

ROMANIA – EUROPEAN UNION’S MEMBER MACROECONOMIC TENDENCIES AND PROGNOSIS

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Abstract: *In this paper I will presents that are the first effects of Romania integration into the European Union, after half a year since January 1st 2007. I will present the integration influence upon the current account situation, public debt, demand, consumption and especially upon the foreign direct investments.*

European integration is a very important step for our country. Since January 1st 2007 we are being supervised for our economic, administrative and structural reforms¹.

Starting from the current political situation in Romania, we consider that we will assist to a slowing of the reform rhythm that should take place in justice and public administration, which will have effects upon the absorption possibilities of the European structural funds. The delay of the reforms will affect the privatization process and the investments projects. Thus, the Romanian economy’s fundamental parameters won’t be affected existing even positive increasing perspectives, in spite of the small decreases determined by the present politic instability.

Macroeconomic Evolutions and Prognosis

Table nr. 1.

	2005	2006	2007p	2008p	2009p
GDP nominal (€)	79,5	97,2	111.7	122.9	133.0
GDP per capita (€)	3,679	4,510	5,198	5,747	6,249
GDP real (% annual)	4,1	7,7	6,0	5,5	5,0
Inflation Rate (IPC) (% December)	8,6	4,9	4.4	4.2	3.8
Inflation Rate (IPC) annually, average	9,0	6,6	4.3	4.4	4.0
Unemployment Rate %, average	5,8	5,4	5,3	5,2	5,2
Exchange Rate / €, Period End	3,68	3,38	3,37	3,39	3,42
Exchange Rate / €, annually average	3,62	3,52	3,38	3,38	3,40
Interest Rate of Monetary Policy (dec) ⁽¹⁾	7,50	8,75	7.00	6.75	6.25
Bubor 1M December	7,48	8,54	6.85	6.65	6.20
Bubor 1M annually average	9,33	8,73	7.53	6.75	6.43
Current Account Situation / GDP %	-8,7	-10,3	-11,5	-11,2	-10,0
ISD / GDP %	6,6	9,3	5,2	4,6	4,1
Consolidate Budget Exercise / GDP %	-0,8	-1,7	-2,3	-2,4	-2,4
Public Debt / GDP% (ESA 95)	19,7	17,5	18.4	19.4	20.7
Total External Debt / GDP % ⁽²⁾	31,0	28,5	27.0	26.7	26.6

Source: BNR, National Institute of Statistics

Notes: (1) Interest Rate practices by the Romanian National Bank for the deposits of the commercial banks for one month; (2) Data exclude the short term external debt; (3) For the years 2007,2008 and 2009 data are predictive.

The domestic demand contributed to the annual increase of the real GDP till the level of 7.7%, while the private consumption contributed significantly, investments representing the element with the rapid expansion, increasing annually by 16.1%. This year we predict a slowing of the GDP

¹ Dănuțiu D.C., *Fundamente teoretice ale economiei europene*, Editura Risoprint, Cluj Napoca, 2005, p.7-9.

increasing till 6%, base on private consumption reduction.

Inflation rate for March 2007 had recorded a new minimum annual record of 3.7%, mainly based on decreasing of the volatile prices. The reduced inflation rate for the first three months of the year and the preoccupation for the entrances of speculative funds, favourite by the big difference between the Romanian interest rate and the Euro area interest rate and by the appreciation pressures on the foreign currencies market represented the base for the interest rate decreasing by 1.50% till the level of 7.25% for the last three meetings of Romanian National Bank.

Current account closed the year 2006 with a deficit of 9.97 milliards or 10.3% from the annual GDP. In 2007 we predict an increasing of the current account deficit based on the depreciation of the position “incomes from investments” and an increased deficit of the external commerce, with an increased volume of the imports due to the elimination of the import duties as a consequence of Romania’s integration into the European Union.

Macroeconomic tendencies

Table nr. 2.

