ASPECTS OF THE EVOLUTION OF THE MAIN MACROECONOMIC INDICATORS IN ROMANIA

Cristina BURGHELEA
Associate Professor Ph.D., Hyperion University, Bucharest
crystachy@yahoo.com

Mirela Ionela ACELEANU
Associate Professor Ph.D., The Bucharest Academy of Economic Studies
aceleanu_mirela@yahoo.com

Anca GHEORGHIU
Professor Ph.D., Hyperion University, Bucharest, Romania
anca.gheorghiu@gmail.com

Ec. *Ph.D.,* **Octavian Constantin BURGHELEA**
Printec, Bucharest, Romania
octavian.burghelea@printec.ro

Abstract

By joining the European Union, Romania entered a new stage of development, which requires compliance with the new criteria and rules necessary for the development of the Romanian economy in line with the European development. In this sense, our paper captures some aspects of the evolution of some macroeconomic indicators, indicators representative for the correlation of the Romanian economic growth with the European one while emphasizing the impact of these developments on the economy.

Keywords: macroeconomic indicators, inflation rate, budget deficit, public debt, exchange

JEL Classification: E01, E31, E42

1. Introduction

According to economic history, in the first two centuries of evident manifestation of the capitalist market economy in a part of Earth, the state and dynamics of the economies of the national states were observed and analysed in the light of the economic activities and results of private individual economic agents. In other words, the approach of dynamics and economic power of the states that already were on the way to capitalist development was a microeconomic one.

In the twentieth century, based on the involvement and intervention of the state in the overall economy of the countries and the formation of consolidated macroeconomic structures, the macroeconomic approach of the economic problems that exist within the limits of different countries became possible and necessary.

Thus, the analysis of some macroeconomic indicators is important to know the level of development of any economy and the living standards of welfare.

2. The inflationary process in Romania

Along with the transition to market economy Romania has undergone many stages of inflation. At the beginning of the transition to market economy, Romania faced two major shocks: a significant increase in aggregate demand and a strong decrease in aggregate supply, which led to a strong start of the inflationary process. In addition, excessive gradualism of price liberalization and inflation volatility did not allow functioning price system to correspond to the rules of market economy, which made inflation to achieve extremely high rate during the first years of transition (100-200%) followed by low rates in 1995-1996.

The liberalization of prices for agricultural products and energy in 1997 resulted in a new burst of inflation, being situated in the middle of the year a little under 180% and maintaining very high in 1998. Inflation slowed down in 1999, reaching a minimum of 33% in February 1999 due to a restrictive monetary policy and slowing domestic currency depreciation. The cost was that of the deterioration of external competitiveness through strong appreciation of the real exchange rate which drew together with other factors a corrective depreciation of the national currency in 1999 that accelerated inflation again to a maximum of 57% in January 2000. (Cristescu A., 2011)

In 1999-2000, Romania passed through another inflation crisis this being the period of time of at least 2 years, during which the inflation rate exceeded 40% [Brunno M., Easterly W., 1998]. The year 2000 constitutes the beginning of a period characterized by high economic growth, improvement of internal and external balance - budget deficit reduction, sustainable current account deficit and thus lower inflation.

In 2001-2004 in Romania there was a downward trend in inflation reaching in 2005 after a very long period of 14 years, the value of a single digit i.e. 9%, according to INS.

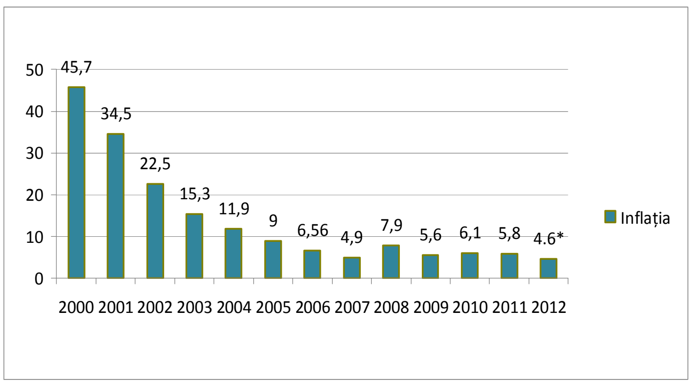
The evolution the disinflation process over the last decade must be analysed in the context of a robust growth in real GDP until mid-2008 which exceeded the level of 5% almost every year starting with 2001. A major role in inflation dynamics played unit labour costs, adjustments in administered prices and excise duty, several supply-side shocks and exchange rate developments. Wage growth far exceeded productivity growth, leading to an increase in unit labour costs up to very high levels, pressures of overheating and finally to the erosion of competitiveness. [Gheorghiu, A., Gheorghiu, A., Spânulescu, I., 2009]

