ARTECO Journal. *Socio-Economic Researches and Studies*
Vol. 1, No. 1, November 2018, pp. 5–13

www.arteco-journal.ro

Romania's macroeconomic Status quo at the Beginning of 2018

Cristian - Marian BARBU[1]

[1] "ARTIFEX" University of Bucharest, Department of Management-Marketing

Correspondence: Cristian - Marian BARBU, "ARTIFEX" University of Bucharest, Economu Cezărescu street, no. 47, 6th sector, Bucharest, Romania, Email: *doctrine.economice@gmail.com*

Abstract

This study highlights that fact that, although Romania's s economic growth reached the highest level after the crisis in 2017, this enhancement came with a cost: significant increase of the current account deficit (6.4 billion Euro). While most EU countries enjoy the favorable economic circumstances to reduce their commercial, current account and budget deficits, – Romania increases them: 3% of the GDP is the budget deficit, over 4% of the GDP is the structural deficit, 3.4% of the GDP is the current account deficit and 7% is the commercial deficit. The fiscal revenue of the consolidated general budget increased during the first 2 months of 2018, like during the first 2 months of 2017, with only 3.8%, but it should increase with more than 14% to comply with the budget deficit target of 3% of the GDP. Although the first 2 months of the year cannot give the measure of the evolution for the entire year, such a low revenue compared to the target raises a question: can a "fiscal consolidation" be avoided, whether it is a dramatic expenses cut or a tax increase? Romania's economy is at a turning point and is facing a lot of imbalances.

Key words economic policy, budget execution, current account, commercial deficit, business environment

JEL Codes: E03, E60, H30, H60, O11

Introduction

Social, political and, as we have been witnessing lately, psychological constraints significantly shape up economic freedom. The problem is, however, that people are so much focused on constraints that they forget to see the good things that Adam Smith's invisible hand can produce. As a manifestation of the response of economic stakeholders that are free in relation to incentives, the invisible hand was also responsible for the rapid growth of the Romanian economy last year (7%).

The incentives were fiscal and they operated well, to the extent to which their action was interpreted by the free stakeholders as being sustainable, so to the extent to which they were accompanied by low inflation, a stable exchange rate and a budget deficit that is acceptable in European conventional terms.

After mid-2017, these assumptions are no longer valid. The changes in labor taxation and the increased excise on fuels showed that most fiscal incentives and salary incentives are reversible.

The increased inflation also showed that salary increase is an illusion, because their purchase power is diminishing. In the case of the people with variable loans, the ROBOR (Romanian Interbank Offer Rate) increase showed that cheap loans are not immutable. It is not, therefore, surprising that trust among consumers and companies diminished starting with July 2017.

The decision-makers who make economic policies need, given the increasing complexity of modern economy, where sectors are interconnected unexpectedly, a little bit of skillfulness to approach the mix of monetary policy, fiscal policy and structural policies, because Romania's economy is like a ultra-light aircraft, that turbulences can easily shake.

This approach is imposed by the synchronized and quick expansion of the budget deficit and the current account deficit, during the last 2 years, and the recent hike of inflation, both against the background of the GDP hike, supported mainly by vast expansion of the private consumption and enhanced by significant increase of the salaries (Barbu, 2018).

1. Literature review

Despite Adam Smith's concept according to which "all economic growth flourishes from the single root of creatively dividing labor in the production of desirable goods and blossoms in the political environment that protects private property and the justly deserved fruits of labor", it is obvious that the magic of the market cannot solve off the issues of an economy; a larger framework is needed, to understand the essential economic choices, that most countries face, whether rich or poor (Scott, 1997).

In economy, the dynamic process of growth and development faces paradigms and policies of growth (Aghion and Howitt, 2009).

Even if the fiscal policy adopted aims at influencing the macroeconomic variables in a certain direction (Khan et al., 2012), not always the fiscal policies have a favorable impact upon the economy on the long term, due to their collateral effects (Maşca et al., 2015). Fiscal sustainability ensures macroeconomic stability and financial capability for a country (Dornean and Oanea, 2015), and inappropriate fiscal measures harm the economic situation of a country (Mencinger et al., 2017), with negative effects upon further economic growth because a pro-cyclic policy implemented in the ascending stage of the economic cycle leaves no option for the counter-cyclic policy in the descending stage (in 't Veld, 2013).

