ROMANIA BETWEEN CRISIS AND MEDIUM TERM ECONOMIC GROWTH

Gheorghe Negoescu
Ovidius University Constanta. Romania
negoescugl@yahoo.com

Romania is experiencing a period of economic crisis on the global economic crisis. However, this year was held a few signals on the recovery in economic fundamentals and the tendency to enter a period of stability and growing economic fundamentals. In this paper we aim to highlight the main achievements on increasing economic fundamentals achieved in 2013 by certain sectors of Romania economic fundamentals but also how they are viewed by efforts to stabilize the country main rating agencies in conjunction with the main tax measures for year 2014 decided by the government and announced through media channels

Keywords economic crisis, stability, rating, fiscal measures

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1. Introduction

Lack of local mortgages to high-risk induced idea that Romania will not be affected major U.S. crisis in the summer of 2007. But as the banking crisis swept the first influential financial centers, financial institutions lost confidence between banks holding back amid the credit risk assessed under uncertainty.

The companies were so affected by seeing themselves forced to limit production costs and investments. The budget deficit in Romania increased in the period before the economic crisis, from 1.3% of GDP in2004 to 2.6 % in 2007 and above 3% in 2008, which made it more difficult recovery after the onset of the crisis. EU sovereign debt crisis has highlighted the urgent need for major improvements fiscal policies. (1)

A possible way out of a crisis of overconsumption (as seen economic crisis in Romania) could reduce administrative budget expenditures, investments in the development of public-private investment mainly target foreign markets and be at least partially funded by grants.

2. CRA opinion on Romania's economic vulnerability

At the end of 2013, Romania in terms of investment is poorly rated by the rating agencies. Through analysis to investors prepared by the rating agency Moody's in a report issued rating is assigned Romania "Baa3 " (countryeconomy.com, 2013) the lowest category "investment grade" (assets recommended for long-term investment), with a negative outlook. (2) According to Moody's rating of Baa3 government bond Romania account for successful fiscal consolidation over the past two years, but is still limited by weak economic growth in the last period of weak growth perspective . Another factor limiting the credit rating of Romania's exposure to volatility in global financial markets due to the high dependence on external financing both in government and in the private sector considers Moody's. In the Agency's point of view that vulnerability is partly improved external financing agreement with the International Monetary Fund, the European Union and the World Bank. It also agreed with the IFIs provide visibility on the direction of economic policy, despite the uncertain economic and political situation.

Moody's considers that Romania has achieved a significant fiscal consolidation over the past two years, despite political volatility and weaker growth rate. Agency evokes budget deficit last year reduced to 2.9% di GDP, the current account surplus in the first half of this year as the world exports in a period of weak domestic demand, inflation in the process of slowing down. However, in the Agency's view, economic growth still weak income growth could temper the government, creating difficulties in the fiscal targets for 2013 and 2014 ", predicts the rating agency.

The report shows that Moody's could consider improving the perspective of Romania's rating to stable if fiscal consolidation continues, economic growth will accelerate sustainable, and current trends in the quality of banks' assets and development credit would reverse . However if the performance in terms of fiscal consolidation and the current account would be reversed, or if Romania would cross a prolonged period of economic slowdown due to loss of competitiveness rating could be adversely affected.

Fitch assigns Romania rated "BBB-"(countryeconomy.com, 2013), in the investment grade, with a stable outlook. Standard & Poor's (S & P) qualifies Romania to "BB +"(countryeconomy.com, 2013), in the category of assets not recommended for long-term investment. (2)

