THE CURRENT CONTEXT OF THE ROMANIAN ECONOMY AND THE EVOLUTION OF THE MAIN MACROECONOMIC INDICATORS

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Abstract. *Due to close trade links with both Russia and Ukraine, Central and Eastern Europe has been in the spotlight since the beginning of the conflict. Romania, in particular, faced the urgent need to adjust its macroeconomic imbalances even before the outbreak of hostilities. Rising imported inflation is likely to put pressure on nominal interest rates further, reducing consumers' purchasing power and limiting economic growth in the short term. Even so, with the right policies to encourage investment and stimulate long-term growth, Romania could weather the crisis more easily. The paper aims to analyze the evolution of Romania's main macroeconomic indicators in the context of the coronavirus pandemic and the war in Ukraine. The paper aims to analyze the evolution of Romania's main macroeconomic indicators in the context of the coronavirus pandemic and the war in Ukraine.*

Keywords: *economic growth, competitiveness, agriculture, macroeconomic indicators*

INTRODUCTION

Economic developments in recent decades have been influenced by three key issues, which have had a significant impact: uncertainty, the need for systems reform and the rise in global public debt.

It is undeniable that during this period, the world economy has been subject to a series of shocks and challenges associated with financial, economic, pandemic and geopolitical crises, often overlapping, resulting in a volatile climate with a high degree of unpredictability. On the other hand, the economic dynamics have required the implementation of reforms to respond to new economic and social demands and to secure the resources needed to increase the prosperity of nations.

Globalization has been a key part of this process, driving economic growth, helping to expand international trade and increase labor productivity. At the same time, however, globalization has increased the degree of interdependence of economies and increased their dependence on global supply chains, multiplying the channels through which shocks are transmitted and increasing the vulnerability of economies. External shocks, particularly recent ones, have highlighted the need to strengthen the resilience of economies, underlining the importance of developing greater energy and food independence for countries.

Many emerging countries, including Romania, have adopted an economic model in which goods for export involve to a significant extent imported goods needed in the production process. This dynamic, together with domestic consumption based largely on imported goods, has contributed to the chronicisation of macroeconomic imbalances. In the case of Romania, the data show that stimulating consumption to boost growth in the context of a negative trade balance has also had negative side effects on macroeconomic balance.

As the global economy recovered from the COVID-19 pandemic, another seismic event shook the world. Russia's invasion of Ukraine marked a major shift in global geopolitical risk. In addition to the tragic impact on human life and stability in Eastern Europe, the economic consequences of the conflict and related sanctions will be widely felt, slowing economic growth and fuelling already existing inflationary pressures. [1,7]

Although Russia and Ukraine do not have a significant share of the world economy, they play a crucial role in global energy exports. The dependence of many European countries on Russian oil and natural gas has triggered political debates about reducing this dependence as quickly as possible. Both countries are also major suppliers of metals, intermediate products and basic foodstuffs. The supply of the latter is expected to be severely affected, particularly as Russia and Ukraine together account for 29% of global wheat exports, and Ukraine alone supplies 13% of global maize exports and a significant share of other agricultural products such as sunflower seeds.

In addition to the anticipated supply shortfall, rising fertilizer prices and higher transport costs will add to the pressure on global food prices. The impact of the decline in food supply will be felt particularly in countries with a high dependence on agricultural imports. The economic outlook for the next two years will be influenced by a number of factors. Clearly, the conflict between Russia and Ukraine will play a major role, with implications for trade and commodity prices, particularly in Europe.

At the same time, the direction of monetary and fiscal policies, particularly in advanced economies, will be crucial for the evolution of economic growth. Managing the balance between economic policies will be difficult, and the prospect of higher interest rates and the need for fiscal consolidation may further slow economic activity. Also, a possible slowdown in the growth of the Chinese economy, caused in part by the country's COVID-19 removal policy, could have global implications for supply and demand.

