QUICK ANALYSIS OF ROMANIA'S ECONOMY

Rodica Oana Ionita[1]

Abstract

This paper purpose is to present a quick analysis of the Romanian economy starting from the post-modern history of Romanian economic cycles, referring to the period 4th quarter 1999 – 2nd quarter 2019. The results of the analysis is the signal upon the following period which may reveal the start of another economic cycle for Romania.

Having into consideration the direction pointed by the indicators but also the global context, the policy-makers intervention should be as timely, visible and effective as possible.

Key words: economic cycle, downturn, recession

J.E.L. classification: E60

1. Introduction

Along the time, economies have experienced a series of economic cycles. Starting from the roots an economic cycle is defined as a series of ups and downs and has the following phases:

✓ Expansion - recovery it is the part of the cycle that is characterized by an economic improvement, manifested through positive growth of gross domestic product.

✓ Peak - this phase is generally revealed through peak of gross domestic product, high inflation and low unemployment

✓ Contraction- it is defined as a drop of economic output. If for two consecutive quarters gross domestic product decreases, this is considered an economic recession.

✓ Trough (lowland).

Bellow there are presented a list of key economic indicators used to assess the business cycle status for an economy:

✓ Primary economic indicators:

- Gross domestic product is considered the main indicator of the economy business cycle
- Inflation
- Unemployment

✓ Other economic indicators: factors as hyperinflation, stagflation, stock market crashes and unbalanced interest and inflation rates. An example in this regards is represented by the 1929 stock market crash which was the trigger for the 1930s Great depression.

2. Case study – Romania

Based on the economic research, it was observed that Romania has experienced two economic cycles since the modern era began (after the World War II):

- The period 1990 – 2000 is was considered a transitional period to the market economy
- First economic cycle was assessed in the period 2001- 2008
- Second economic cycle was observed in the period 2009 – 2018

The figure presented below highlights the three different periods, evidencing also that the economy is in the last phase of the economic cycle, raising a warning signal upon the following period. This assumption is sustained by the pace of growth which diminished significantly starting with 2018. Annual growth of gross domestic product per capita decreased by 38% in 2018 related to 2017.

This is one of the signals which suggests a close monitoring of systemic risks.

[1] *The Institute of Economic Forecast,* Ionitarodica.oana@yahoo.com

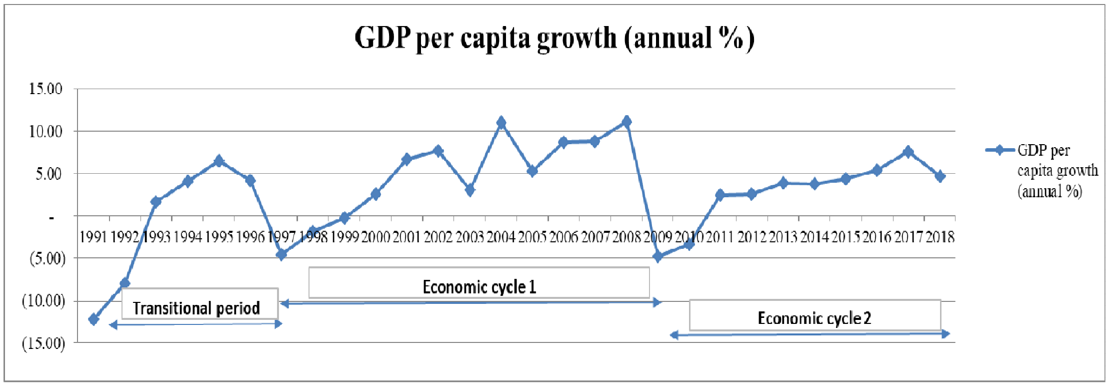

Figure no. 1 GDP per capita growth, Source World Bank Database

The Table no. 1 presents few statistics of gross domestic product for each of the three periods. It shows also the year when the minimum level was reached which may indicate the start of the economic cycle. The year when the maximum level was reached illustrates the peak of the economic cycle and is followed by a contraction of the economy.