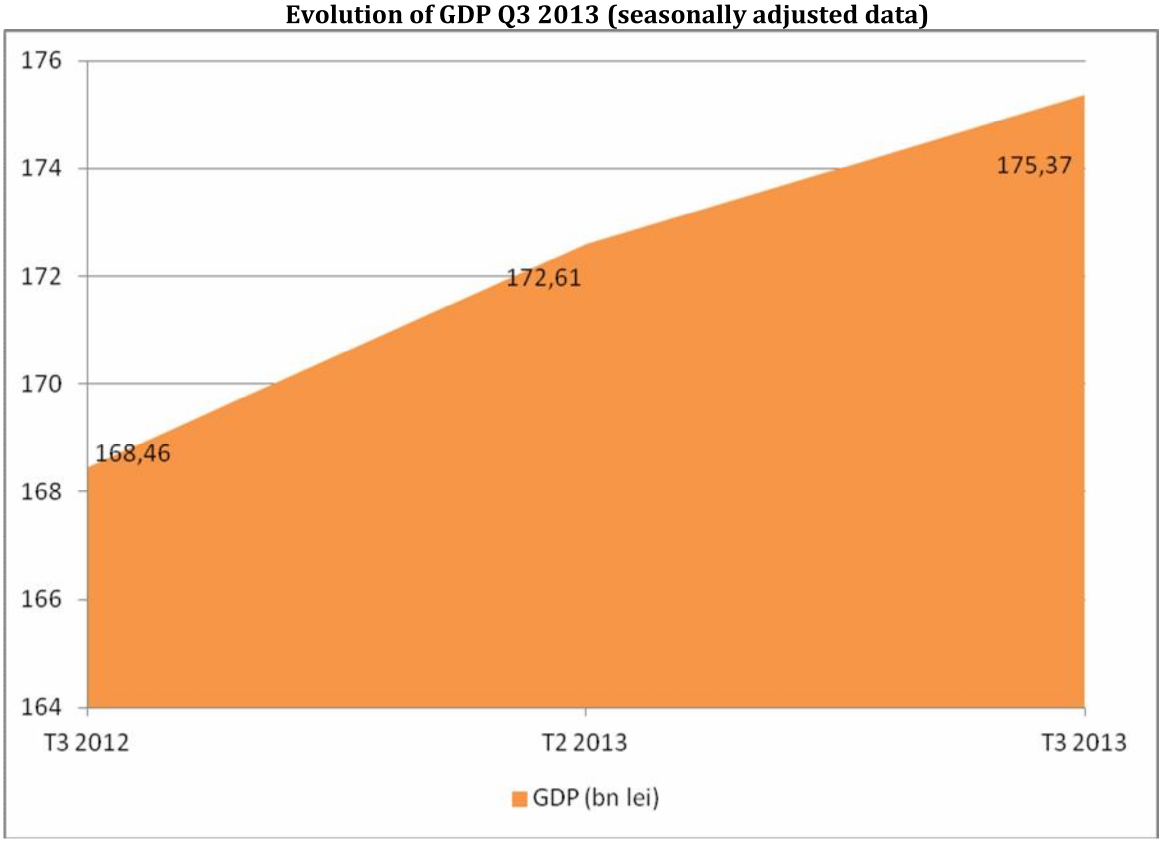
CRA opinion on economic vulnerability of Romania - November 2013

