INTERNAL MACROECONOMIC DEVELOPMENTS IN ROMANIA

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Abstract. *In order to highlight the level of economic development, its trends and the way in which the resources of the national economy are used, it is necessary to measure the results of economic activity. In this article, the authors have presented aspects regarding the evolution of the Romanian economy and the most important economic trends of the next period. As a result of the support measures of the authorities, the main economies in the world have registered a dynamic recovery with positive effects, including in Romania after the pandemic. As a result of the war in Ukraine, the Romanian economy will register stagnation in 2023. There are also opinions that claim that against the background of a high investment potential, created especially by European funds, and positive expectations of exchange rate stability, a positive economic evolution is argued.*

Keywords: *macroeconomics, macroeconomic indicators, direct investments, Gross Domestic Product*

INTRODUCTION

At the global level, the economy continues to face multiple challenges in terms of stability and predictability, multiplied by record inflation, but also by the economic and security consequences caused by the war on Romania's border with Ukraine. We are certainly going through a period of high crisis density in the last century. This will leave a deep mark on the developments of the next period [13].

Much of the blame for record inflation lies with Pandemic Policies. Following the monetary and fiscal-budgetary policies, was the additional demand created in the economy, which began to manifest itself gradually, after the lifting of sanitary restrictions, when most prices followed an upward trend. The increase in prices on the supply side also intensified as a result of the lagging behind of some production categories, along with the disruption of some supply chains.

On the regional level, a distinctive element appears, the inflation involved in the war in Ukraine and the energy crisis. It is known that war and inflation have evolved together especially through energy security, representing the major factor and pressure tool involved in the current geostrategy.

Elaboration of an analysis must be grounded in particular on interest rates, inflation and Gross Domestic Product (GDP).

As a fundamental element, GDP is particularly important for long-term investment planning alongside monetary policy.

In many specialized works, the Gross Domestic Product (GDP) is analyzed as the known tool to measure the degree of development of macroeconomic activity [2,6,7]. It is also considered an indirect indicator for the global development of society, but also of progress in general [1,3,4].

MATERIALS AND METHODS

The paper identifies and analyzes domestic macroeconomic developments against the backdrop of uncertainties, the pressure created by energy prices and the erosion of the purchasing power of the population.

Overall, it was estimated that the real GDP will have a growth trend of 1.8 percentage points in 2023 and 2.2 percentage points in 2024. [9,11] Related to risks, the forecasts at the macroeconomic level advance a negative evolution, as a result of delays related to the application of the plan for recovery and resilience in Romania which could negatively influence investments and economic growth.

The data analyzed for this paper were mostly extracted from statistics from the National Institute of Statistics of Romania and Eurostat. Based on these I made my own calculations and interpretations and made tables and diagrams using the MS Excel package.

RESEARCH RESULTS

The evolution of the Gross Domestic Product, an economic indicator that measures the production of a country, in the period 2000-2022, is presented in Figure 1.

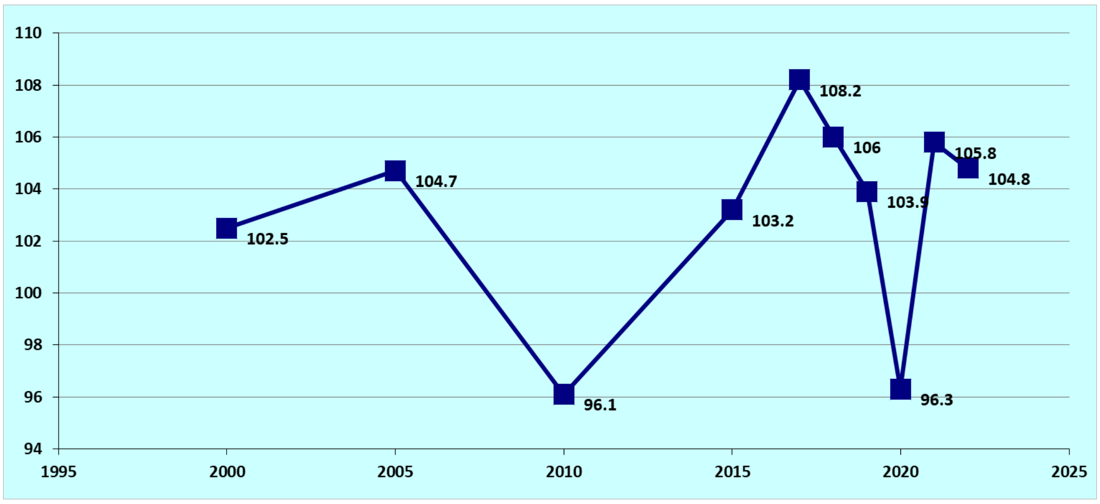

Figure 1. Gross domestic product evolution

Source: NIS, 2022[14]