Between 2005 and mid-2007 the disinflation process was favoured by the evolution of import prices due to the appreciation of RON against the euro. Still inflation fell until 2007 when it reached a historic low for the period after the revolution i.e. 4.9%. The end of 2007 was when the downward trend was reversed.

In March of 2012 inflation fell to 2.5%, a significant decrease compared to the large fluctuations during 2011, illustrated by the impact of a 5% increase in VAT in July 2010 as well as by the slowdown in pressures from food and energy prices. This moderation is given by the global price developments, a good harvest and disinflation pressures generated by the output gap. [Dinu, M., Socol, C., Marinas, M, 2005]

The evolution of inflation is shown in the chart below which highlights its downward trend during 2000-2012 (fig. no 1). This process is supported by factors such as: ease of food prices pressures; the prudent monetary policy adopted by NBR; exchange rate developments, domestic currency appreciating in real terms; keeping the budget deficit low, etc.

Fig. no 1. The national inflationary process

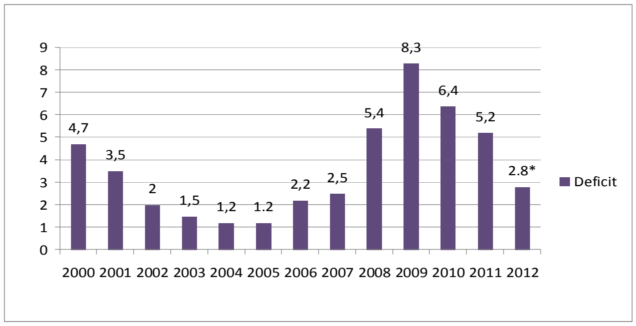


Source: www.insse.ro

3. The analysis of fluctuations of the national economy

The budget deficit fluctuated greatly during 2000-2012 registering a particularly downward trend. Starting with 2000 the deficit developments embarked on a downward path by 2006 when it entered an upward trajectory reaching the maximum value of 8.3% in 2009. In recent years, this upward trend of the budget deficit was influenced by increased capital expenditures necessary for projects initiated by the government, by the increase in spending on goods and services at the expense of investment [Pecican, E., 2008] due to a lower capacity of funding by revenues from foreign direct investment, especially amid the current financial and economic crisis (fig. no 2).

Fig. no 2. The analysis of budget deficit



Source: www.bce.ro

From 2002 to 2007, Romania was under the limit of 3% imposed by the Maastricht Treaty concerning the budget deficit.

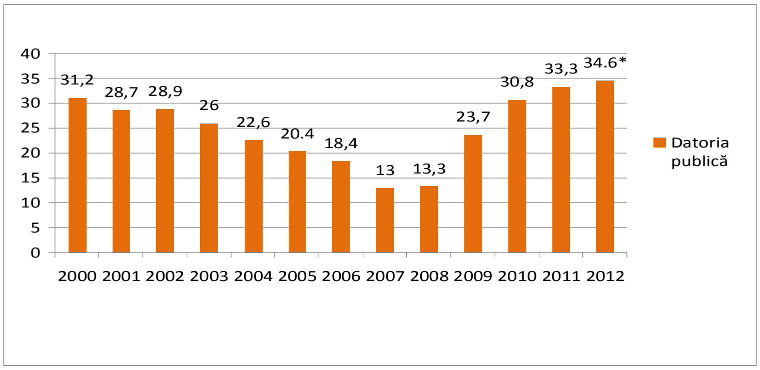
Romania's budget deficit increased significantly in 2008-2010 from 5.4% in 2008, 8.3% of GDP in 2009 and 6.4% in 2010. Among the causes that led to this, we list: decreases in economic output, overspending in the development of social programs, increases in the share of shadow economy, diminished budget revenues during the economic crisis, institutional factors (procedures and budgetary laws, bureaucracy) and political instability. [Balan, M., Balan, G., 2013]

Since 2008 until now, Romania has been the subject of a decision of the EU Council [Dinu, M., Socol C., Marinas, M., 2007] on the existence of excessive deficit. Since 2009 the budget deficit has had a downward trend, but it registers values superior to the reference value of 3% of GDP.