Due to its close trade relations and geographical position, Central and Eastern Europe has been strongly affected by the conflict between Russia and Ukraine. Romania, in particular, is facing macroeconomic imbalances and needs to adjust even before hostilities escalate. Attempts to reduce the relatively large structural budget deficit could have indirect negative repercussions on economic growth in the future. Also, the widening current account deficit - the second largest in the EU - would require a gradual and immediate correction to prevent the associated financing costs from rising.

Rising imported inflation is expected to continue to put pressure on nominal interest rates, reducing consumers' purchasing power and limiting economic growth in the short term. However, with the right set of policies to stimulate investment and support long-term growth, Romania could weather this difficult period. Effective use of the funds available through the EU Recovery and Resilience Fund could significantly contribute to improving the outlook for economic growth.

MATERIALS AND METHODS

The research was accomplished from a triple perspective, in which the conceptual methodological approach is correlated to the empirical study and to a variety of references to practical actions aiming to identify the evolution of the main macroeconomic indicators in Romania in the context of the covid19 pandemic and the war in Ukraine and the effects that these events had on the Romanian economy and mainly on the wellbeing of the population. The results expressed in this paper were the result of a quantitative and qualitative analysis of the characteristics and the evolution of the macroeconomic indicators in Romania, emphasizing aspects regarding: GDP, inflation rate, consumer price index, unemployment, inflation, monetary policy, etc. We also presented some forecasting regarding the evolution of the Romanian economy on the next period.

RESEARC RESULTS

The evolution of the main macroeconomic indicators in 2018-2023 period

Economic indicators are figures or numerical values that reflect quantitative aspects of economic phenomena and processes in a given spatial and temporal context. They provide a numerical representation of various economic phenomena and processes, highlighting their quantitative, structural and qualitative characteristics, as well as the interdependencies between the different subsystems of the national economy.

The main macroeconomic indicators influencing the market are:

- ✓ Consumer price index
- ✓ Inflation rate
- ✓ Monetary policy interest rate
- ✓ Gross Domestic Product
- ✓ Unemployment rate

Next we will analyze their evolution in Romania in the period 2018-2023.

- ✓ **Consumer Price Index**

The Consumer Price Index (CPI) is an economic indicator that aims to measure changes in the general prices of goods and services used by the population in a given period (referred to as the current period) compared to a previous period (referred to as the base or reference period).

The influence of the CPI on the capital market is direct. When CPI changes fall within the ranges set by central banks, they adopt or maintain an accommodative monetary policy, which creates the conditions for favorable developments in capital markets. However, when CPI movements are not in line with central banks' expectations, central banks may impose restrictions on monetary policy, with possible negative effects on capital market developments.

In the economic cycle prior to the pandemic (before 2020), the world economy was characterized by stable and, in some cases, even too low inflation. However, this context has changed rapidly in the post-COVID-19 era [13].

