ARTECO Journal. Socio-Economic Researches and Studies
Vol. 2, No. 1, July 2019, pp. 11–22
ISSN 2602-0599, ISSN-L 2602-0599

www.arteco-journal.ro

Romania in 2018 – Failure Signs on the Dashboard

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Abstract

This article emphasizes the fact that, from a macroeconomic perspective, the model of budget policy management raises some significant challenges. First one, the pro-cyclic nature of the budget policy which, in our opinion, displays a risk for prudential management of the macroeconomic policies in the context of the current mature economic cycle and of the transition towards the deceleration of the economic growth. At a time of economic expansion when Romania faces a surplus of the demand that cannot be covered by domestic supply, and a job deficit, the danger of accelerated inflation increases. In such context, the lack of a fiscal consolidation in the favorable stages of the economic cycle limits the flexibility of the governmental policies that should stimulate the economy. In this case, a restructuring of the public debt, including social debt and investments, becomes imminent.

Key words macroeconomic policy, budget execution, current account, expected duration of working life, foreign direct investments.

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

Introduction. Literature review

Over the recent years, the structure of the budget revenues has become less friendly as against the long-term economic growth. Romania is captive of budget, fiscal and wages policies that are hostile to the development of a long-term sustainable economy (Barbu, 2018).

Depending on the historical stage and on the ideology, the fiscal and budget policy received several roles in the process of economic growth. In principle, the functions of the fiscal policy can be summarized as follows (Musgrave, 1959): 1) stabilization of the economic cycle through implementation of a contra-cyclic fiscal policy that should stabilize the GDP at its potential level and attenuate the fluctuations of the economic cycle; 2) „growth friendly fiscal policy", through "friendly" fiscal policy for long-term economic growth, thus contributing to sustainable economic growth; 3) redistribution and support for economic growth, that should attenuate inequality in population's income.

Stabilization of the economic cycle (anti-cyclic fiscal-budget policy) can be done through discretionary fiscal policies (fiscal policy measures/ decisions) and/or automatic stabilizers. Various studies (Christiano et al., 2011, Woodford, 2011, Jordà and Taylor, 2016) show that the discretionary fiscal policy has a stronger role when the monetary policy has constraints, the financial sector is weak and the economy is in deep and extended recession. In the ascending stage of the economic cycle, the automatic stabilizers should be enough, no further need for discretionary measures, and the latter should be used only under special circumstances.

The intervention of the state through fiscal policy is however conditioned by the existence of the fiscal space. This can be defined as the ability of the Government to implement fiscal stimuli (tax reduction and /or expenditure increase), while keeping the access to financial markets and preserving the sustainability of the public debt (IMF, 2017).

In Romania's case, the experience of the last 23 years showed that the discretionary fiscal and budgetary policy has been almost always pro-cyclic, without fulfilling its role of stabilizer of the economic cycle. The fiscal and budgetary policy in Romania amplified the fluctuations of the economic cycle, destabilizing the economy. In this context, the monetary policy did more than it should have. It is overloaded. A balanced mix of the economic policies means structural reforms and anti-cyclic measures.

The tense circumstances on the labour market, as well as the fiscal policy and the revenue policy continue to be risk sources, at least in the near future, given the characteristics of the budget execution in the first 3 quarters of 2018, and the uncertainties circumscribed to the expected budget rectification and budget program for 2019, and the future potential wages growth in the public sector, as well as other income growth.

At the same time, to note the increased uncertainties in the near future of the European economy and of the global economy, and the protectionist commercial policies, the Brexit, the political tensions in some European countries, oscillations of the volatility on the international financial market, the conduct of the monetary policy of the ECB and its relevance in the decisions of the central banks in the region.

1. Research methodology and data

The research methodology is based on the specialized literature in order to retrieve theories that can describe Romania's economic and financial state, as well as analysis and interpretation of the data to characterize Romania's macroeconomic state, date provided by Eurostat, the Romanian National Bank, the National Statistics Institute, and the Ministry of Public Finance.

2. Results and discussions

Romania – totally imbalanced in 2018

Execution of the general consolidated budget in the first 9 months of 2018

Based on the data made public by the Ministry of Public Finance, the deficit of the general consolidated budget for the first 9 months in 2018 increased with almost 10 billion lei as against the same period in 2017 and went up to 16.8 billion lei (1.77% of the estimated GDP). A minus of 6.8 billion lei (0.79% of the GDP) was seen in the first 9 months in 2017.

Results in September were 8 times weaker than in September 2017; the percentage of the increased budget deficit for the first 3 quarters was significantly higher, +124%. Under these circumstances, there is little space left to accommodate the target budget deficit of 2.97% of the GDP for 2018.