In 2022, Romania recorded an unexpected economic growth of 4.8% of GDP (1,412.4 billion lei at current prices), the sources that determined this advance in activity being surprising. Thus, the IT&C sector established itself as the branch with the most important contribution to the GDP advance, a share of 1.3 percentage points out of 4.8 percentage points. To this were added the investments that marked a surprising evolution in recent years, and contributed 2.2%, according to the National Institute of Statistics (INS) [14].

Economic activity in 2021 increased by 5.9 percentage points, and GDP managed to recover the losses recorded following the COVID-19 pandemic.

In Romania, GDP registered a significant increase in the first quarter of 2022, following the removal of health restrictions involved by the pandemic and the positive developments at the global level, being among the highest in the EU19. The energy crisis, geopolitical tensions, the war in Ukraine, along with the deterioration of the external balance marked a growth rate decreasing to 1.8% compared to 5.1% in the first quarter (Figure 2). Growth in the second quarter, although comparatively slower, was supported by domestic consumption. In the first part of 2022, the evolution of the economy was supported by companies' recourse to bank loans (25% increase in credit granted to non-financial companies).

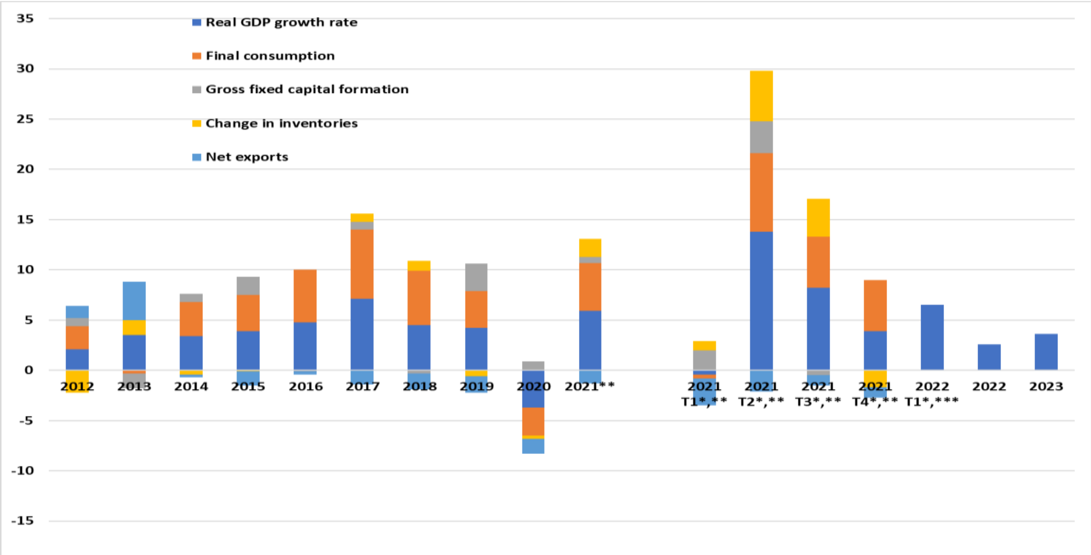

Figure 2. GDP dynamics and the contribution of the main components

Source: NIS, European Commission, 2022 [14, 16]

GDP provides us with valuable information on a country's development stage, including GDP/capita as a known and used derivative [8,15].

Knowing that the GDP per capita, an important indicator, is often used to assess the level of well-being in the country, it is not the appropriate indicator to illustrate the actual standard of living of households.

Per capita consumption is considered to be the useful indicator for making comparisons about the relative well-being of consumers in different countries. It is always correlated with GDP per capita, because in practice, it constitutes the largest component of GDP expenditure [12].

Table 1 shows the evolution of the two important indicators for assessing the well-being of the population. The increase in GDP per capita is observed, which indicates an increase in the economy and also illustrates the increase in productivity.

Table 1.