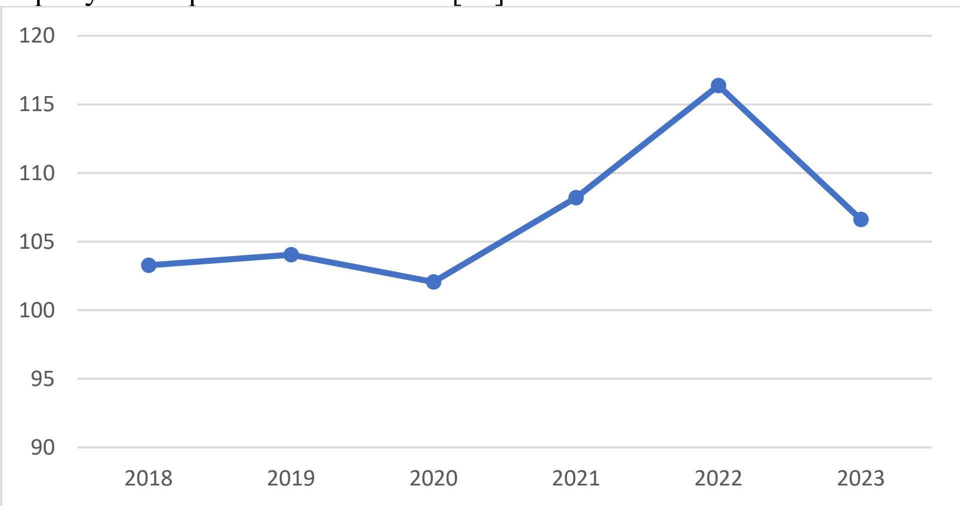

Figure 1. The Consumer Price Index in Romania in the period 2018-2023 (%)

Source: realized by the author based on the data from www.insse.ro

The pandemic caused a significant supply-side shock in an intensely interconnected global economic network. The pandemic has also altered consumption habits and influenced investment decisions. At the same time, demand - supported by large-scale, wartime-like stimulus measures, particularly in the United States and, to some extent, in the euro area - recovered much faster than expected. Against the background of a pronounced imbalance between supply and demand in various sectors, prices rose sharply in many countries. Russia's invasion of Ukraine has added another extreme shock to an already difficult economic context, pushing inflation to record levels for decades, given that both Russia and Ukraine are major global commodity exporters.

At the level of the Romanian economy, the price index had minor fluctuations in the period 2018-2021, but in 2022 it recorded a major increase due to the effects on the economy of the war in Ukraine. Thus, the consumer price index increased from 108.19% in 2021 to 116.37%. Subsequently, during 2023, the consumer price index recorded an upward trend although it continues to be quite high (figure 1) [15].

✓ Inflation rate

The annual inflation rate reflects the increase in consumer prices in one month of the current year compared with the same month of the previous year. This metric is calculated as a percentage, expressed as the ratio of the price index in one month of the current year to the corresponding index in the previous month of the previous year, adjusted to a common base, minus 100.

Controlled inflation of around 2-3% can have a positive impact on the economy and create the conditions for favorable developments in capital markets. In contrast, an inflation out of control leads to increased uncertainty in the economy and generates instability in the business environment, with a negative impact on the evolution of capital markets.

In Romania, during the period under review, the inflation rate showed a downward trend in 2018-2020, followed by a slight increase in 2021 due to the effects of the covid19 pandemic and a major increase in 2022 to 13.8%, driven by the effects of the war in Ukraine on the economy. In 2023, the inflation rate has been reduced to 10.4% but remains very high, and this is felt most acutely in the living standards of the population (figure 2).