	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07
GDP real, % annual ⁽¹⁾	6.9	-	-	7.4	-	-	7.8	-	-	7.7	-	-	-
Industrial Production (adjusted) annual	3.4	3.5	13.7	10.1	10.5	7.3	6.9	9.4	7.4	8.2	2.8	10.1	-
Inflation Rate (IPC) annual	8.4	6.9	7.3	7.1	6.2	6	5.5	4.8	4.7	4.87	4.01	3.81	3.66
Unemployment Rate %	6.1	5.8	5.4	5.2	5	5	4.9	5.1	5.1	5.2	5.4	5.2	-
Exchange Rate / €, Period End	3.52	3.47	3.54	3.57	3.55	3.53	3.53	3.52	3.43	3.38	3.41	3.40	3.35
Public Debt, mil RON	2,198	3,432	4,187	3,608	5,569	5,297	5,677	6,868	4,148	-5,651	2,432	459	-
Bubor 1 M, average	8.54	8.54	8.57	8.7	9.11	9.55	9.16	9.05	9.12	8.54	7.46	7.91	8.38
Export (FOB), % annual increase	20.8	4.2	30.1	22.3	10.9	10.7	6.6	16.3	21.4	7.6	15.3	10.2	-
Import (CIF), % annual increase	26.1	15.3	31.9	22.6	24.1	24.6	18.8	26.2	22.8	30.7	35.8	27.5	-
Commercial Balance, mil EUR	-951	-1,074	-1,224	-1,200	-1,233	-1,343	-1,177	-1,631	-1,629	-2,105	-1,231	-1,336	-
Current Account, mil EUR ⁽²⁾	-1,569	-2,349	-3,276	-4,170	-4,878	-5,924	-6,699	-7,748	-8,856	-9 973	-766	-2049	-

Note: (1) Cumulated till the end of period (2) Includes reinvested profit.

Sources: Romanian National Bank, National Institute of Statistics

Considering the present political context, we think that exist risks in slowing the reforms in justice and public administration that can affect negative the entrances of European structural funds. The delay of the reforms that have as purpose the creation of a favorable business environment can affect, as well, the privatizations and the investments projects. Any case, the fundamentals of the real economy remain solid, with positive increasing perspectives, supporting our predictions according to which will not exists significant deficiencies at economic level as a consequence of the present political instability.

The accelerated increase of the GDP for 2006 was alimeted by the reconstruction activity

According to our expectations, Romania’s GDP increased annually by 7.7% till 97.2 milliards Euro in 2006. Last year was characterized by the persistence of the strong increase of the private consumption, alimeted by the salaries increasing and credit’s expansion. The private consumption contributed mostly at the GDP (79% from GDP), recording an annually increasing of 12.6%, the most rapid annually expansion had investments (16.1%), as a consequence of the foreign capital entrances. A big part of the investments was oriented towards infrastructure projects and constructions, the annual increase in these areas being of 19% in 2006. The powerful internal demand together with the sustain expansion of the imports conducted to a depreciation of the commercial balance, which represents a signal of the appearance of the overheating economy. The positive aspect of this situation is the fact that we are assisting to an increase of the capital goods in

the imports volume (30% annual increase in 2006 compared to 2005) that shows an improvement in the commercial deficit's structure.

Positive expectations regarding the economic growth in 2007, as a consequence of Romania's integration into European Union

Prognosis on short term regarding the Romanian economy's evolution is favorable and we are expecting that the present increasing should maintain although a little smaller due to the slowing increase of the internal consumption. The investment activity will gain supporters for the next period, sustained by the new projects of infrastructures and the big fluxes of foreign direct investments.

Favorite by a gentle winter the construction sector increases annually by 28.3% in the first months of this year compared to the same period of last year. Such signals indicate that in 2007 the construction sectors could record the highest level in its history helped by the massive demand on the residence and non-residence buildings segment. In spite of a decrease of the internal demand, the export contribution to the GDP will be even smaller, doubled by cheaper imports and more accessible of some products from the European Union's members. That is why we are reconfirming the theory of GDP increasing of 6% for the year 2007.

Tendencies of relaxing the monetary policy

Disinflation process continued successfully in the first three months of the year 2007. Inflation rate recorded the level 3.66% in March, the disinflation tendency for the last months remaining so unmodified. Alimentary products' prices (with an average of 39% in the consumption prices' index) are the base of this performance, considering the competition in the alimentary products' competition from import and from large stores. In exchange, the services sector and the medical sector, water supplying and residual waters, have recorded the largest price increasing, reflecting so the convergence process towards the levels recorded in the European Union for these activities. The effect of increasing taxes for tobacco and alcohol have a big importance in increasing the prices, although in March compared to February their expansion was of only 0.45% compared to the evolution recorded in February compared to January of 1%, and the annual increase of 27.7% for the entire 2006.