Therefore the expansion of the transitional period started in 1991, continued to growth in the period 1992- 1995, reached its maximum in 1996 and started the contraction in 1997.

Economic cycle 1 started the expansion in 2003, experiencing the peak in 2004, thus being followed by a contraction of 52% of gross domestic product in 2005.

Economic cycle 2 reached its minimum level in 2009, started to grow until reached the peak in 2017, followed by a 38% drop in gross domestic product in the next year.

Table no. 1 Gross domestic product per capita

Column 1 title (Times New Roman, 10 pts., bold, centered)	**Transitional period (1990-2000)**	**Economic cycle 1 (2001- 2008)**	**Economic cycle 2 (2010 -2018)**
MIN GDP PER CAPITA	(12.16)	3.08	(4.73)
MAX GDP PER CAPITA	6.45	11.14	7.62
AVERAGE GDP PER CAPITA	(0.77)	7.81	2.68
YEAR OF MINIMUM GDP PER CAPITA	1991	2003	2009
YEAR OF MAXIMUM GDP PER CAPITA	1995	2008	2017

Source (Eurostat database, own analysis)

3. Data

In order to analyze the mentioned facts, we collected a dataset for the period 4th quarter 1999 – 2nd quarter 2019 of macroeconomic and financial indicators.

The indicators collected from Eurostat Database have quarterly frequency, while the indicators collected from World Bank Database are annually collected.

Table no. 2 Indicators collected

Current number	Type (macroeconomic/ financial)	Name	Source	Frequency
1	Macroeconomic	Real effective exchange rate	Eurostat Database	Quarterly
2	Macroeconomic	Exports of goods and services	Eurostat Database	Quarterly
3	Macroeconomic	Imports of goods and services	Eurostat Database	Quarterly
4	Macroeconomic	Terms of trade	Eurostat Database	Quarterly
5	Macroeconomic	Current account balance in % of GDP - quarterly data	Eurostat Database	Quarterly
6	Macroeconomic	Capital account in % of GDP - quarterly data	Eurostat Database	Quarterly
7	Macroeconomic	Volume index of production	Eurostat Database	Quarterly
8	Macroeconomic	Government consolidated gross debt	Eurostat Database	Quarterly
9	Macroeconomic	Net external debt in % GDP	Eurostat Database	Quarterly
10	Macroeconomic	Unemployment rate	Eurostat Database	Quarterly
11	Macroeconomic	Inflation, consumer prices	Eurostat Database	Quarterly
12	Macroeconomic	Gross domestic product per capita	World Bank Database	Annually
13	Financial	Domestic credit provided by financial sector (% of GDP)	World Bank Database	Annually
14	Financial	Bank capital to assets ratio (%)	World Bank Database	Annually
15	Financial	Interest rate spread (lending rate minus deposit rate, %)	World Bank Database	Annually

Source (Eurostat database, own analysis)

The analyzed indicators were grouped in the following five categories in order to highlight the worsening of macroeconomic situation of the analyzed economy:

a. Indebtedness

High indebtedness (leverage) periods are characterized by significant increase in loans volumes and also of the external and government debts of the country.

Moderation of industrial production growth combined with the increase of public and private debt level draw attention against the accumulated vulnerabilities inside the economy. High leverage taken by the public and private sector reveals also another risk which may contribute to the