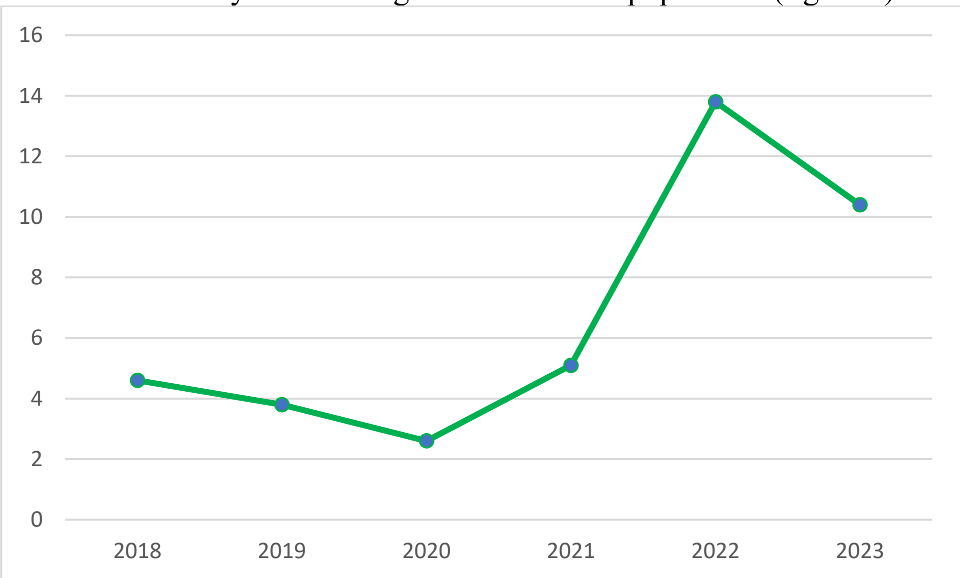

Figure 2. The evolution of the inflation rate in Romania in the period 2018-2023 (%)
Source: realized by the author based on the data from www.insse.ro

✓ Monetary policy interest rate

The monetary policy interest rate is the level of interest used for the main money market operations conducted by national banks. [8] A lower monetary interest rate leads to lower interest rates on bank loans, making them more affordable and increasing the amount of money in circulation, thus creating a favorable environment for capital markets. On the other hand, if the policy rate is rising, the cost of credit offered by banks is higher, leading to a decrease in the money supply in circulation. This situation negatively affects the capital markets. In Romania, during the period under review, the monetary policy rate recorded a rather low level in 2020 and 2021, recording values of 1.50% and 1.25% respectively. Subsequently, also as an effect of the war in Ukraine, the NBR could no longer sustain its low level, so the monetary policy rate increased to 6.75% in 2022 and 7.05% in 2023. (figure 3)

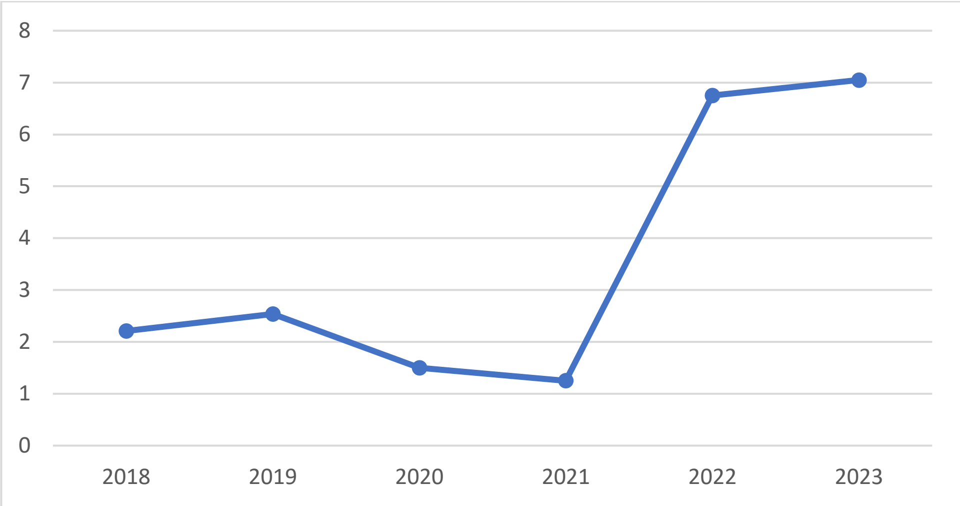

Figure 3. The evolution of the monetary policy rate in Romania in 2018-2023 period (%)
Source: realized by the author based on the data from www.insse.ro

✓ **Gross Domestic Product**

Gross Domestic Product (GDP) is the sum of the market value of all goods and services for final consumption produced by all sectors of the economy within a country during a year. [4,5]

An upward trend in GDP and positive estimates of its growth are the result of a growing national economy, thus offering favorable prospects. In contrast, a decline in GDP, accompanied by contractionary estimates, has negative effects on the economy. During the period under review, Romania's GDP has registered a continuous upward trend, growing from RON 952396.8 million in 218 to RON 1583500 million in 2023, which means an increase of 66.26%.

