ANALYSIS OF THE EVOLUTION OF ROMANIAN ECONOMY BEFORE ECONOMIC CRISIS

Radu Cotetiu¹ Vasile Năsui²
Prof. Ph.D. Eng. ¹,²
¹,² North University of Baia Mare, Romania

Abstract: After 1990, the economic structure has changed significantly, with a shift from industry and agriculture to services. In a first phase, restructuring of industry led to a reduction in its contribution to GDP growth. These changes meant substantial reductions in employment, particularly in traditional heavy industries, such as steel, chemicals and machine production. Romania’s macroeconomic performance in the last years, before crisis was favorable (more of 6% annual GDP average growth over the last six years) in spite of the worsening world economic outlook. GDP growth has been driven by high fixed investments and private consumption, fuelled by strong growth in credit to the private sector. The EU conferred functioning market economy status on Romania in October 2004 due to the significant progress made in the implementation of economic reforms.

Key words: macroeconomic performance, industrial production, manufacturing industries

1. INTRODUCTION

Romania is a member of the European Union (seventh largest country), its most important trading partner. Romania has the 11th largest economy in the European Union by total nominal GDP and the 8th largest based on purchasing power parity and is one of the fastest growing markets in recent history with consistent annual GDP growth rates above 6% (+8.4% for 2008). Figure 1 shows the historical evolution of GDP of Romania.

GDP growth reached 8.3% in 2006 according to the statistical office of the Romania (the year-to-year growth amounted to unexpected 9.8% in the 3rd quarter of 2006 and stayed high at 9.5% year-to-year change in the 4th quarter of 2006), and 8.0% in 2007.
Industrial development received about half of all investment during the 1951–80 period. As officially measured, the average annual growth rate in gross industrial production between 1950 and 1980 was 12.3%, one of the highest in Eastern Europe. In 1993, however, industrial production was at only 47% of the 1989 level. The next year, industrial production increased by 3.3%.

The economy lags significantly behind the majority of EU countries. In 2005, GDP per capita was 34.8% of the EU-25 average and around 55% of the new EU Member States average.

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The Romanian Government’s fiscal policy was based on reorienting the taxation system to encourage growth, economic and social development and to reduce inflation. The economy has been able to rapidly capitalize on the opportunities. Foreign direct investment has been attracted to the country by comparatively low wages, rising productivity, as well as by the market size.

There remain serious deficiencies to overcome in order to boost Romania’s economy.

- *Infrastructure:* Inadequate road, rail, water and air transport facilities and a lack of inter-connectivity, all inhibit growth

![GDP of Romania](image)
- **Economic competitiveness**: Low productivity, outdated and obsolete production equipment and technologies, highly energy-intensive industry, underdeveloped entrepreneurship, a difficult business environment and inadequate business support infrastructure, poor access to finance and insufficient R&D and ICT investment, all hamper business growth.

- **Human Capital** – Limited adequacy of education and CVT to meet the needs of a modern knowledge-based economy, low value placed on education, insufficient articulation between education, initial VET and CVT. Inequality of opportunity leads to social exclusion amongst vulnerable groups

- **Administrative Capacity** – Public services are weak and provide low customer satisfaction. Lack of sufficient administrative capacity is reflected by poor management structures, insufficient skills of civil servants, inadequate inter-institutional cooperation, which ultimately lead to poor quality of the services delivered to the society, and thus jeopardize socio-economic development.

- **Territorial Dimension** – Following industrial restructuring, regional disparities rapidly appeared and they have continued to grow. Disparities between urban and rural are significant and increasing; this is particularly noticeable between Bucharest Ilfov Region and the rest of the country. Both urban and rural areas are confronted with problems related to infrastructure (caused by under investment), local economic development and social environment.

2. ANALYSIS OF THE EVOLUTION OF ROMANIAN ECONOMY BETWEEN 1990 - 2008

After 1990, the developing of industrial sector in the very confuse transition without practical and theoretical experience how to cross from communist economy to one of few models of capitalism.

In 1995, industrial production increased by 9.4% in absolute volume and was 13% higher than the 1992 output. In 1996, industrial production increased by 9.9% with the largest increases coming in the processing industry (+12.5%) and machine and electronics (+27.3%). After the Russian collapse of 1997, however, the industrial growth rate for 1998 was -17%.

Industrial production picked up after Romania began to recover from its recession in 2000, and in 2001, the industrial growth rate was 6.5%. Although industry continues to be a
large sector of the economy (30% of GDP in 2000), it is outmoded and in need of serious modernization and restructuring. Key industries in 2002 included textiles and footwear, light machinery and automobile assembly, construction materials, metallurgy, chemicals, food processing, and petroleum refining. Romania produced 68,761 automobiles in 2001, a 12% decrease from 2000. It produced 759 heavy trucks in 2000, a 13% decrease from 1999. The country had 10 oil refineries in 2002, with a capacity of 504,000 barrels per day.

