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Case study

ECONOMIC GROWTH – AN ILLUSION ? STUDY CASE: ROMANIA

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Abstract

Literature has devoted considerable attention to economic growth because it creates the premises for achieving major goals such as route out of poverty of underdeveloped countries or contribute to raising the standard of living in developed countries. Economic growth has become an "order of the day" term, propagated by various "players" of economic and social life, in this way gaining various interpretations and meanings.

This paper presents the results of the measures adopted in order to recover Romanian economic situation. The austerity measures adopted until recently did not allow, however, to create a favorable environment for growth, taking into consideration that it is almost impossible for an economy to grow when conditions are limiting. Fiscal policies have focused on reducing the budget deficit, which led on slaughtering economic growth. Given the uncertain economic context, FDI was hardly drew into our country, their value last year has been insignificant. We can even say that the previous ended year was an economical one, because our country did not recognize the road to the economic recovery.

1. Introduction

During 2008 - 2009, the global financial crisis hit Romania, but our country managed to recover due to prudent macroeconomic management. This crisis involved the implementation of reforms, much needed, in health, education, financial sector, public finance administration, public administration, social insurance and social assistance. Some of these reforms are short-term responses to the crisis, while others are part of a coherent long-term strategy. The main challenge, for medium term, regarding Romania's economy is to achieve stable economic growth and to improve living conditions. In order to have a long-term sustainable growth, Romania must adopt optimal fiscal measures to eliminate arrears, improve quality and enhance tax collection costs.

2. Literature review

According to Richard Lipsey growth is a way to increase the living standards much stronger than removing recessionary gaps, unemployment structural or allocative inefficiency, because growth can continue indefinitely.

Fr. Perroux, a French economist, considers that economic growth is a sustainable increase in the size of an economic unit, simple or complex, achieved through structural changes and economic progress. It should be noted that any increase in size is not synonymous with economic growth, but only the sustainable one supported on a long term, as opposed to the expansion that refers to an increase in short-term.

In specialized literature, economic growth means a positive and ascending evolution of national economies on medium and long term, but that does not exclude cyclical oscillations, even temporal economic regressions. We consider that a national economy, a supersistem, records economic growth when it is based on the existence of real positive growth trend within an appropriate time frame.

So, to understand the content of economic growth it is necessary to consider the following aspects:
- economic growth is dependent on macroeconomic dynamics and demographic dynamics;
- the dynamic of macroeconomic results should be viewed for a period of time long enough to delimit short-term conjunctural expansion from growth which manifests itself as a dominant trend in a longer period of time;
- growth envisages real macroeconomic outcomes;
- in terms of quantitative, the synthetic expression of growth is GNP rate or GDP per capita growth, leisure time (indicator standard of living), the average life expectancy (the expected value of the life of individuals).

In conclusion, the economic growth can be seen as a process denoting a positive development of the economy on long-term, including the general trend of increase (in real terms) of the gross national product and national income in total and per capita, which does not exclude, however, short-term negative oscillations and their stagnation.

3. Material and Methods

To conduct this research we used annual and quarterly frequency data available on Eurostat, National Statistical Institute, the International Monetary Fund (country reports), the National Bank of Romania and the Ministry of Public Finances websites during 2000-2012.

For economic growth, we chose to use quarterly data for two reasons: (1) annual data series is too small for obtaining reliable results and (2) variables characterizing the Romanian economy during 1990 - 2012 have serious structural breaks and significant reversals trend, making an analysis unfeasible on the horizon of time using annual data.

4. Results and discussions

Gross domestic product is a synthetic indicator of the results of development of the national economy. GDP is an indicator that gives substance to the economic development of a country in a given period of time. If we analyze the data series between 2000 and 2012, we find that the growth rates of GDP have as a starting point in 2000 at 2.1% and during 2001 - 2003 growth records values above 5%. Year 2004 marks the maximum increase of 8.4% over the entire period analyzed. In 2005 the growth rate was 4.1%, taking into consideration that during the year there were unpleasant events (floods with significant effects on agriculture, and thus a low contribution of agriculture to achieve GDP). 2008 marks the last increase of 7.1%, with growth of 7.7 in 2006 and the 6% in 2007. Negative trend in GDP in the fourth quarter of 2008 anticipated the brutal effect of financial crisis, resulted in 2009 in a decrease of -7.6% of GDP. This negative trend continued in 2010 when growth decreased by 1.3%. Only in 2011 there is a reversal in the growth of GDP, which is 1% higher than the previous year and in the last year of analysis, 2012, growth rate was relatively low, but positive 0.2%.

In the last ten years, the evolution of the Romanian economy structure presents an emerging economy that has gone through a phase of overheating, now trying to recover, where service sector is still below the EU average, which is governed by a change in structure from branches with low value added (agriculture) to high value-added industries. In the years preceding the crisis, the share of services and construction in GDP increased, while industry and agriculture have been declining economic growth, based mainly on consumption made on debt.