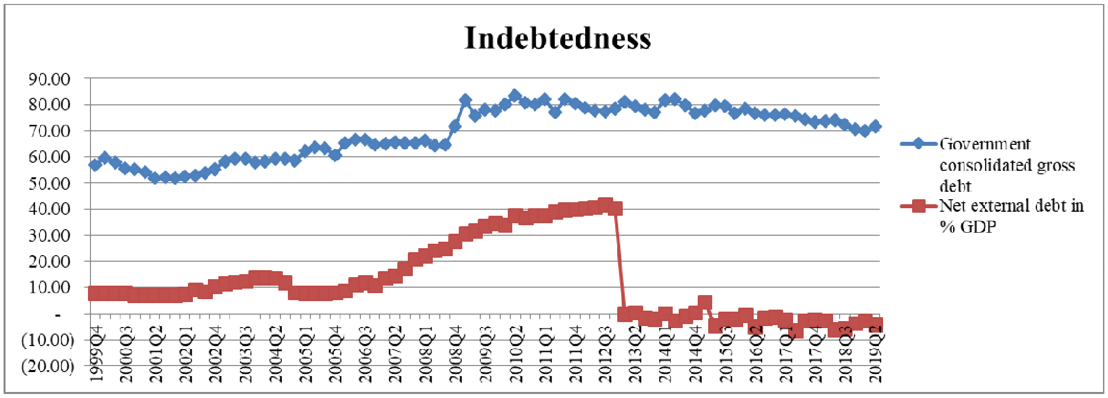

Figure no. 2 Indebtedness, Source Eurostat Database

The evolution of domestic credit provided by financial sector as weight in gross domestic product indicates the placement in the last phase of financial cycle expansion. This impose an effective monitoring of systemic risk.

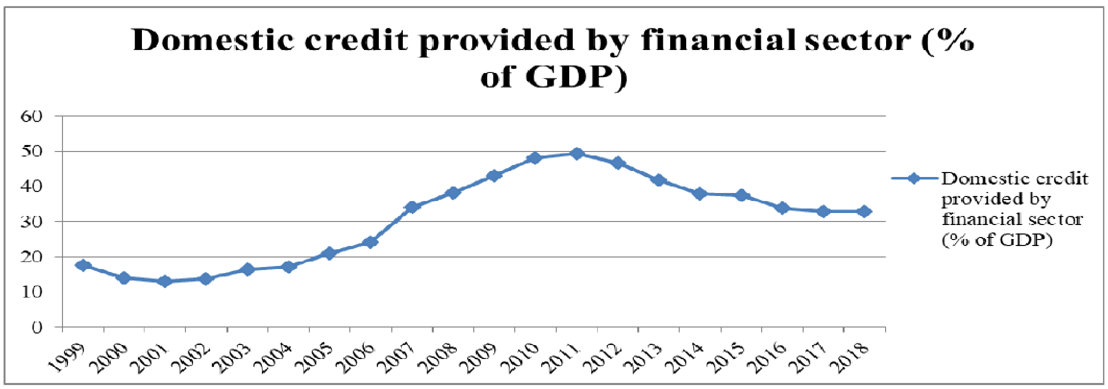

Figure no. 3 Domestic credit product provided by financial sector, Source World Bank Database

b. Monetary policy

An appropriate monetary policy has a key role in obtaining and maintaining financial stability of the economy within its objective of maintaining price stability, focused on inflation rate and unemployment rate.

If at the end of financial year 2018 inflation rate situated in the interval of variation established by National Bank of Romania, it continued to growth in 2019, reaching the level of 3,49% as of September 2019, the target for 2019 being 2.5% with a variation of +/- 1%. Unemployment rate continued to improve, reaching the minimum level of 3.8% in March 2019.