Romania has been successful in developing dynamic telecommunications, aerospace, and weapons sectors. Industry and construction accounted for 32% of gross domestic product (GDP) in 2003, a comparatively large share even without taking into account related services. The sector employed 26.4% of the workforce. With the manufacture of 245,000 vehicles in 2008, Romania was the Europe's twelfth largest producer of automobiles.

In 2004 Romania enjoyed one of the largest world market share in machine tools (5.3%). Romanian-based companies such as Dacia Automotive, Petrom, Rompetrol, and Bitdefender are well known throughout Southeast Europe. However, small and medium-sized manufacturing firms still form bulk of the manufacturing sector. These firms employ two-thirds of the Romanian workforce.

Romania's industrial output was expected to advance 9% in 2007, while agriculture output is projected to grow 12%. Final consumption was also expected to increase by 11% overall - individual consumption by 14.4% and collective consumption by 10.4%. Domestic demand was expected to go up 12.7%. The growth of the industrial sector was the principal stimulus to economic development. In 2007 manufacturing industries accounted for approximately 35 percent of the gross domestic product and 29 percent of the work force. Benefiting from strong domestic encouragement and foreign aid, Bucharest's industrialists introduced modern technologies into outmoded or newly built facilities at a rapid pace, increased the production of commodities - especially those for sale in foreign markets - and plowed the proceeds back into further industrial expansion. As a result, industry recovered from the decline of the 1990s, and was expected to grow by 7.1% in 2008.

Romania is also perceived as a dynamic market for machine tools, especially in the backdrop of growth in the domestic automobile and mechanical engineering sectors. Romanian machine tool exports abroad have been growing at more than double digit figure since 2002-2007. The exports comprised mainly machining centers, grinding, honing, lapping
machines, gear cutting machines, lathes and milling machines, presses and other metal forming machine tools.

Much of the Romanian manufacturing industry consists of branch plants of EU firms, though there are some important domestic manufacturers, such as Dacia, Daewoo, Roman Brasov, Igero Bus. This has raised several concerns for Romanians. Branch plants provide mainly blue collar jobs, with research and executive positions confined to the EU. About half a million cars are produced each year in Romania.

Ford bought Daewoo Romania company for € 57 millions to produce Ford automobiles to a car production estimated to be over 300,000 by 2010. Ford will invest € 675 million (US$ 923 million) in the former Daewoo car factory. Ford also said it would buy supplies from the Romanian market worth € 1 billion (US$ 1.39 billion).

The Dacia Logan was the top-selling new car in Central and Eastern Europe in the first half of 2007 with 52,750 units sold, ahead of Škoda Fabia (41,227 units), Škoda Octavia (33,483 units), Opel Astra (16,442 units) and Ford Focus (14,909 units), shows a market survey of JATO Dynamics, the leading supplier of automotive market intelligence. The, shows a market survey of JATO Dynamics, the leading supplier of automotive market intelligence.

The Romanian automotive industry ranks sixth in Central and Eastern Europe, behind that of the Czech Republic, Poland, Slovakia, Ukraine and Hungary with a total car production of 242,000 units in 2007. The production is expected to rise to 350,000 units in 2008 and 850,000 units in 2010 when the Ford plant will be at maximum capacity. Dacia is expected to increase its production to 400,000 units in 2009 and 500,000 units by 2010.

In Romania are produced a wide range of automobiles, minivans, sport utility vehicles (Dacia Duster), buses and trucks. In 2007 Romania exported US$3.7 billion worth of vehicles and components. The vehicle export was 120,000 units in 2007. It was expected that for 2008 are exported about 250,000 units. [http://en.wikipedia.org/wiki/Industry_of_Romania - cite_note-12](http://en.wikipedia.org/wiki/Industry_of_Romania - cite_note-12)

Romania is the 11th largest arms supplier in the world. It was mainly build warships, vehicles and equipment for the Romanian army and for external demand.

Today, Romania is undergoing the worst recession in the last 60 years, we had to take at the state level, on the one hand, measures to limit the negative effects of economic crisis, but at the same time, measures to back economic activity. Given the situation of economic
crisis, we all know that when private investment is restricted because of the crisis, the state has the duty to compensate this investment deficit through a massive public investment.

The human resources from manufacturing sector in the industrial frame are connected with the higher education outputs, its structure and performance. The quality of labour largely depends on education and trading. The policy that support education and trading contribute directly to growth and productivity. From fiscal policy perspective, money sent on schools and trading has dual payoff: it stimulates the economy in the short-run and increase the long-run capacity to produce.

Manufacturers have been attracted to Romania due to the highly educated population with lower labor costs than the EU.

5. CONCLUSIONS

The collapse of communism in the early 1990s was precipitated by recurrent failures to resolve basic economic questions. Who has this problem without the technicians? Governors, politicians, specialists in economy, with their indirect implications are very important. Some of them were only spectators for a long time. The governors, politicians, specialists in economy failure became with the incorrect answer to the economic demands in a very fluid and changeable frame. It time to change the entire attitude about the policy in economy with other principles more stable and coherent.

The answering the WHAT, HOW and FOR WHOM questions are at the base of market mechanism. One of the basic goals of economic theory is TO PREDICT how changes in government policy or market institutions will affect economic outcomes.

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