Table 1. Comparative evolution of the budget deficit for the first 9 months in 2017 and 2018

	Month								
	Jan.	**Feb.**	**Mar.**	**Apr.**	**May**	**Jun.**	**Jul.**	**Aug.**	**Sep.**
Balance 2017 (%GDP)	+0.37	+0.05	+0.19	+0.17	-0.27	-0.77	-0.60	-0.76	-0.79
Balance 2018 (%GDP)	+0.21	-0.59	-0.48	-0.65	-0.88	-1.61	-1.26	-1.54	-1.77
Modification of balance 2017 (%GDP)	+0.37	-0.32	+0.14	-0.02	-0.44	-0.50	+0.17	-0.16	-0.03
Modification of balance 2018 (%GDP)	+0.21	-0.80	+0.09	-0.17	-0.27	-0.73	+0.35	-0.28	-0.23

Source: Ministry of Public Finance data processing.

The growth ratio of the budget (+13.6%, slightly decreasing after the 13.7% in the first 8 months) was triple as against the economic growth estimated for the first half of the year (4.1% gross). Unfortunately, expenses increased 4.5 times (18.4%), hence their contribution to the increased budget deficit. Although the tax collection increased with 24.5 billion lei (from 21% of the GDP to 21.7% of the GDP), public expenditure increased with 34.5 billion lei (from 21.8% of the GDP to 23.5% of the GDP). The increased deficit appears to be due exclusively to the expenditure increase, not to revenue increase. Tax on profit is the only significant category of budgetary income where its nominal increase did not cover the inflation. For a nominal increase of only 3% and an annual inflation of over 5% in September 2018, a significant decrease of the tax on profit to the budget took place (from 5.9% to 5.3% of the total collected funds).

The consolidated general budget shows a budget deficit above the total deficit (-2.62% that as over 47%, as nominal value) and an increased compensation of the traditional surplus of local budgets, a surplus that increased in September 2018 to 2 billion lei.

To add the sudden increased (2.5 times in the last month) of the surplus of the institutions fully or partially self-funded, to over 1.5 billion or 0.16% of the GDP, meant to improve the overall deficit.

Table 2. Comparative evolution of the budget deficit for the first 9 months in 2017 and 2018

Budget	**Revenue**	**Expenditure**	**Surplus / Deficit**	
	mil. lei	**mil. lei**	**mil. lei**	**% of GDP**
Consolidated general budget, out of which:	204,953.9	221,719.6	-16,765.7	-1.77
State budget	93,620.9	118,363.7	-24,724.8	-2.62
Local budget	52,421.1	50,504.2	1,916.9	+0.20
Budgets of public institutions, fully or partially self-funded	20,146.8	18,645.3	1,501.5	+0.16
Budget of social insurance	47,905.8	48,076.6	-170.8	-0.018

Source: Ministry of Public Finance data processing

The subsidies needed from the state budget to ensure the funds needed to the social insurance budget (for pensions) increased with 4.77 billion lei, while the funds allocated for health (used also by the individuals who receive pensions) remained at the level of the previous month (0.8 billion lei).

37% of the 26.4 billion lei more as against the same period of 2017 were spent to supplement the payments of the public servants and social assistance, while less than a quarter was allocated as extra for projects with non-reimbursable foreign funds, capital expenditure, goods and services..

Table 3. Evolution of budget expenditure in the first 9 months in 2018, as against the same period of 2017

Category	**Period**	**Period**	**Evolution**	**Variation % 2018/2017**
	9 months 2017 (billion Lei)	**9 months 2018 (billion Lei)**	**billion Lei**	
Total expenditure, out of which:	187.26	221.72	+34.46	+18.4%
- Staff expenditure	50.49	63.28	+12.79	+25.3%
- Social assistance	67.69	76.17	+8.48	+12.5%
- Goods and services	27.65	30.19	+2.54	+9.2%
- Capital expenditure	7.69	11.28	+3.59	+46.7%
- Projects with non-reimbursable foreign funds	9.08	10.56	+1.48	+16.2%
- Subsidies	4.51	4.81	+0.30	+6.7%
- Interests	7.99	9.71	+1.72	+21.5%

Source: Ministry of Public Finance data processing

To note that the interest payments were almost 10 billion de lei, 1/5 more than in the same period in 2017 (although the public debt decreased below 35% of the GDP). It is the effect of the increased costs resulted from accumulated payments that became due under less favourable circumstances. The extra 24 billion lei collected by the state were spent on staff expenditure (almost 13 billion lei more), social assistance (8.5 billion lei more). More than 6 billion lei were spent on capital expenditure, goods and services, and only 1.5 billion lei more on projects with non-reimbursable foreign funds (which should have enjoyed maximal priority), less than the plus for interest payments.