Source own presentation

2. Romania economic development in the third quarter 2013

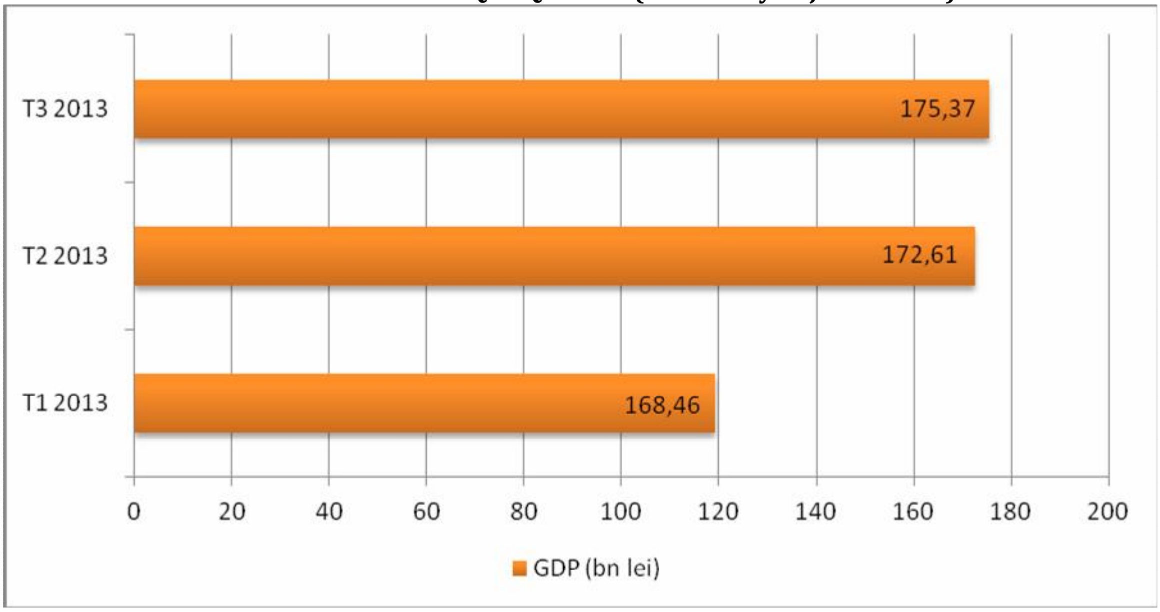
According to the National Statistics Institute estimate the evolution of GDP (November 2013), the economy grew by 1.6% in the third quarter (INS, 2013) from the previous three months and 4.1% compared with July-September 2012, so nine months advance is 2.7%, supported by industry and agriculture.

Evolution of GDP Q3 2013 (seasonally adjusted data)



Source own adaptation of the data submitted by the INS (3)

Evolution of GDP Q1 - Q3 2013 (seasonally adjusted data)



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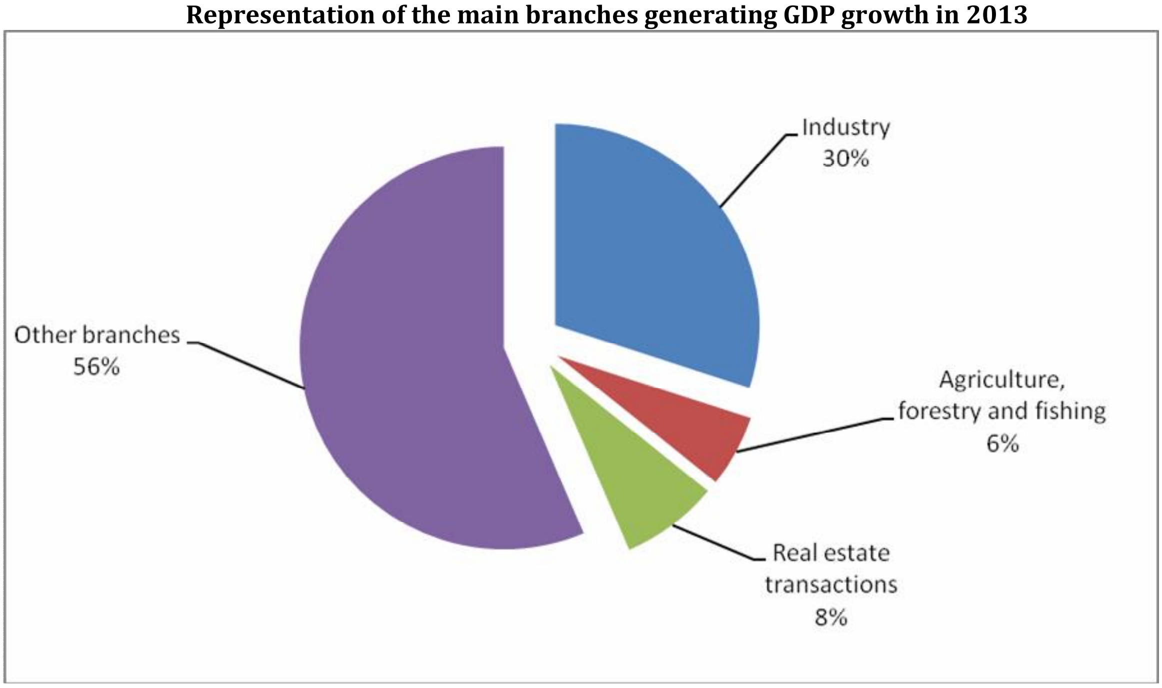
According to press INS most important contributions to GDP growth during 1.I-30.IX 2013 compared to the corresponding period in 2012, we had the following sectors: industry (+1.4%), with a share of 30 0% to GDP and whose business volume increased by 5.1% Agriculture, forestry and fishing (1.0%), with a lower share in GDP (5.8%) and whose business volume increased by 17.9%, real estate (0.2%), with a share of 7.8% to GDP and whose business volume increased by 2.2%(INS, 2013). According to INS reduction of activity of public administration and defense, social security insurance, education, health and social assistance, 0.7% had a negative impact on GDP growth, the contribution of this sector to GDP growth was -0 1%.