On the supply side, the main contribution of GDP formation is underlined by branches of activity: the reduction of agriculture, industry and construction and modest increase in services.

Throughout the analyzed period, GDP had a balanced development; there was a tendency of increasing the ration of services and a decrease in restructuring, reorganizing the industry, with different effects from one period to another. The contribution of agriculture must be analyzed from two different ways: the quantitative contribution of crops and yields, and on the other hand, we have paid attention to the qualitative contribution, where adverse climatic conditions are not the support that economy needs. This has reduced the share of GDP, reaching in 2012 almost half of the value recorded in 2003, but continued to be among the EU countries with the highest share of agriculture. The construction sector has experienced significant growth in the years before the crisis, but it has been touched by the recession, its contribution to economic growth declined in recent years, reaching 8.6% at the end of 2012.

A decisive contribution to GDP decrease in 2010 is due to the reduction in volume of value added in agriculture and construction. Given that the restructuring took place, giving up a number of sub-branches of industry and focusing on production development and construction services, the decline in GDP is negative, emphasizing that the economy has failed to make it towards the devastating effects of the crisis, correlated with lack of adequate crisis plan of governance. In 2011, the development of GDP by sector recorded the following characteristics: services had the largest contribution to GDP, 45.4% of the total, the industry ranked second, 26.3% of GDP, construction contributed 9.8% to GDP, agriculture contributed 6.5%. In 2012 state services (public administration and defense, social security, education, health, social security) have recovered from last year's loss to the volume at a reasonable price increase. The industry is struggling to move forward and managed a small detachment, but it does highlight that prices have increased significantly over inflation recorded. Moreover, it gives the general trend in the economy, although it is only about 30% of GDP. Although the tertiary sector, the services sector, has made important contributions to GDP profile, the overall structure of production in our country remained fragile, increasing importance of the tertiary sector in GDP has emerged as a decline in industrial volumes, especially heavy industry, and not due to the result of structural policy reforms in the country.

For the coming years, the share of industry in GDP is expected to be strengthened, this sector reaching 28%, a decrease of approximately 3-4% share of agriculture in GDP and an increase of over 50% of GDP to service activities. It is considered that agriculture and energy are those sectors that can notably attract investment and significantly contribute to the positive development of the economy.

What factors led obtaining such results?

First, we must mention the austerity measures taken in our country. These measures prevented the installation of a suitable environment for long-term economic growth, being impossible to develop a country which it is subject to restriction. Since, fiscal policies were focused on reducing budget deficits instead of stimulating job creation and monetary policies failed to lead to the return of consumption, the investment and investor confidence in potential advantages in our country decreased.

The lack of a development strategy in the medium and long term. Last year, 2012, was a year in which the objectives were not clearly known, without jobs creation and no proactive policy.

Foreign direct investment in our country experienced a continuous decline, since 2008, due to increased distrust; their impact on growth is insignificant.

Between 2003 - 2006 the total FDI flows increased from 1.946 billion euro to 9.059 billion euro, increased by 78.51%. This can be attributed to large privatizations registered in Romania in the banking and industrial sectors. 2008 is the year with the maximum FDI attracted in Romania, their value being 9.496 billion euro. Since 2009 the volume of FDI decreased significantly compared to previous years, reaching 1.815 billion euro at the end of 2011, the decrease being due to the impact of economic and financial crisis.

Export, was an important factor of economic growth, but in recent years its contribution decreased.

Exports will continue to play an important role, but as can be seen from the table below, they oscillated. Downward trend since 2007 has been maintained as a result of the worsening economic situation of major trading partners, Romania being dependent on three Western European countries - Germany, France and Italy. Slowed growth in these countries has made our country not to reach the amount of exports planned.

5. Conclusions

Further, it remains a priority to maintain a prudent fiscal policy and sustainable economic growth. These policies remain restrictive fiscal and monetary policies will assist in raising economy by keeping rates low.

Factors contributing to growth are both internal and external. Agriculture is an important factor that could make a significant contribution, if we talk about a favorable agricultural year. An increase in demand and domestic consumption would contribute at the Romanian economy growth, especially if it were correlated with an increase in the level of investment.

Regarding external factors, good progress in Euro area would help exports to increase. To increase investments, loans with lower interest rates and a higher rate loan is the best solution.

Further, modest growth is expected, given the weak external conditions, credit conditions and modest growth in wages. Eurozone is passing through a difficult period, so exports will remain low until Eurozone will be able to emerge from recession. Credit conditions still remain strained, the number of bad loans is still high and the investment levels are low. Wages grew modestly, within a weak labor market and unlikely to create jobs.