If we talk about the evolution of budget revenues and budget expenditures at the level of our country, we can see that their evolution was increasing during the period under analysis, 2018-2023, but expenditures increased more than revenues, so that the budget deficit in Romania is one to be taken into account. The highest value of the budget deficit was recorded in 2020 when it reached the level of 101798.87 million RON. (figure 4)

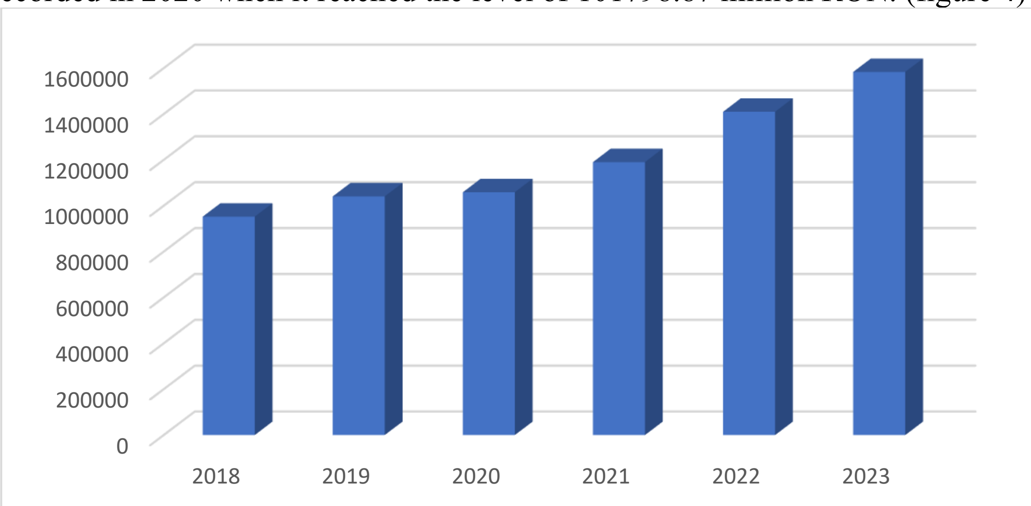

Figure 4. The evolution of GDP in the period 2018-2023 (million ron)
Source: realized by the author based on the data from www.insse.ro

The impact of the pandemic crisis and the effort to support Ukraine have disturbed the fragile balance of the national budget, not only in Romania but also in other countries.

In our context, this expenditure has led to a more pronounced deterioration due to imbalances accumulated in the periods preceding this succession of crises. In order to properly address this complex situation, fiscal consolidation needs to be achieved gradually, setting realistic thresholds in stages. Improving public administration and increasing its efficiency are top priorities, together with returning to a fair tax regime for all economic actors, allowing them to manage the current difficulties, grow and adapt to new conditions in a fair competitive market environment. These measures would contribute to stimulating economic growth and have a beneficial effect on budget revenues as a share of GDP.