2. Research methodology and data

The research methodology is based on the interpretation and analysis of the data that characterize the recent evolution, from the financial viewpoint, of the Romanian economy. The data sources considered are the Ministry of Public Finances, the National Statistics Institute, and the National Bank of Romania.

3. Results and discussions

Romanian economy – at a turning point and imbalanced

3.1. Execution of the consolidated general budget for the first 2 months of 2015-2018

As the data released by the Romanian Ministry of Finance show, during the first 2 months of 2018, the consolidated general budget had a deficit of 0.59% of the GDP estimated for 2018.

For the first time in the last 4 years, Romania had a deficit at the end of February; the only other case was at the end of February 2014 (of only -0.46% of the GDP), when, according to the data released by the National Statistics Institute, the economic crisis ended. At the end of February 2018, both the total public revenue (+21.3%) and the total public expenditure (+38.5%) had significant increase compared to the same months of 2017.

Table 1. Budget revenue and expenditure in the first 2 months of 2015-2018

Category	2015		2016		2017		2018	
	Jan+Febr (billion Lei)	% of the GDP	Jan+Febr (billion Lei)	% of the GDP	Jan+Febr (billion Lei)	% of the GDP	Jan+Febr (billion Lei)	% of the GDP
Revenue	33.82	4.80	35.38	4.7	34.89	4.3	42.30	4.6
Expenditure	31.49	4.47	34.59	4.6	34.49	4.2	47.79	5.2
Surplus/Deficit	2.33	+0.33	0.79	+0.1	0.40	+0.05	-5.88	-0.6

Source: Ministry of Public Finance data processing

The deficit was caused by the major difference in the growth rate, after the years 2015, 2016 and 2017 when the decrease of the surplus was already obvious (generated actually by the circumstantial higher revenue for the 4th quarter of the previous year, achieved at the beginning of the current year).

To note the „score" of 13.1% as against 30.9% between the growth rate of the revenue and the growth rate of the current expenditure during the first 2 months of 2018, which makes improbable a potential recovery during the next months.

Moreover, in real terms, fiscal revenue decreased because in nominal terms, fiscal revenue progressed with only 3.8%, while the annual inflation was 4.32% in January and 4.72% in February 2018.

The financial flows between Romania and the EU of approx. 3 billion lei, both in revenue and expenditure, masked somehow the sensitive situation (according to official data released by the Ministry of Public Finance, as against the same months in 2017 the growth rates increased with 2,285.2% in case of the funds received from the EU and with 1,473.3% in case of the projects funded with non-reimbursable foreign funds).

Surprisingly, due to the revenue tax cut from 16% to 10%, for an economy that in 2017 was announced to grow with 7%, the receivables of the budget from the tax on profit diminished in the first 2 months of 2018 with 5.6%, and the receivables from the tax on wages and income stagnated (0%).

Regarding the indirect tax, with major effect upon the budget, in nominal terms, the receivables from VAT were higher with 7.8%, and the receivables from excises diminished with 6.2%.

Compared with the same months in 2017, social insurance brought more than 3 billion lei (+28.3%) to the consolidated general budget. It exceeded, for the first time, the VAT and the excise, and reached almost 1/3 of the total revenue of the state.

In this context, from the perspective of the society, a question arises: What is the use of economic growth, if it does not bring more money to the budget to ensure social services and investments in order to improve infrastructure (motorways, especially), which is still pending, compared to the advanced countries?

The table below shows the main components of the consolidated general budget, revealing the surplus and the deficit. Out of the total public finances, it is to note the weight of the revenue, less than 45%, while expenditure is almost 59%.