In spite of the fact that inflation rate have been situated under the expected level, there are still inflation pressures related to the demand, as it is shown by the relatively high level of inflation CORE2 for the last months. We are expecting for the next months inflation pressures as a consequence of increasing salaries, maintaining the high level of the demand and the fiscal policy's relaxation. More, the increase of the consumption prices will appear as the base effect of the decline of the alimentary products' prices for the third trimester of last year. Future adjustments of the administrative prices will bring also their contribution to the increase of the inflation. Romania is gradually lining the prices of energy and natural gas so that till 2009 these prices will be at the European Union's level.

All these elements together with the increase of salaries and the political instability for the last months lead us to the prediction according to which the disinflation tendency will be stopped and the increase of the prices will be 4.4% for the entire 2007.

At the beginning of 2007, Central Bank surprised the market through the three consecutive reductions of the interest rate through its monetary policy. The reason for these movements was the inflation rate decreasing tendency together with the fear of speculative capital entrances for benefit of the interest rate level. On the other hand the Romanian National bank intends to continue the strict monetary policy maintaining the minimum obligatory reserves at the same level (20% for lei and 40% for foreign currencies).

A depreciation of the current account balance can signalized the existence of some big economic disequilibrium at local level and the risk of overheating the economy, assuming pressures upon the Romanian lion in the sens of appreciation. Any case, the bigger and bigger preoccupation of Romanian National Bank for unsustainable appreciation on long term of national currency will

be a barrier for increasing the intervention interest rate. Exceptions for this case are national currency's depreciation and the inflationist pressures. Although this case is not expected to become real. It is more possible to modify the interest rate for the monetary policy in opposite sense. We anticipate the decrease of the interest rate by 0.25% depending on the evolution of the inflation and the exchange rate.

First signs of relaxing the fiscal policy

According to the budget project for 2007, the public deficit will be situated at 2.8% from GDP, considering an economic growth of 6.4% and an inflation of 4.5%. The government expenses are planned to increase by 38% of GDP, including also the 0.8% contribution from GDP to the European Union budget. The biggest part of the supplementary budgetary expenses is necessary for supporting the infrastructure investment effort. The incomes are projected to increase by 35.2% from GDP, especially as a consequence of the supplementary transfers that come from European Union and the anticipated increasing of the TVA income tax collecting taxes. Increasing the budgetary incomes will lead to the decrease by 2% of the contributions to the social insurance budget.

After the restructuring the executive the Economy and Finance Ministries had been unified, the level of 2.8% for the budgetary deficit had been reconfirmed for this year. Considering the accelerated decrease of the budgetary exceeding for the first months of 2007 and the adjustment of the social assurances contributions we can say that there are clear signs of fiscal relaxation.

Current account balance is deteriorating

In the first two months of the year 2007, the Romanian current account deficit increased by 166% compared to the same period of last year, recording the level of 2.049 milliards Euro, in the conditions of a rapid increase of the imports as a consequence of eliminating the import duties for the communitarian commerce. The commercial deficit for the first two months of 2007 increased by 83% (FOB/CIF) compared to the same period of last year, recording the level of 2.6 milliards Euro. The strong appreciation of the Romanian lion although did not have an impact upon the exports (that raised in February 2007 by 13%, compared to February 2006) stimulated clearly the imports that raised till in January with 36% and in February with 27%, compared to the same period of last year.

For the rest of the year, the pressures upon the commercial balance especially the persistence of the excessive alimentary demand by the reduce price of some goods from imports, the increase of investments and the fiscal policy relaxation, all contributing to a bigger current account deficit for 2007 compared to 2006. We expect that the current account deficit will be of 11.5% from GDP. On short term as a consequence of improving the export capacity the pressures upon the external commercial balance will be diminished and in 2009 the current account deficit will be of 10%.

Romania presented at Bruxelles on March 31st 2007 the first report regarding the progresses made. Even if our country became a European Union member it is not the time for relaxing because it is necessary to reinforce the efforts for developing institutional and administrative capacities according to the European Union's norms and using European Union's structural funds.

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