188,8	1,8
2011	182,6	2,2	8538,6	2,5	17686,7	1,7	31212,5	1,4
2012	169,4	0,7	7939,3	0,9	16673,3	-0,3	31571,3	-0,6

Source: IMF World Economic Outlook, October 2013

In Romania, the favorable development in the period 2003-2006 was determined by foreign investments (mainly stimulated by the low cost of labor), increasing intern demand, increase exports and labor productivity growth, in the context in which international economic environment known an expansion (from a rhythm of growth of 2.3 in 2002 reached 5.3 in 2007), due to increasing international trade and reduce procurement costs of capital. From the data presented it can be concluded that Romania had registered pre-accession EU a higher growth rate. Subsequently, the economic and financial crisis has affected the romanian economy more than the average EU growth (Figure 2).



**Figure 2 Gap between GDP growth rate: Romania / EU**

In addition, although we positioned the top ten countries with the largest populations, our economy is only 1.015% of EU GDP (in 2012).

In terms of GDP per capita, although there is higher growth rhythms compared to the EU in most of the analyzed period, Romania is among the countries with the lowest level of this indicator (it occupies the position 26 in the standings of countries of EU). Thus, in a standing realised at the level of EU, Luxembourg was placed first in 2012, with a per capita volume index of 271 (EU 27 = 100), explained by the large number of non-resident employees contributing to the GDP, followed of Austria (131), Ireland (129), Netherlands (128). Romania has registered 51 per cent below the European average, followed only by Bulgaria with 53 percent. [11].

#### 4. Conclusions

The issue of economic growth remains highly complex in the context of diversification of factors which influence it and accentuation of interdependence of national economies. Thus, an unfavorable macroeconomic context can quickly pass on national economies seriously affecting living standards, recording severe macroeconomic imbalances at the level of financial markets, labor market, public finances, prices, investments etc.

The economic climate in Romania has experienced significant changes in recent decades, economic and financial policy measures are not often anchored in reality. The performed analysis highlights a number of issues that demonstrate this, our country positioning itself on the wrong place in the EU in terms of GDP and GDP / capita.

Stimulating of the business environment remain a sore point for the Romanian economy. In this context, we consider it absolutely necessary to adopt a package of measures which must relate to:

- ✓ Increased competitiveness;
- ✓ Stimulate SME sector, given that it generates the most jobs and contributes over 80% to GDP;
- ✓ Priority allocation of resources for infrastructure development;
- ✓ Assimilation of new technologies that enable increased productivity and competitiveness in the international economy;
- ✓ Increased absorption of European funds;
- ✓ Ensure a degree of stability higher than legislative provisions affecting economic environment;
- ✓ Attracting foreign investment and creating new workplace;
- ✓ ensure a stable context for the economy through fiscal and budgetary policy formulation on a long-term and its correlation with the monetary policy;
- ✓ ensure an optimal proportion between the consumption expenses and those for development;
- ✓ avoid the financing of public expenses through loans (because of the exceeding of the existing resources).

In addition, the reform of the fiscal system from point of view of the consolidation of the tax base and of the applying of taxes can generate a high level of resources obtained and increase investment. A negative example in terms of the effects generated is represented by the establishment of flat tax in 2009 (without respecting the period of 6 months from approval at implementation): a large number of SMEs has ceased its activity, the number of unemployed increased and the revenues collected decreased. If added and increasing the level social contributions and of the VAT, we can observe a growing tax burden harder to bear for taxpayers.

In this context, in the fiscal domain can take a number of measures with positive impact on the economic environment:

- reduce of the VAT rate (Romania ranks fourth in the EU in terms of the size of the standard rate); the current government has reduced the rate of VAT on bread, the measure following to reduce the fiscal evasion in the field (in panification is registered one of the biggest records levels of fiscal evasion, respectively 70 %); we consider that such measures may be beneficial in conditions that are correlated with multiple control activities;
- reducing social security contributions, which would allow the attraction of the foreign investors and reduce of fiscal evasion on labor market;
- granting tax incentives for taxpayers who pay their tax obligations on time;
- respecting the principles of stability and predictability in order to ensure attracting investment and creating jobs;
- improving the grade of the revenue collection;
- simplify the fiscal system.

Such measures may positively influence an economic environment characterized by instability in the intern market but also political plan, reduced international competitiveness, insufficient resources and underdeveloped infrastructure.

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