Table no. 2. Budget results for the first 2 months in 2018 (million lei)

Budget	Revenue	Expenditure	Surplus / Deficit	
	mil. lei	mil. lei	mil. lei	% of GDP
Consolidated general budget	42,304.7	47,788.0	-5,483.3	-0.59
State budget	18,762.4	27,977.9	-9,215.5	-1.00
Local budget	11,781.1	8,608.5	3,172.7	+0.34
Budgets of public institutions that are totally or partially self-financed	3,908.0	3,292.0	615.9	+0.07
Financial operations (loan reimbursements)	-109.2	-458.9	349.7	+0.04
Social insurance budget	9,638.2	10,046.7	-408.5	-0.04

Source: Ministry of Public Finance data processing

For electoral reasons, the Romanian state undertakes (based on budget deficits that turn out to be non-sustainable in the long run), more and more obligations, while having a financial capability that is decreasing, compared to the GDP. With funds lower for the first 2 months in 2018 as compared to the same months in 2017, local budgets had no benefit from the economic growth.

The state budget already reached a deficit of 1% of the GDP estimated for 2018, which is not sustainable for Romania and this will appear clearly before the end of 2018.

The problem is not IF but WHEN the decision-makers of the budget and fiscal policies analyze, during 2018, how to increase the revenue from taxes and how to adjust the obligations undertaken by the Government towards social categories increasingly dissatisfied with their income situated below expectations.

In principle, we can note a positive trend of expenditure in the first 2 months of 2018, compared to the same months in 2017.

Out of the extra 13 billion lei spent, less than 4 billion were used to pay salaries in the public sector and for social assistance, while approx. extra 7 billion lei were allocated for goods and services, capital expenditure and projects with non-reimbursable foreign funds.

Table no. 3. Budget expenditure in the first 2 months in 2018, compared to the same months in 2017

Category	Period	Period	Evolution	Variation % 2018/2017
	2 months 2017 (billion Lei)	2 months 2018 (billion Lei)	billion Lei	
Total expenditure, out of which:	34.49	47. 9	+13.30	+38.5%
- Staff	10.59	12.58	+1.99	+18.8%
- Social assistance	14.40	16,21	+1.81	+12.6%
- Goods and services	4.45	5.40	+0.95	+21.3%

Category	Period	Period	Evolution	Variation % 2018/2017
	2 months 2017 (billion Lei)	2 months 2018 (billion Lei)	billion Lei	
- Capital	0.62	3.33	+2.72	+437.1%
- Projects with non-reimbursable foreign funds	0.30	3.29	+2.99	+996.7%
- Subsidies	0.80	1.90	+1.10	+137.5%
- Interests	1.80	1.97	+0.17	+9.4%

Source: Ministry of Public Finance data processing

Based on operational aspects, to note in this context, the early payment of subsidies, which increased the deficit with 1 billion lei.

Also, the increased expenditure with social assistance, 12.6%, and staff, +18.8%. Expenditure with social assistance remain below the EU average, and expenditure with staff exceed the threshold of 7% of the GDP recommended previously by international institutions.

3.2. The current account deficit for the first 2 months in 2018

According to the Romanian National Bank, the current account of payment had a deficit of 172 million euro for the first 2 months in 2018, with 100 million higher compared to the same months in 2017.

The minus in goods increased with 38% and reached 1,589 million euro, while the plus in services diminished with 0.2% and reached 1,188 million euro.

To note the change between the amounts, at the end of the 2 months, for goods and services. While in 2017, this segment compensated the minus from the goods flow, now the situation has radically changed, which explains the increased current account deficit.

The positive balance of goods processing services increased with 3.6%, and reached 425 million euro. „Other services" also saw similar increase, of 370 million euro, that is +5.4%.

Unfortunately, due to diminished revenue and significant increase of payment (-2% per loan as against +23% per debit, for the first 2 months in 2018 compared to the first 2 months of 2017), the chronically negative balance in tourism increased 2.2 times compared with the previous year, from -83 million euro to -183 million euro (that is precisely the plus appeared in the general deficit).