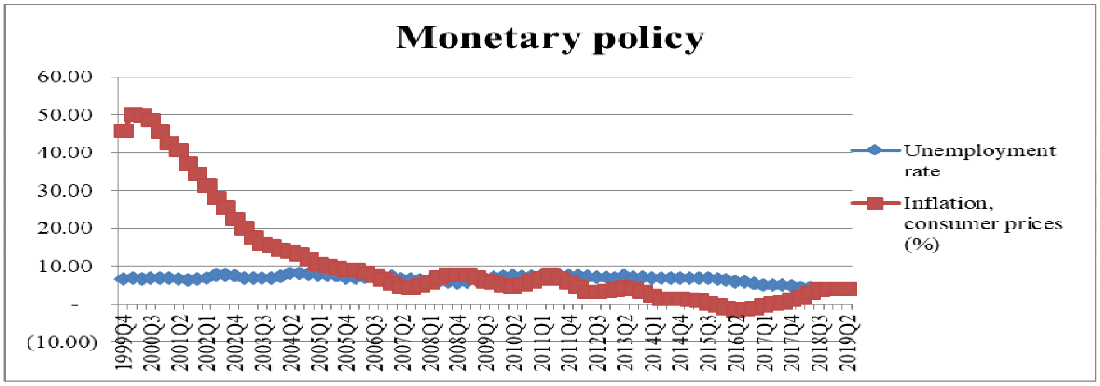

Figure no. 4 Monetary policy, Source World Bank Database

c. Current account

Current account status of a country represents a measure of international competitiveness. As a consequence of an economic downturn, its international competitiveness decrease, exports volume can be diminished as a result of over-valuation of local currency, imports volume increase significantly, while the weight held by current account in gross domestic product decrease as a result of lack of capital inflows.

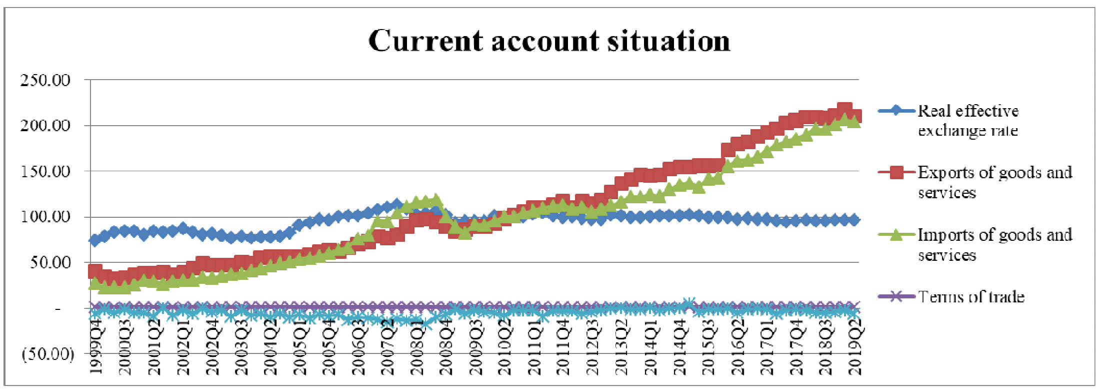

Figure no. 5 Current account situation, Source Eurostat Database

d. Capital account

The weight of capital account in gross domestic product registered a minimum level of -2.4% on 2nd quarter 2006, this level never being reached again. After the recovery of the last economic crisis, the weight of capital account in gross domestic product continued to rise, reaching the maximum level in 1st quarter of 2014 of 5.5%. This period was followed by a deep reduction up to the level of 0.6% in 3rd quarter of 2017.

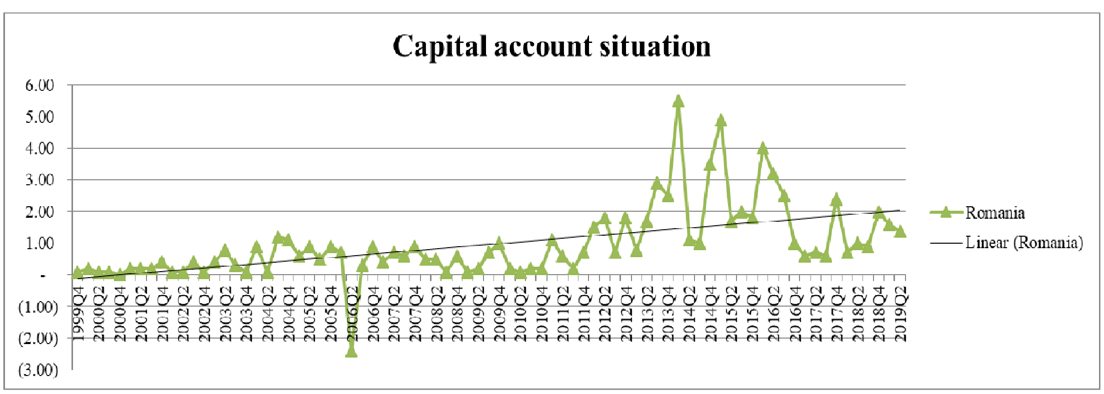

Figure no. 6 Capital account situation, Source Eurostat Database

e. Slowdown of economy

The economic downturn is revealed through the significant decrease of industrial production volume and also through the increase of interest rates level.