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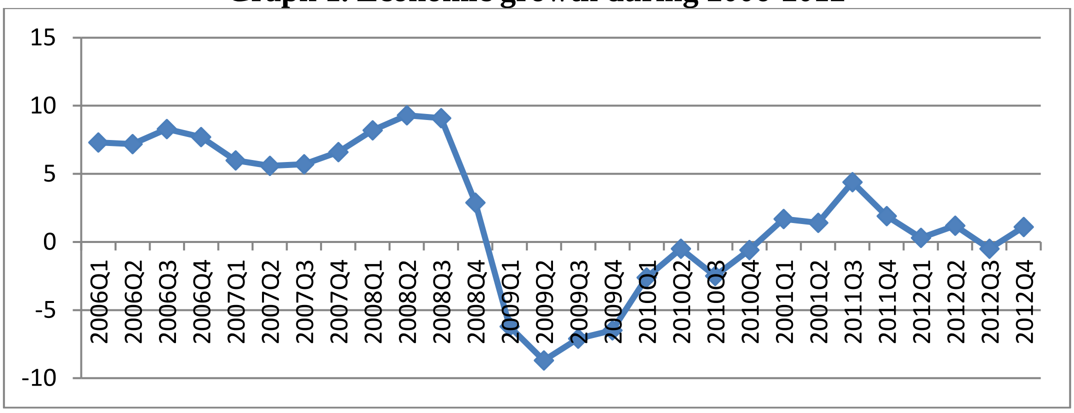
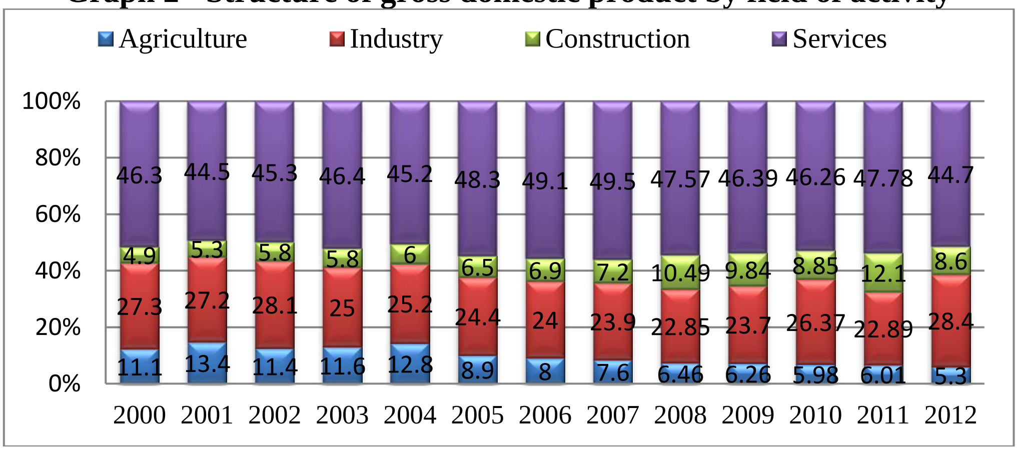
FIGURES AND TABLES:

Graph 1. Economic growth during 2006-2012



Source: own processing based on data provided by NIS

Graph 2 - Structure of gross domestic product by field of activity



Source: own processing based on data provided by NBR

Table 1 - Structure of gross domestic product by field of activity

	The contribution of branches %				
Year	Agriculture	Industry	Construction	Services	Others
2000	11,1	27,3	4,9	46,3	10,4
2001	13,4	27,2	5,3	44,5	9,1
2002	11,4	28,1	5,8	45,3	9,4
2003	11,6	25	5,8	46,4	11,2
2004	12,8	25,2	6	45,2	10,8
2005	8,9	24,4	6,5	48,3	11,9
2006	8	24	6,9	49,1	12
2007	7,6	23,9	7,2	49,5	11,8
2008	6,6	22,85	10,49	47,57	12,63
2009	6,26	23,70	9,84	46,39	13,81
2010	5,98	26,37	8,85	47,5	12,51
2011	6,5	22,89	9,8	45,43	11,22
2012	5,3	28,4	8,6	44,7	13

Source: own processing based on data provided by NIS

Table 2. Evolution of FDI inflows in the period 2003-2011(EUR million)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Equity	**1263**	4484	3852	6832	3547	4873	1729	1824	1512
Credits	**683**	**699**	**1361**	**2227**	**3703**	**4623**	**1579**	**396**	**303**

Source: own processing based on data provided by NBR

Table 3. Evolution of exports, during 2000-2012

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
23,4	12,1	17,5	8,4	13,9	7,6	13,3	10,5	8,3	7,3	6,5	8,5	9,9

Source: own processing based on data provided by NBR