For Romania to maintain a share of the deficit below the reference value and meet the medium-term objective specified in the Stability and Growth Pact it must continue the fiscal consolidation process.

In 2000 – 2007 the share of government debt to gross domestic product experienced a steady decline, from a relative size of 31.2% in 2000 to 13% in 2007. Starting with 2008 up to now the public debt has faced an upward trend, reaching 33.3% of GDP in 2011. In 2009 the share of government debt to gross domestic product increased considerably, reaching 23.7% at the end of the year from 13.3% as it was in 2008. The increase in government debt to gross domestic product was determined not only by the increase in the absolute value of the government debt, but also by a decrease in GDP by 7.1% in 2009 compared to 2008 (fig. no 3).

Fig. No 3. Public Debt



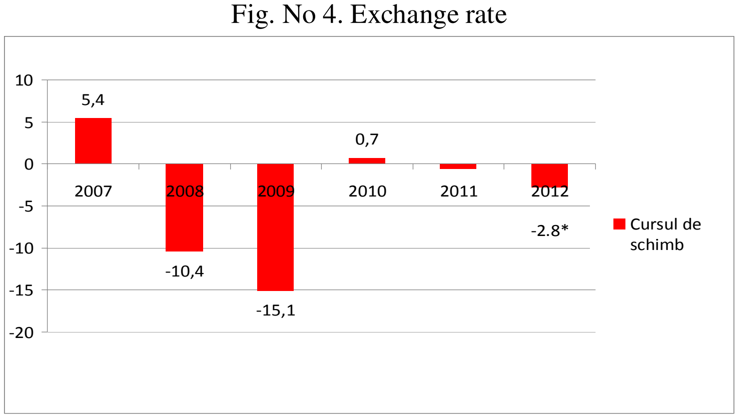
Source: www.bce.ro

Although the Debt-to-GDP ratio is well below 60% set out in the Maastricht Treaty, while maintaining a growth rate of government public debt that surpasses the growth of economy, phenomenon recorded in the period 2007 - 2009, solvency risk will increase.

Throughout the period 2000-2012 in the case of public debt, Romania recorded net values below the reference value of 60%.

In the 2000s, the Romanian Leu exchange rate fluctuated extensively. Between 2004 and 2007, the national currency strongly appreciated under the impact of capital inflows triggered by the economic catching-up process and prospects of EU accession (facilitated by the capital account liberalization in the autumn of 2006). After recording the highest value in the last five years in 2007, the exchange rate fell sharply as a result of the outbreak of the global crisis. An important role in increasing investor uncertainty about the worsening of the economy imbalances lies in each country-specific factors (fig. no 4).

Fig. No 4. Exchange rate

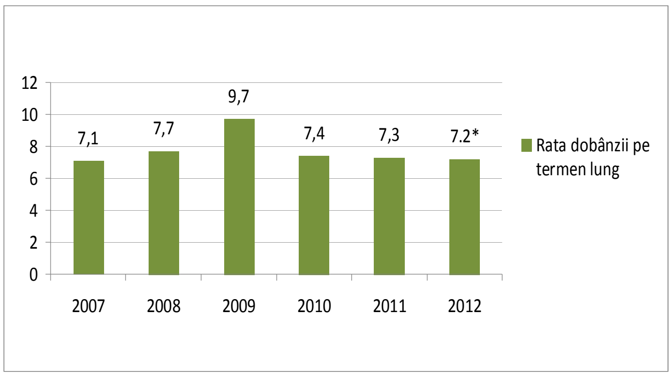


Source: www.bce.ro

The financial assistance programs run by the EU and International Monetary Fund contributed in March 2009 to reducing the pressures borne by currency. In the past two years, exchange rate volatility decreased gradually, short-term interest rate differentials against the three-month EURIBOR maintaining a high level. Exchange rate fluctuations reflected the effectiveness of banking sector liquidity management, foreign exchange operations of the government and the change of the investors` perspective. [Iancu A., 2012]

Ever since Romania's accession to the EU, the long term average interest rates exceeded the number of reference. The differences with the euro area widened in the second half of 2007 and 2008, as a result of the global financial crisis and the difficulties of the national economy. Considering the period March 2009-2010, the value recorded was of 9.4% over the reference of 6% of the EU. Given that the long-term interest is correlated with the level of inflation, it is clear that the success of Romania in adopting the euro depends mainly on reducing inflation (fig. no 5).