The evolution of the Domestic Product Gross/capita and actual individual final consumption of households

Years	Gross domestic product per inhabitant (lei current prices)	Households actual individual final consumption (lei current prices)
2010	26,687.5	19,344.9
2011	29,145.0	20,692.1
2012	30,970.2	22,005.8
2013	31,598.0	21535.7
2014	33,584.1	22,711.7
2015	35,946.7	24,409.3
2016	38,166.1	26,399.4
2017	43,465.7	30,427.3
2018	49,223.3	34,791.9
2019	54,851.1	38,467.9
2020	55,361.2	38,238.5

Source: NIS, 2022[14]

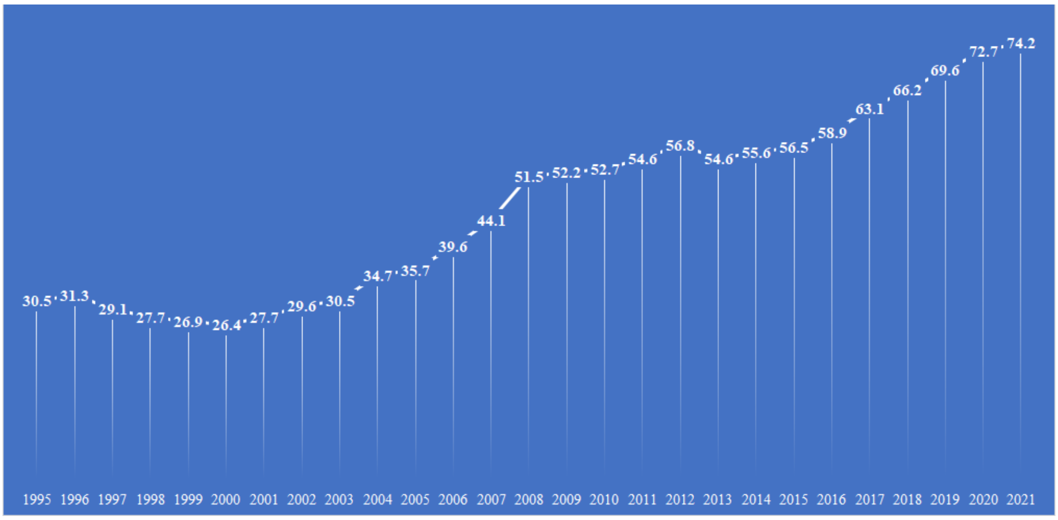

Figure 3. The evolution of GDP per capita in Romania compared to the EU average

Sursa:EUROSTAT [16]

GDP per capita in Romania (Figure 3) recorded important progress related to the gap with the EU average. This indicator managed to increase from a level of 30.5% of the EU average in 1995 to 74.2% in 2021.

The data analyzed show differences between the EU member states regarding GDP per capita. Statistics show that in 2021 (Figure 4) Romania was in the same category as Portugal, Latvia, Poland and Hungary, in relation to GDP per capita (GDP per capita expressed in purchasing power parity). The analyzed indicator was approximately 30% lower than the EU average. From figure 4 it can be seen that only five countries registered percentages below that of our country.

In 2022, Ireland and Luxembourg recorded the highest levels of GDP per capita (134% above the EU average and 161%). They were followed by Denmark with 36% above the European Union average, the Netherlands with 30 percentage points, Austria with 25 percentage points.

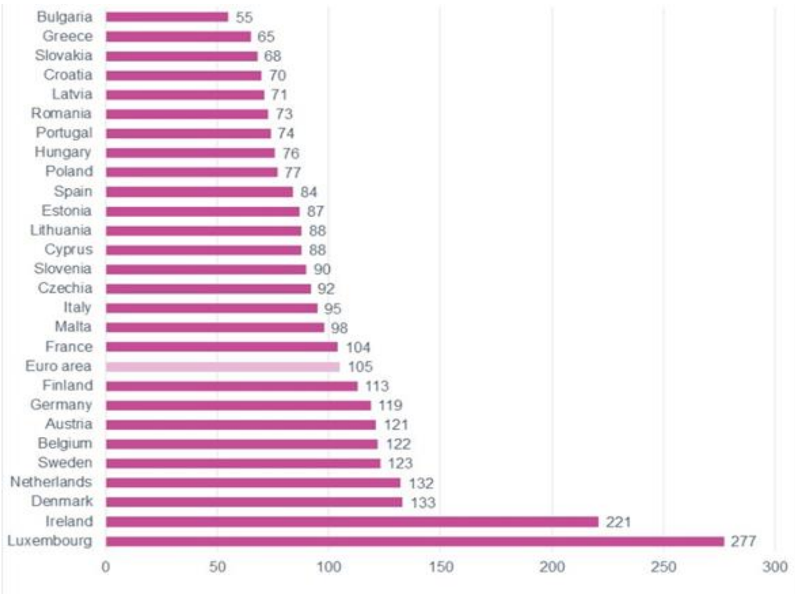

Figure 4. Volume indices of GDP per capita , 2021 (EU=100)