Current account deficit in the first 9 months in 2018

The current account of the payment balance had in the first 9 months in 2018 a deficit of 6.62 billion euro, 39% more than in the same period in 2017, according to the Romanian National Bank. It is already 3.24% of the GDP officially estimated in the autumn prognosis of 204.21 billion euro (949.6 billion lei at the exchange rate of 4.65 lei/euro). The current account deficit estimation was adjusted by the National Commission of Strategy and Prognosis (CNSP) from 3.1% of the GDP, which could no longer be maintained, to 3.5% of the GDP. It is unlikely to have a deficit of only 0.26% of the GDP in the last quarter. Given the imports at the end of the year, we should beware the recommended threshold of maximum 4% of the GDP (indicated in the dashboard to monitor the macroeconomic imbalance of the EU member states, as average of the last 3 years).

The weakest evolution was recorded for the combined segment of goods and services, where the negative balance increase was 82% (from 2 billion euro to over 3.7 billion euro). While the exchange of goods with other countries resulted into 1.5 billion less, that is from -8.28 billion euro to -9.78 billion euro, the traditionally positive balance for services decreased with 3%, from +6.24 billion euro to +6.05 billion euro.

The growth rate of the payments for imported goods (+10.6%) exceeded the growth rate of the funds collected as a result of deliveries (+9.2%). The capacity to cover the minus resulted from the exchange of goods with the positive balance of the services decreased from 75% to 62%.

Although the result was better for the processing of goods owned by third parties (2,197 million euro as against 2,184 million euro), the positive balance resulted from transport decreased with more than 3%, from +2,854 million euro to +2,761 million euro. Other services had better performance and brought extra 2.2 billion euro.

Table 4. Current account of the payment balance (million euro)

Period	January – September 2017			January – September 2018		
	Credit	***Debit***	***Sold***	***Credit***	***Debit***	***Sold***
Goods	42,505	50,789	-8,284	46,402	56,178	-9,776
Services	15,341	9,098	6,243	16,411	10,358	6,053
-processing services	2,184	137	2,047	2,197	139	2,58
-transport services	4,587	1,733	2,854	4,818	2,057	2,761
-tourism – voyages	1,714	2,273	-559	1,779	2,718	-939
-other services	6,856	4,955	1,901	7,617	5,444	2,173
Primary revenue	2,696	7,280	-4,584	2,826	7,286	-4,460
Secondary revenue	3,277	1,431	1,846	3,017	1,453	1,564
Total current account	63,819	68,598	-4,779	68,656	75,275	-6,619

Source: National Bank of Romania

The balance for tourism and voyages deteriorated, as collection hardly increased with 4%, but expenditure, fed by the significant increase of the population's income, increased with almost 20%. The sectorial balance decreased with +68%, from -559 million euro to -939 million euro.

The deficit recorded at the beginning of the year by the primary revenue (from work, direct investments, portfolio and other investments, as well as other primary revenue such as taxes or subsidies) decreased with 124 million euro (3% as against the same period in 2017), but less than a half of the previous month, which contributed to an increased negative balance of the current account.

Unfortunately, regarding the secondary revenue, where we find the amounts transferred by Romanians who work abroad, the positive balance decreased significantly, with -282 million euro. While the funds sent to Romania decreased (from 3,277 million euro to 3,017 million euro), the funds sent from Romania increased (from 1,431 million euro to 1,453 million euro). The balance of the long term deposits of non-residents were above the level of 2017: 2,485 million euro on 31.09.2018 as against 2,468 million euro on 31.12.2017. Their corresponding foreign debt was approx. 1.2 billion euro.

The FDI were between January-September 2018 with 6% less than the same period in 2017 (3,517 million euro as against 3,731 million euro). Capital participations (including the net estimated reinvested profit) were 3,152 million euro, and the intra-group loans were 365 million euro.

The total foreign debt increased after the first 9 months of 2018 with only 634 million euro (+0.65%) as against the level at the end of 2017, namely 98 billion euro. While the medium and long term debt decreased with 0.6%, the short term debt increased with 3.6%. The payments corresponding to the debt exceeded 44 billion euro.