Fig. No 5. Long-term interest rate



Source: www.bce.ro

In order to reduce this gap and to achieve financial stability after the hearing on 31 March 2011, the Board of Directors of the National Bank of Romania decided: maintain the monetary policy rate at 6.25% per annum; adequate management of liquidity in the banking system; the reduction of the reserve requirement ratio applicable to foreign exchange liabilities with residual maturity of less than two years of credit institutions at the level of 20% from 25% starting with the application period 24 April - 23 May 2011 and maintaining the reserve requirement ratio applicable to liabilities in lei of credit institutions at the level of 15%. At present, monetary policy rate reaches a value of 3.5%. In order to support a sustainable process of lending and for the harmonization of the reserve requirements with the standards of the European Central Bank, NBR Board of Directors decided to reduce the reserve requirement ratio to 12% (15%) for lei and to decrease the reserve requirement ratio applicable to foreign exchange liabilities to the level of 18% from 20% since the application period 24 January - 23 February 2014. [BNR, 2014]

The interest rates charged by the commercial banks were close to the monetary policy rate, and the national currency showed a slight trend of nominal appreciation, amid improvements in Romania's balance of payments and improving investor risk perception towards the Romanian economy.

4. Conclusions

The assessment of the welfare of individuals is a complex process due to the multidimensional nature of the concept. The current welfare of individuals depends on the economic resources available to them and the non-economic aspects of their life, and the sustainability of this welfare depends on how the capital stock gets passed. The wellbeing of individuals is given by a combination of factors including: standard of living, access to health, access to education, personal activities, equal chances, social relationships, quality of the environment etc.

The introduction of the single currency, based on a stable macroeconomic framework will bring benefits; however there are costs to be taken into account. These costs include: giving up the independent monetary policy and transition costs associated with the replacement of the national currency with the euro. [Muresan, M., 2009]

Euro adoption could lead to an increase in GDP, greater employment, lower inflation and lower budget deficit. A positive effect would be reducing the country risk premium, as well as productivity growth driven by increased international trade and foreign direct investment. On the other hand, if an economy is unprepared, the changeover would create imbalances that could be felt in the welfare of the population.

References

1. Balan, M., Balan, G., "*Social Vulnerability: A Multidimensional Analysis of the Development Regions of Romania*", published in the Volume: *Applied Social Sciences: Economics and Politics*, Cambridge Scholars Publishing, pp. 3-11, 2013
2. BNR - National Bank of Romania, http://www.bnro.ro/Hotararile-Consiliului-de-administratie-al-BNR-4311.aspx, 2014
3. Brunno M., Easterly W., *Inflation Crises and Long-Run Growth,* Journal of Monetary Economics, 1998, no. 1, pp. 3-26; http://www.nber.org/papers/w5209.pdf?new_window=1
4. Cristescu A., *Connections and influences the expression of the inflation process in Romania,* The Economist Magazine, AGER, June 2011
5. Dinu, M., Socol C., Marinas, M., *The European model of integration*, Economic Publishing House, Bucharest, 2007
6. Dinu, M., Socol, C., Marinas, M., *Mechanisms of convergence and cohesion*, Economic Publishing House, Bucharest, 2005
7. Gheorghiu, A., Gheorghiu, A., Spanulescu, I., "*Target market risk evaluation*", *Proceedings of the International Conference on Econophysics, New Economics & Complexity - ENEC-2009*, Victor Publishing House, Bucharest, pp.11, 2009

8. Iancu, A., *Transition, integration and convergence: the case of Romania.* Expert Publishing House, Bucharest, 2012
9. Muresan, M., *Real and nominal convergence in the process of single currency adoption by the new EU member states.*, University Press "Alexandru Ioan Cuza", Iaşi, 2009
10. Pecican, E., *Indicators of Real Convergence and their applications.,* Granada Publishing House, Bucharest, 2008