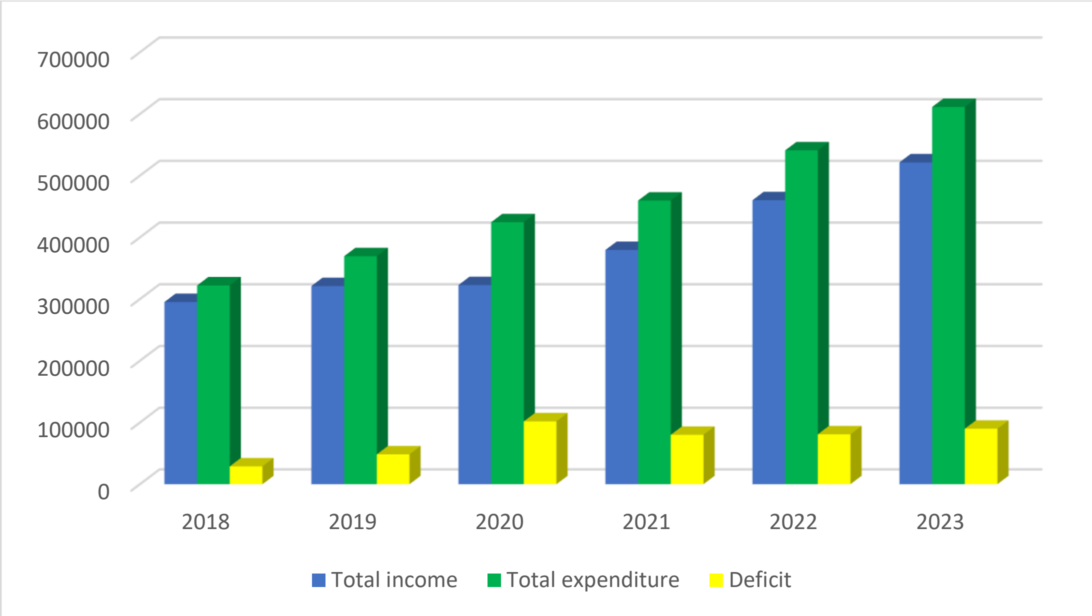

Figure 5. The evolution of the total income, total expenditure and the deficit in Romania in the period 2018-2023 (million ron)

Source: realized by the author based on the data from www.insse.ro

Returning to Romania's GDP, even though it has grown significantly in recent years, economic problems such as poverty and a fragile business environment persist. Although Romania's wealth, as expressed by GDP, has expanded strongly recently, poverty remains high and the benefits of this economic growth are not fairly distributed among citizens or regions. According to experts, a 1% increase in GDP should lead to a reduction of around 1.7% in the poverty rate. In Romania, however, this correlation is far from being respected. [3,9-10]

Even though Romania's GDP grew by more than 11% in 2021 compared to 2017, and GDP per capita grew by more than 38% in the same period, the percentage of Romanians who managed to escape poverty increased by only 1.31%. Moreover, the gap between low and high incomes has widened significantly in Romania. According to Eurostat data, our country has the largest gap in the European Union between high and low income citizens. (figure5)

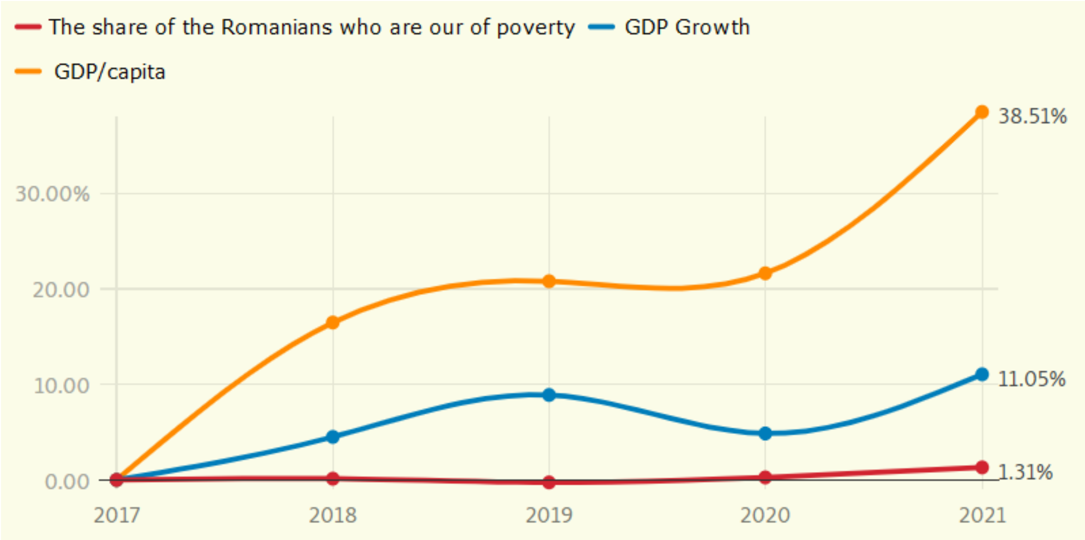

Figure 5 The relationship between GDP and poverty

Source: realized by the author based on the data from www.eurostat.eu

✓ **Unemployment rate**

The unemployment rate is the ratio of the number of unemployed to the working population, expressed as a percentage. A reduction in the unemployment rate is the result of economic growth, which in turn has a positive effect on asset prices in the capital market. In contrast, an increase in the unemployment rate is caused by an economic contraction and has a negative impact on markets. [2,11]