Representation of the main branches generating GDP growth in 2013



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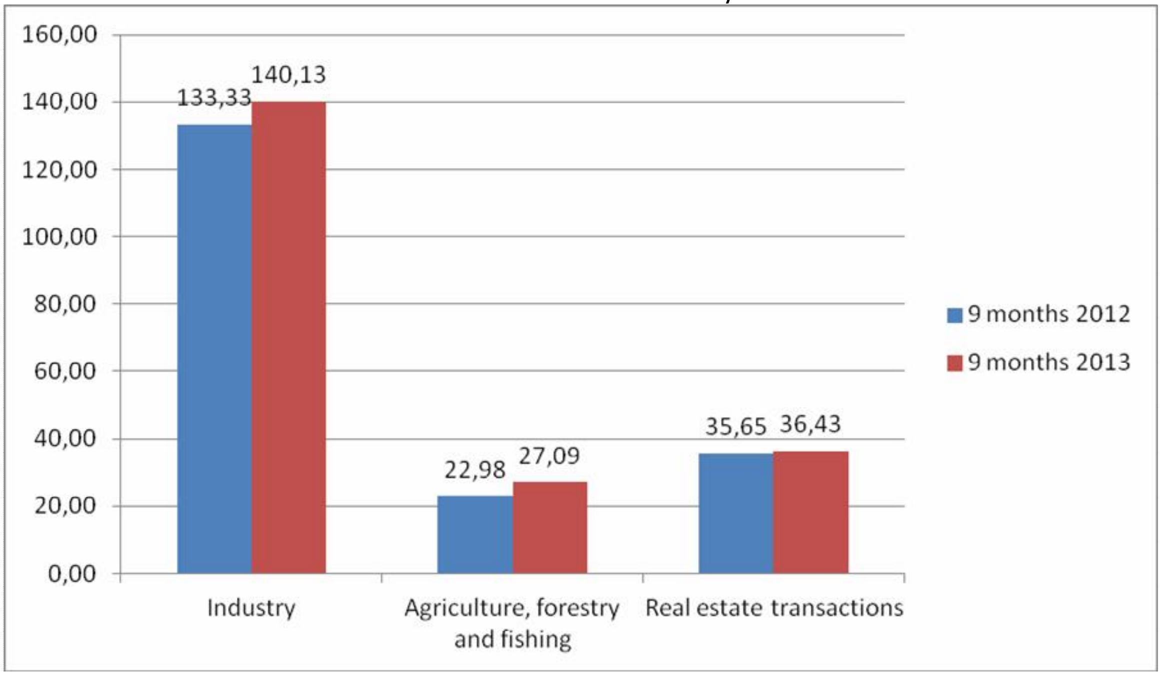
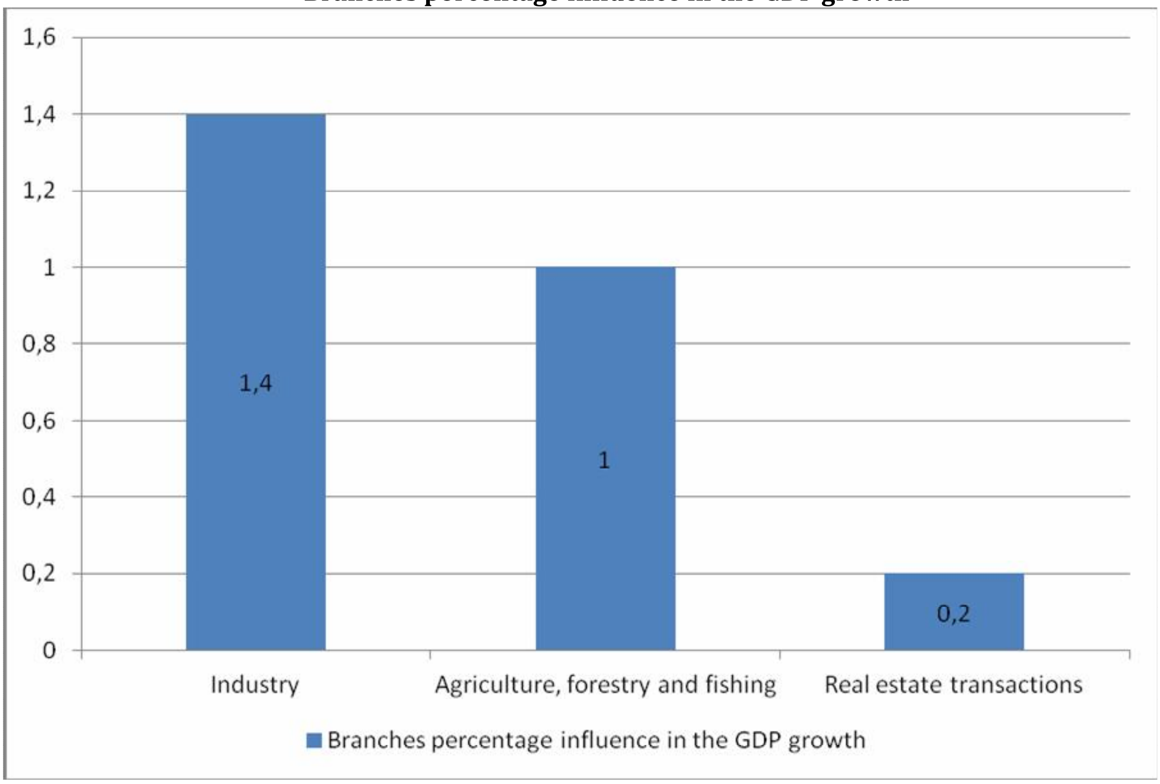
Branches GDP evolution 2012/2013