Sources: EUROSTAT [16]

At the opposite pole, with the lowest GDP per capita were Bulgaria, 41 percentage points below the European Union average, followed by Slovakia (33 percentage points) and Greece (32 percent).

In 2022, Romania reached 77% of the EU average, at the same level as Portugal and Hungary.

Table 2.

Total indebtedness of companies and households, by creditor

	Loans from resident bank	**Loans from resident NBFI**	**Loans from non-resident financial institutions**	**Foreign direct investment loans (FDI)**
Dec-17	259,682,699,858	28,166,566,608	53,660,056,057	134,827,374,777
Mar-18	263,556,044,386	27,794,271,491	44,967,541,623	135,101,219,204
Jun-18	268,052,151,224	29,541,397,082	43,660,516,932	139,724,853,083
Sep-18	272,889,238,916	30,351,767,748	43,024,240,218	146,876,205,263
Dec-18	275,159,231,290	30,679,582,731	43,311,855,743	146,354,650,629
Mar-19	279,496,821,891	31,828,305,214	45,898,696,592	152,187,650,958
Jun-19	283,370,577,814	33,017,270,585	45,705,321,521	153,978,937,899
Sep-19	290,141,199,803	33,950,023,192	44,432,705,456	155,157,348,397
Dec-19	292,806,653,387	34,217,108,668	45,510,639,170	174,095,761,453
Mar-20	295,466,069,912	34,862,717,061	44,869,269,122	168,667,422,631
Jun-20	292,491,259,105	35,010,939,328	45,384,338,633	172,655,677,480
Sep-20	300,764,865,799	35,035,075,245	45,805,540,090	173,266,235,223
Dec-20	305,661,376,772	34,986,246,705	45,278,565,710	170,612,136,259
Mar-21	313,620,113,977	35,862,404,736	43,982,939,127	175,385,006,639
Jun-21	322,117,259,539	37,355,848,193	43,544,942,670	181,180,737,824
Sep-21	335,436,019,023	37,645,101,750	43,837,851,451	185,802,856,904
Dec-21	343,744,098,304	37,798,609,948	44,161,481,865	187,968,455,032
Mar-22	354,558,096,093	38,826,923,336	41,949,115,371	191,169,965,746

Source: NIS, ECB, NBR calculations [10,14,16]

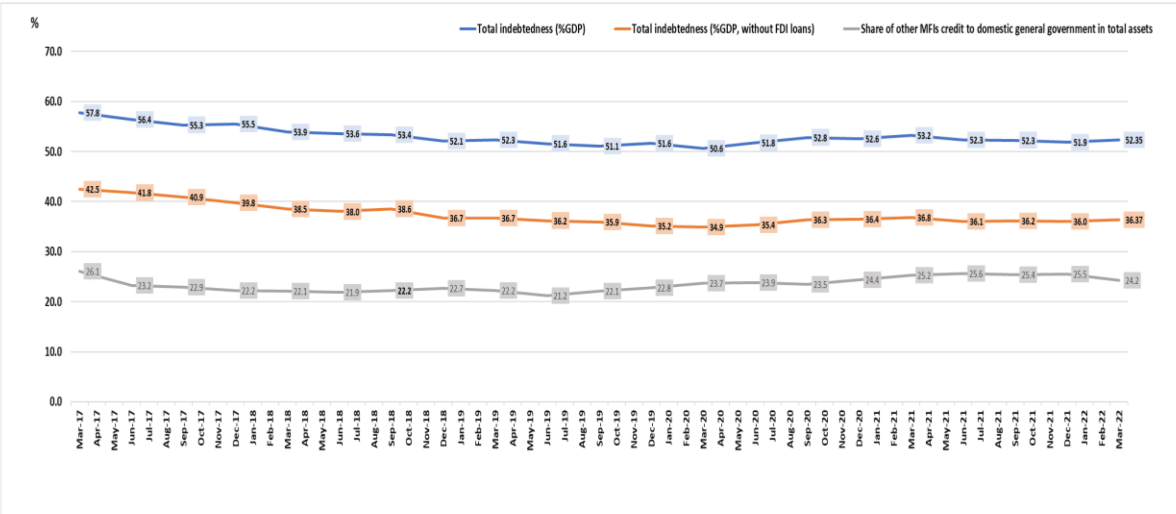

Figure 5.The evolution of indebtedness

Source: NBR, NIS, ECB calculations [10,14,18]