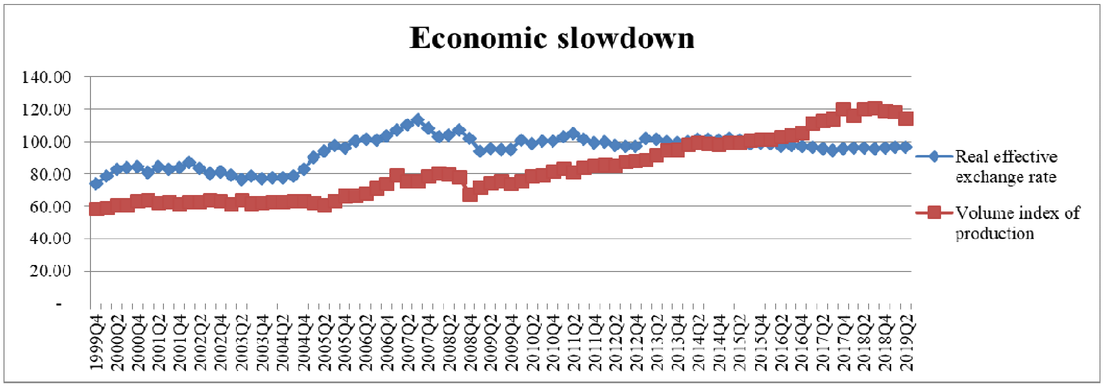

Figure no. 7 Economic slowdown, Source Eurostat Database

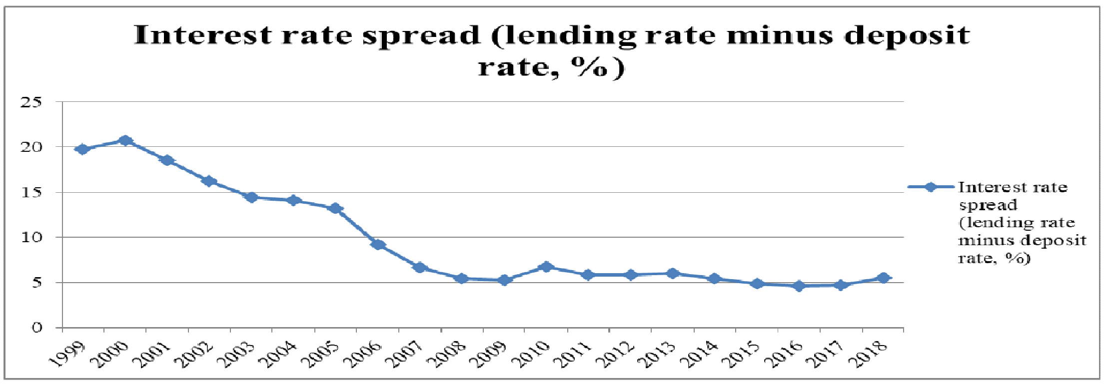

Figure no. 8 Interest rate spread, Source World Bank Database

5. Results and conclusions

Domestic economic tensions should be monitored together with the increase of external vulnerabilities as trade tensions between USA and China, uncertainties regarding the process of Britain exit from European Union (BREXIT) and reappraisal of the Euro Area sovereign debt increase. There aren't considered any significant negative effects upon Romanian economy due to BREXIT because of the low trade relations and insignificant presence of Britannic credit institutions in Romanian economy. Anyhow indirect negative effects are expected through the increase of risk premium as a result of lack of investment confidence. These may contribute to the increase of risk investor aversion on international financial markets.

All these elements highlight once again the need to maintain internal economic balances within adequate limits, but also to diminish the uncertainty associated the policies implemented in order to avoid the deterioration of the investor confidence.

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