In the period 2018-2022 the unemployment rate had minor fluctuations but in 2023 the increase is semnificant, from 3% in 2022 to 5.4% in 2023. [6]

By gender, the unemployment rate for men exceeded that of women for the first time in the last 5 years by 1.2 percentage points (the respective values being 5.9% for men and 4.7% for women). Also noteworthy is the high unemployment rate of 21.1% among young people (15-24 years). For adults (25-74 years), the unemployment rate was 4.2% 2023 (3.9% for women and 4.4% for men). The number of unemployed people aged 25-74 accounted for 73.4% of the total number of unemployed in 2023. (figure 6)

Figure 6. The evolution of the unemployment rate, by category in the period 2018-2023 (million Ron)

Source: realized by the author based on the data from www.insse.ro

✓ **Economic forecasts for 2024**

For Romania's economy, IMF experts forecast economic growth of 2.8% for this year, with a projected acceleration to 3.6% by 2025. As for consumer price developments, the IMF forecasts average annual growth of 6% this year, followed by a gradual decline to 4% in 2025. The current account deficit is expected to improve to 6.8% in 2025. The unemployment rate is projected to remain similar to last year at 5.6%, with a slight decline to 5.4% in 2025. [14]

World Bank estimates for Romania's economic growth are more optimistic, forecasting 3.3% in 2024 and 3.8% in 2025. These growth rates are more pronounced compared to other countries such as Bulgaria, Croatia and Poland. This economic expansion is significantly supported by EU-funded investment and private consumption, boosted by rising disposable income. (table 1)

Table 1

International Monetary Fund and World Bank Forecasting

	International Monetary Fund		World Bank	
	2024	2024	2024	2025
Economic Growth (%)	2.8	3.6	3.3	3.8
Inflation, average (%)	6.0	4.0	6.3	3.9
Current account balance (GDP%)	-7.1	-6.8	-6.3	-6.1

Source: National Commission for Strategy and Prognosis, 2024. The medium-term forecast 2024-2026, the spring version, available at: https://cnp.ro/

CONCLUSIONS

At a time of rising public debt and the need for investment to modernize the economy, a country's macroeconomic balance is crucial both internally, as one of the pillars of sustainable development, and in the relative context, in comparison with developments in other countries with which it is often associated and in competition for foreign capital and technology.

The steady growth of Gross Domestic Product over the last two decades should have led to an improvement in the standard of living for all Romanian citizens, supported the business environment and led to a reduction in public debt. However, none of these prospects has materialized. I believe that the reason for this situation is the fact that economic growth in Romania is mainly fuelled by consumption and not by production. Before discussing the wealth generated by GDP growth and the obsession with this growth, we should focus on solving production-related problems, that is, trying to develop the production sector.

Another important issue is public debt. Romania does not produce enough and imports a large part of the goods it consumes, without exporting the same amount. Around 70% of the goods consumed are imported. This leads to a massive transfer of wealth to supplier countries, enriching other countries. We then borrow to cover the costs of our consumption, including imported goods. The rapid rate of growth of public debt today is alarming and has significant financial consequences.

In order to stimulate investment, the government and the business community must communicate strongly that Romania is not only a safe place to invest, but also a land of many opportunities, even in the face of current challenges. To this end, the authorities should continue to support economic growth by adopting policies that encourage investment. Such policies could include supporting key sectors such as health and education and ensuring full absorption of available EU funds, with a focus on national infrastructure development.

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