As a result of favorable financial conditions, along with an improvement in economic growth prospects and the maintenance of government support programs for financing the real sector, led to an increase in total indebtedness in the private sector. The level that was recorded in 2021 was at a record level of the last two decades, 585.7 billion lei (Table 2).

In the private sector, total indebtedness maintained an upward trend observed after the start of the pandemic. In the non-governmental sector, indebtedness reached 678.6 billion lei. Financing from non-residents, respectively from parent companies or group companies that also include Romanian companies, had much smaller contributions.

The evolution of the debt ratio (figure 5) was linear with the evolution of economic activity, so the ratio of total debt to GDP remained in February 2022 at a value similar to that of June 2021 (approximately 53%).

The pressures created on the public budget have considerably reduced as a result of the positive developments in the economy. The budget deficit decreased by approximately 4 percentage points of GDP in the first quarters of 2021, and at the end of 2020 it increased to 9.6 percentage points of GDP (Figure 6).

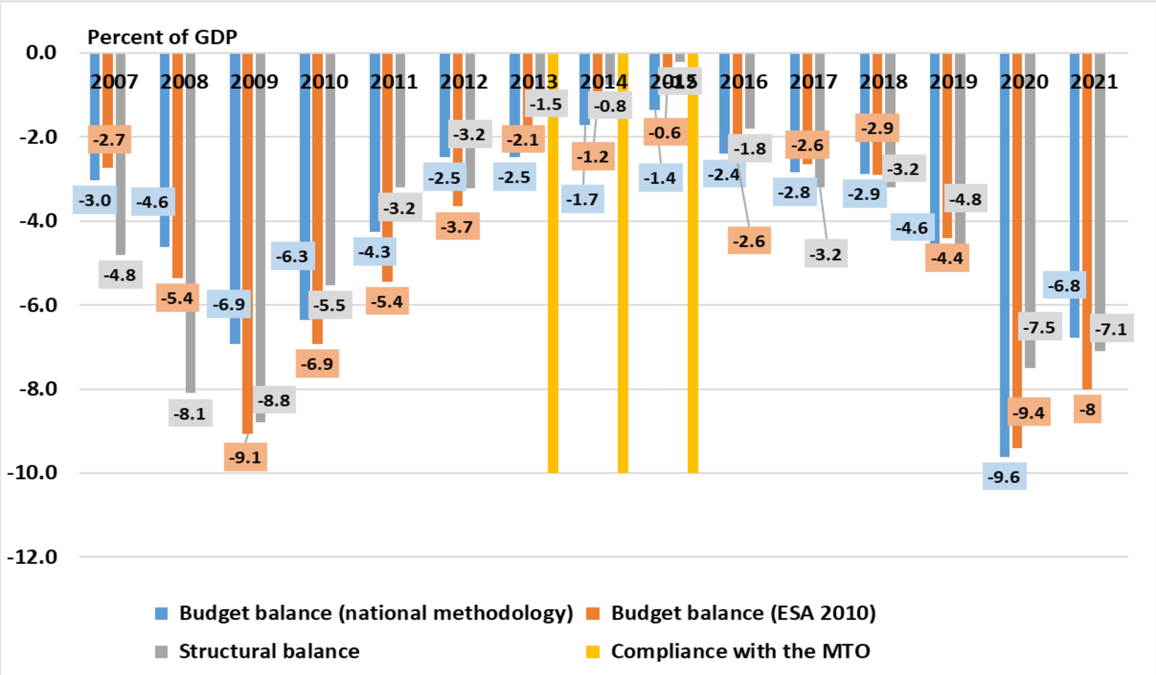

Figure 6. Budget deficit and structural deficit

Source: European Commission, MPF [16,17]

The dynamics were influenced by the rapid increase in budget revenues, especially those from taxes and fees.

The increase in interest expenses, combined with the doubling of the amounts provided for subsidies and the advance of social assistance expenses negatively influenced the advantage created by the income dynamics.