Source own adaptation of the data submitted by the INS (3)

Branches percentage influence in the GDP growth



Source own adaptation of the data submitted by the INS (3)

In terms of the use of GDP growth in the first nine months was primarily due to net exports (with a contribution of 5.2%) as a result of 14.4% growth in exports of goods and services related to a significant increase reduced the volume of imports of goods and services by 1.5%, and final consumption expenditure of households (0.4%), accounting for 60.4% of GDP, the volume of which increased by 0, 6% (INS, 2013).

A negative contribution recorded gross fixed capital formation (-1.1%), accounting for 24% of GDP, whose volume decreased by 3.9%, final consumption of government (-0.3%) with a share of 15.7% of GDP, whose volume decreased by 2.4% and inventories (-1.5%) due to the reduction of inventories in the economy.

3. The main fiscal measures for 2014

Following negotiations with the IMF established the following fiscal measures (Capital.ro,2013) that have been announced and the Government of Romania (figure bellow). (3)

The main fiscal measures for 2014

Source own presentation

These measures are designed to complete tax revenue of the state budget to support economic growth, although the effect of some of these (eg special construction taxation) could be higher inflation and reduced economic performance of companies (even state).

4. Conclusion

1. To the fight against domestic deficit, limiting the effects of inflation and maintaining economic stability, Romania is no growth strides.

2. Recovery measures are not supported at fiscal. Negotiations with the IMF and align the provisions of international standards of accounting and auditing fail enough to complete the restructuring process.

3. The macroeconomic environment is unfortunately one fully restored after completing a five-year cycle of economic crisis, as reflected in ratingu-tions given by rating agencies but we appreciate that there are signs that it will be restored subject to compliance with a policy of macroeconomic stability.

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