Table no. 4. Current account of the payment balance (million euro)

Period	January – February 2017			January – February 2018		
	Credit	*Debit*	*Net*	*Credit*	*Debit*	*Net*
Goods	8,888	10,043	-1,155	9,920	11,509	-1,589
Services	2,957	1,763	+1,194	3,355	2,167	+1,188
-processing services	443	33	+410	456	31	+425
-transport services	867	351	+516	1.003	427	+576
-tourism – trips	313	396	-83	306	489	-183
-other services	1,334	983	+351	1,590	1,220	+370
Primary revenue	1,084	1,256	-172	1,296	1,126	+170
Secondary revenue	373	312	+61	384	325	+59
Total current account	13,302	13,374	-72	14,955	15,127	-172

Source: National Bank of Romania

The other 2 components of the payment balance saw positive evolutions. The deficit incurred at the beginning of 2017 by the primary revenue (labor, direct investments, portfolio and other investments, as well as other primary revenue such as taxes and subsidies) converted into an almost similar surplus (from -172 million euro to +170 million euro).

For the secondary revenue, that includes the amounts of funds transferred by those who work abroad, the positive balance has remained almost unchanged. It is the result of marginal increase of the amounts sent into Romania and of the money sent from Romania abroad, this is an interesting phenomenon, if it's confirmed during the next months.

The balance of the long-term deposits of non-residents diminished with 10% during the first 2 months of 2018 (from 2.60 billion euro to 2.34 billion euro). The foreign debt service corresponding to these long-term deposits of non-residents was 529 million euro.

Direct investments of non-residents diminished between January-February 2018 with almost 3% compared to the same period in 2017 (794 million euro compared to 820 million euro), but recovered a little as against the low value in the first month of the year (-20%). Among these, capital participations (including the net estimated reinvested profit) were 592 million euro, and the intragroup loans were 202 million euro (25% of the total in bookkeeping).

The total foreign debt increased during the first 2 months in 2018 with 1.7% compared to the end of 2017 and reached 95,035 million euro, a notable change on the background of an increasing trend that started in 2015 and looked slowed down in 2017. The payments corresponding to the foreign debt were 11.15 billion euro.

Table no. 5. Evolution of the Romanian foreign debt, per components, 2012-2018 (million euro)

Components of the foreign debt	Year						
	2012	2013	2014	2015	2016	2017	2018 *
Medium and long term foreign debt	78,760	76,591	75,725	70,558	69,645	68,613	69,503
Short term foreign debt	20,921	19,491	18,577	19,876	23,265	24,864	25,532
Total foreign debt	99,681	96,442	94,302	90,034	92,910	93,477	95,035

Source: National Bank of Romania
* after the first 2 months

To note the different growth rates between the 2 components of the foreign debt, the short term debt is double (+2,7%) compared to the long term additional obligations (+1,3%). Also the 1.56 billion euro surplus for the 2 months only, compared to the 2.88 billion euro for the whole year 2016 or only 567 million euro in 2017.

The medium and long term foreign debt service was 13.5% in 2018, much below 23.9% in 2017, and below the 30% in 2016. The coverage of the import of goods and services remained below the threshold recommended in theory for 6 months (5.7 months), but increased slightly compared to the end of 2017, when it was 5.4 months.

The coverage of the short term foreign debt, calculated as residual value (including the capital rates that are due in the next 12 months for the long term foreign debt), continued marginally the diminishing trend, that can be seen in the table below:

Table no. 6. Evolution of the coverage of the short term foreign debt, calculated at residual value

Month	December 2015	December 2016	December 2017	February 2018
Coverage rate (%)	97.9	90.5	87.2	87.0

Source: National Bank of Romania

3.3. Commercial deficit in February 2018 was 35% higher than in February 2017 and caused imbalance towards the non-euro zone

The commercial deficit in 2017 was 12,955.7 million euro, 30% higher than in the previous year. Despite the economic growth that was very robust, the coverage rate of imports based on exports achieved diminished to 86.4%, that is close to the value during the crisis years of 2011-2012, after 4 years of systematic worsening. The problem is not the high imports but the low performance of exports in all the months of 2017. Last year, imports increased significantly compared to the exports (12.2% compared to 9.1%, in euro). When we look at the negative commercial balance as percentage of the GDP for 2017 (186.77 billion euro for an exchange rate of 4.5681 lei/euro) it results an annoying minus from the foreign exchange of goods, of almost 7% of the GDP. We have therefore seen how the domestic production was unable to keep the pace with the population's income.