The following period will be one marked by the increase in the budget deficit, which will approach the risk threshold.

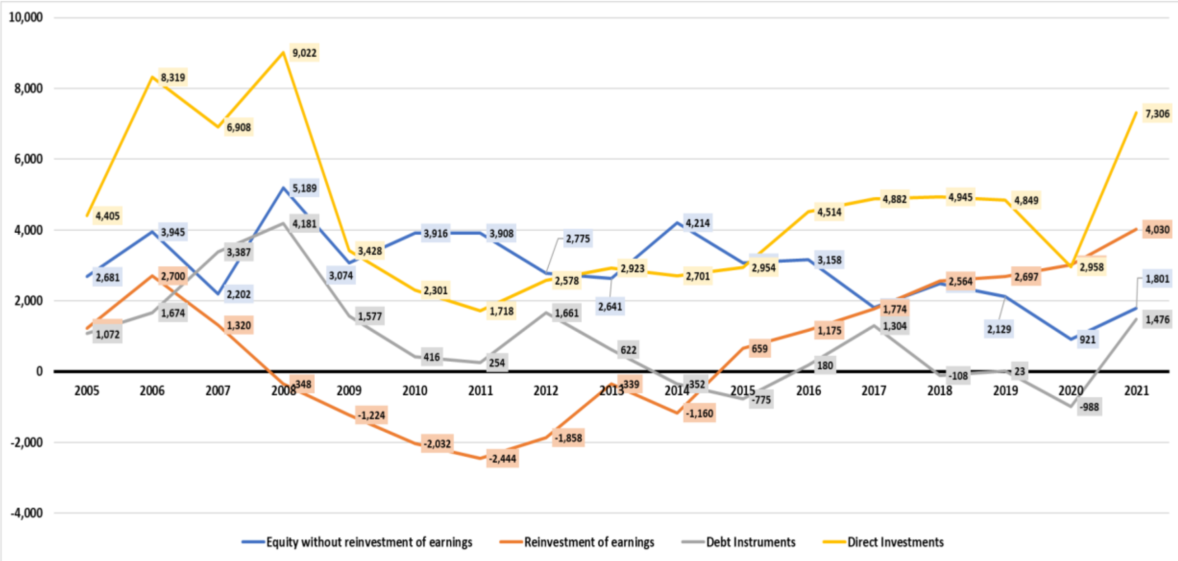

Figure 7. The evolution of Foreign Direct Investments
Source: NBR [10]

In the first part of 2021, financial flows were mostly oriented towards that of foreign direct investment, reducing the pressures due to the deterioration of the current account deficit. As a result, net foreign direct investment flows were about 70% higher in 2021 compared to the previous year and doubled from 2019. This was mainly due to equity participations in the form of profits reinvested (figure 7). The evolution could slow down in the immediate future, as credit institutions will redistribute dividends that were deferred for payment in previous years.

CONCLUSIONS

The article analyzed the level of some macroeconomic indicators with the aim of highlighting some scenarios regarding the level of economic development, some trends, as well as the way in which the resources of the national economy are used are necessary to measure the results of the economic activity.

In 2022 real GDP increased in 2021. The annual advance of real GDP greatly exceeded expectations, especially those of economic analysts.

The consumption of the population was marked by an increasing trend in 2022 against the background of the relaxation of restrictions imposed as a result of the COVID-19 pandemic and against the background of the increase in available incomes (increase in the minimum wage, increases in pensions, financial assistance to those with low incomes).

Following favorable financial conditions, along with an improvement in economic growth prospects and maintenance of government support programs for financing the real sector, led to an increase in total indebtedness in the private sector.

The pressures on the village budget were reduced as a result of the positive developments in the economy, and the budget deficit had an oscillating evolution.

The year 2022 was marked by the increase in purchases for non-food goods and also in the consumption of services.

Investments recovered in 2022, after a setback in 2021. Their recovery was supported on all components: production equipment and means of transport, residential and non-residential constructions, including infrastructure works.

Subsequent developments are based on a prudent absorption of funds from the EU on both axes, the financial framework corresponding to the period 2014-2020 and the Recovery and Resilience Fund, in accordance with the orientation of previous years.

The negative impact, created against the background of the outbreak of war, on Romania, generated by restrictions on trade with Russia and Ukraine, was smaller than the indirect effects due to the substantial increases in global prices for goods and the expansion of obstacles in global production chains.

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