The commercial deficit in 2018 was 882.5 million euro, 35% higher than in February 2017. The growth rate of imports for the first 2 months in 2018 was higher than the export rate (+13.9% compared to +11.6%), which caused an expansion of the deficit up to 1.6574 billion euro (+31% compared to the same months in 2017).

The coverage rate of imports based on the exports achieved was 90.5% due to the circumstances, that is above the values of the previous 3 years. As you can see for the last 14 months, only in March, May and August 2017 the growth rate of exports was above imports. Even in these cases, the commercial deficit increased. We need a more substantiated growth of exports compared to imports, to reduce the chronic deficit in foreign trade.

The situation (with adjusted values) of the last 14 months, revealing the changes for each month compared to 2017, is the following:

Table no. 7. Foreign trade of Romania between January 2017 – February 2018 (million euro)

Month	Export	Import	Commercial deficit	Modification % current month compared to the same month in 2017	
				Export	Import
January 2017	4,679.0	5,284.2	-605.2	+13.6%	+17.5%
February 2017	5,070.3	5,724,4	-654.1	+5.3%	+5.5%
March 2017	5,727.8	6,767,9	-1,040.1	+16.2%	+14.8%
April 2017	4,773.5	5,821,9	-1,048.4	+1.5%	+4.9%
May 2017	5,578.9	6,684,5	-1,105.6	+19.3%	+18.0%
June 2017	5,065.4	6,443,7	-1.368,3	+2.5%	+14.1%
July 2017	5,226.3	6,215,1	-988.8	+8.6%	+14.0%
August 2017	4,921.1	5,982,8	-1,061.7	+10.7%	+9.3%
September 2017	5,5577	6,583,9	-1,026.2	+6.0%	+9.2%
October 2017	5,762.6	7,087,3	-1,324.7	+13.2%	+16.9%
November 2017	5,785.7	6,908,8	-1,123.1	+9.1%	+11.8%
December 2017	4,493.6	6,103,7	-1,610.1	+4.2%	+10.8%
January 2018	5,423.5	6,198,4	-774.9	+15.9%	+17.3%
February 2018	5,457.0	6,339,5	-882.5	+7.6%	+10.7%

Source: National Institute of Statistics data processing

For the first 2 months in 2018, the exchanges with EU countries were 8.36 billion euro in export and 9.42 billion euro in import (77% of total exports and 75% of total imports).

Regarding the extra – EU exchanges, exports were 2.52 billion euro and imports were 3.12 billion euro (23% of total exports and 25% of total imports).

The deficit was imbalanced towards trade with non-Euro countries during the first 2 months in 2018. Although they are less than 25% of Romania's trade exchanges, they were, during the first 2 months in 2018, 36% of the total commercial deficit. To note that 3 years ago, Romania has a slight surplus with these countries.

Table no. 8. Structure of Romania's commercial exchanges - intra-EU 28 and extra-EU 28 – in the first 2 months in 2018 (million euro)

	Export	Import	Surplus/Deficit	Weight in deficit
Intra-EU trade 28	8,363.7	9,418.6	-1,054.9	64%
Extra-EU trade 28	2,516.8	3,119.3	-602.5	36%
Total	10,880.5	12,537.9	-1,657.4	100%

Source: National Institute of Statistics data processing

Romania had a positive result only on the segment of machinery and transport equipment (+0.64 billion euro). This result supported the weak results on the segment of other manufactured products and contributed with almost 40% to a diminished commercial deficit.

Table no. 9. Structure of Romania's international trade - intra-EU 28 and extra-EU 28 – for the first 2 months in 2018 (billion euro)

Group	Export (billion Euro)	Import (billion Euro)	Balance (billion Euro)	Coverage (%)
Machinery and transport equipment	5.30	4.66	+0.64	114
Other manufactured products	3.48	3.84	-0.36	91
Agro-food products	0.70	1.06	-0.36	66
Fuels and lubricants	0.49	0.96	-0.47	51
Chemical and related products	0.48	1.64	-1.16	29
Raw materials	0.39	0.38	+0.01	103
Total	10.88	12.54	-1.66	87

Source: National Institute of Statistics data processing

Regarding the sectorial coverage of imports through exports, the agro-food products got worse (it went down to 66%, and only 60% for food and living animals, which is a concern), and the chemical products went down below the threshold of 30%. 70% of the entire commercial deficit comes from the chemical products trade.

Despite its natural resources, the fuels and lubricants sector has very low results, with a 50% coverage of the imports with the exports achieved.

Romania cannot cover the input from expeditions with the manufactured products, others than machinery and transport equipment.

3.4. The Romanian CFAs (Chartered Financial Analysts) expect worse business environment in the next 12 months

59% of the best economic analysts in Romania, who are CFAs, expect worse business environment in the next 12 months, according to a regular poll made by CFA Romania among its members in order to establish the Financial Trust Index. Regarding the EUR/RON exchange rate, more than 83% of the respondents estimate a depreciation of the RON in the next 12 months – the average estimation after the next 6 months is 4.7000 lei/euro, and 4.7369 lei/euro after the next 12 months.

The estimated inflation after the next 12 months (March 2019/March 2018) is an average of 4.17% (median value is 4.00%).

For March 2018, the Macroeconomic Trust Index according to CFA Romania increased with 0.9 points up to 47.6 points. This trend is the result of the anticipation structure of the Index. The current conditions index diminished with 2.9 points, up to 64.2 points, while the anticipation Index diminished with 2.8 points up to 39.4 points.

To note the interest rate anticipations (compared to the current values) for leu, both for the short term due dates (3 months), and for medium term due dates (5 years), where 98%, and 90% respectively of the respondents to the poll anticipated this trend. The value of the ROBOR average rate with 3 month due dates that is anticipated for the next 12 months is 3.02%, and the yield of denominated sovereign bonds in lei with due dates of 5 years is 4.51%. Consequently, negative actual interests are anticipated for the short due dates.

Starting with February 2018, 2 more questions were added to the poll:

- How do you see the price of the shares listed in Bucharest Stock Exchange? (under-evaluated? Accurately evaluated? Over-evaluated?). In the March exercise, 43% of the participants in the poll replied that shares were accurately evaluated.
- How do you see the price of immovable assets in the Romanian cities? In the February exercise, approx. 55% of the participants in the poll replied that immovable assets are over-evaluated.

The Macroeconomic Trust Index of CFA Romania was launched by CFA Romania in My 2011. It is an index by which the association intends to measure the anticipations of the financial analysts about the economic activity in Romania for 1 year. The poll that calculated the Index also includes questions regarding the current macroeconomic environment. The poll includes both elements typical of a trust feeling that shows the perception of the CFA Romania analysts about the evolution of financial markets, and a fundamental prognosis index about the evolutions of the exchange rates, interest rates and inflation.

The poll is done in the last week of each month and the participants are members of CFA Romania and candidates for levels II and III of the CFA exam.

The Macroeconomic Trust Index has values between 0 (lack of trust) and 100 (full trust in the Romanian economy) is calculated based on 6 questions:

- Current environment – business environment and labor market;
- Anticipations, for 1 year, in the business environment, labor market, personal income trend per economy and personal wealth trend per economy.

CFA is one of the most prestigious associations among financial professionals. Managed by CFA Institute, CFA program is a post-graduate program that trains and tests candidates in professional ethics and standards, in financial analysis, economics, portfolio management, in analysis and assessment of various financial and investment tools. There are more 150,000 holders of this title in the world today, most of them affiliated in the 148 companies that are members of the CFA Institute. The candidates to the CFA title must take 3 annual exams. Each exam implies 250-300 hours of individual study. In addition, 4 years of relevant professional experience in the financial field are needed, and adoption of a strict ethical and professional code of standards. CFA Romania is the association of investment professionals in Romania, most of them possess the title of Chartered Financial Analyst (CFA®), a qualification managed by CFA Institute. CFA Romania is one of the 148 member companies and has the mission to promote the interests of the investment experts and to preserve high standards of integrity and professional excellence. CFA Romania currently has 215 members; most of them possess the title of Chartered Financial Analyst (CFA®) or candidates to one of the 3 exams that lead to this title. The professionals who are members of CFA Romania work for regulatory institutions, supra-national institutions, banking institutions, insurance companies, immovable assets brokerage companies, asset management companies, pension funds, consulting companies, public sector, educational institutions, companies that operate in various economic sectors etc.

Conclusions

Romania currently has a high budget deficit, accompanied by a (significant) inflation and increased foreign deficit (twin deficits). A budget deficit of 3% of the GDP is too high for the economic cycle Romania goes through and makes Romania vulnerable (by exhausting the fiscal space) to a future descending stage of the economic cycle.

In addition, the structure of the budget revenue has become, during the last years, unfriendly to the long term economic growth.

We have presented above the full image of a country that achieves a surplus that is not beneficial for raw materials, instead of processing the raw materials and selling them abroad (or cutting the imports).

Romania is captive in fiscal and salary policies that are hostile to the long term sustainable economic development. One of the most striking arguments is the high amplitude of GDP deviations compared to the potential, which results from a pro-cyclic policy that diminishes fiscality, although that is not needed because economic growth is already high.

The only realistic political option so that the fiscal policy could play a role in the policy mix that could keep under control the expansion of the aggregated demand seems to be its separation from the income policy. Thus, the fiscal policy could go on its own or could "make a pair" with other policies. The fiscal policy on its own implies new taxes and policies or cuts in public expenditure. In both cases, however, we would risk to undermine the investment re-launching, as most taxes would discourage private investments, while a significant cut in public expenditure cannot be achieved without seriously affecting the public investments; this is what the budgets of the latest years have shown.

The risk is, therefore, that we can no longer count on the fiscal policy and the structural policy to contribute to the policy mix. Consequently, the management of domestic demand should be based more on the monetary policy, while the growth oriented from consumption towards investments should be based more on the private sector. In both cases, foreign capital should have a major role, by restricting the independence of the monetary policy and representing an investment source that is stronger than the local capital which is still fragile. Like in many cases during the Romanian history, Romania's economic destiny may depend upon evolutions from beyond its borders. If it turns out to be true, it'd be the greatest paradox in 2018 when Romania celebrates 100 years since the Great Union of the Nation, an event that reinforced the status of modern European and independent nation.

References

Aghion, P., & Howitt, P. (2009). *The Economics of Growth.* Massachusetts: The MIT Press Cambridge.

Barbu, C. M. (2018). Romania Shows More and More Red Flags, With Values Significantly Beyond the Balanced Trends. *Academic Journal of Economic Studies*, *4*(1), 40–49.

Dornean, A., & Oanea, D. C. (2015). Romanian Fiscal Policy Sustainability during Financial Crisis: A Cointegration Approach. *Procedia Economics and Finance*, *20*, 163-170.

Khan, M.A., Khan M.Z., & Zaman, K. (2012). Measuring the Impact of Fiscal Variables on Economic Growth in Pakistan: New Light on an Old Problem. *Journal of Economic and Social Research*, 14(2), 53-82.

Maşca, S.G., Cuceu, I.C., & Văidean, V.L. (2015). The Fiscal Policy as Growth Engine in EU countries. *Procedia Economics and Finance*, 32, 1628-1637.

Mencinger, J., Aristovnik, A., & Verbič, M. (2017). Asymmetric effects of fiscal policy in EU and OECD countries. *Economic Modelling*, *61*(February), 448–461.

Scott, B. R. (1997). How do economies grow?. *Harvard business review: HBR*, *75*(3), 156-179.

in ‘t Veld, J. (2013). Fiscal Consolidations and Spillovers in the Euro Area Periphery and Core. *European Economy - Economic Papers* (506), October 2013, European Commission – DG ECFIN, Brussels, retrieved from: http://ec.europa.eu/economy_finance/publications/economic_paper/2013/pdf/ecp506_en.pdf [Accessed 21 April, 2017].

Eurostat database - http://ec.europa.eu/eurostat.

Ministry of Public Finance - http://www.mfinante.gov.ro.

National Bank of Romania - http://www.bnro.ro/Home.aspx.

National Institute of Statistics - http://www.insse.ro/cms/en; http://www.insse.ro/cms/en/content/statistical-bulletins.