Table 5. Evolution of the foreign debt of Romania, per components, between 2012-2018 (million euro)

Components of 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	68,520	68,129
Short term foreign debt	20,921	19,491	18,577	19,876	23,265	28,841	29,866
Total foreign debt	99,681	96,442	94,302	90,034	92,910	97,361	97,995

Source: National Bank of Romania
* after the first 9 months

The medium and long term foreign debt was 20.8%, decreasing as against the previous month and below the 25% in 2017 (less than the 30% at the end of 2016). The coverage of the imports of goods and services remained at 4.7 months, below the level of 2017 (5.4 months) and below the theoretical recommendation of 6 months.

Table 6. Evolution of the coverage of the short term foreign debt, calculated at residual value

Month	December 2015	December 2016	December 2017	August 2018
Coverage (%)	97.9	90.5	79.0	72.6

Source: National Bank of Romania

The coverage of the short term foreign debt, calculated at residual value (including the capital installments that are due in the next 12 months for the long term foreign debt), with the foreign exchange reserves of the RNB, increased as against the previous month and exceeded the threshold of 70%, but it is still below the levels of the previous years.

Commercial deficit in September 2018

The commercial deficit in September 2018 decreased below the threshold of 1 billion euro, as the growth pace of exports exceeded the imports (+5.1% export as against +3.4% la import, which balanced the 9-month score from +9.1% to +9.5%).

Unfortunately, the coverage continued to decrease towards 86.5% and the negative balance cumulated after 9 months was 14% bigger than the one in 2017.

Table 7. Evolution of the coverage of imports with exports between 2009-2018

	Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018*
Coverage FOB/FOB	77.9%	83.1%	89.9%	86.0%	92.7%	93.5%	90.4%	88.9%	86.4%	86.5%

* after 9 months
Source: National Institute of Statistics data processing

The explanation of the reduced coverage despite the better values in September for export than import is the „basis effect". Practically, the higher the deficit, the more difficult to return in time, even if the situation gets better.

We'll „constantly" need higher exports than imports, that means to accelerate the demand of the other countries, in order to stop the absolute commercial deficit and to decrease the relative GDP.

Simply, by the end of September, Romania had collected more than 50 billion euro and paid more than 60 billion euro in its foreign trade. The deficit of 9.95 billion euro was 4.9% of the GDP estimated for 2018 according to the official prognosis (about 203 billion euro). As we can see for the last 21 months, in September 2018 we saw a reduplication of the 3 months of 2017 where, at least in percentages, and the foreign trade improved. It would be a good evolution if we managed the same for the last quarter, although we expect the season's imports to increase.

Table 8. Evolution of foreign trade of Romania between January 2017 – September 2018 (million euro)

Month	Export	Import	Trade deficit	Modification % current month as against 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	5,557.7	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%
March 2018	6,105.9	7,162.6	-1,056.7	+9.8%	+10.8%
April 2018	5,234.3	6,245.5	-1,011.2	+9.7%	+7.3%
May 2018	5,871.7	7,142.0	-1,270.3	+5.2%	+6.8%
June 2018	5,884.2	7,186.8	-1,302.6	+10.0%	+9.7%
July 2018	5,900.5	7,173.2	-1,272.7	+12.9%	+15.4%
August 2018	5,132.4	6,525.6	-1,393.2	+4.3%	+9.0%
September 2018	5,839.4	6,810.3	-970.9	+5.1%	+3.4%

Source: National Institute of Statistics data processing

If we manage to keep the deficit from the foreign exchanges of goods below 1 billion euro per month, we could preserve the trade deficit of -13 billion euro like in 2017, after we had -10 billion in 2016 (similar to the first 3 quarters in 2018). It would be essential that the results in export improve and the appetite for import diminish.

For the first 9 months in 2018, the exchanges with the EU countries were 39 billion euro in export and 45.5 billion euro in import (76.7% of the total exports and 74.8% of the imports). In terms of non-EU exchanges, there were exports of 11.87 billion euro and imports of 15.33 billion euro (23.3% of the total exports and 25.2% of imports). Negative balance of 6.5 billion euro from exchanges with EU countries and almost 3.5 billion euro from exchanges with non-EU countries resulted. To note, the weight of the trade deficit moves slowly from the EU towards the non-EU (35% of the deficit from exchanges of only 25% of the total trade with non-EU, while 3 years ago we had a surplus with non-EU countries).

In structure, Romania had a positive sectorial balance (more than 1 billion euro) from foreign trade only in machinery and transport equipment. This value compensated 10% of the deficit in almost all the other sectors (for raw materials, the exchanges are balanced).

Table 9. Structure of foreign trade exchanges of Romania - EU 28 and non- EU - in the first 9 months in 2018 (million euro)

	Export	Import	Surplus/Deficit	Weight in deficit
EU 28 trade	38,980.9	45,470.2	-6,489.3	65%
non-EU 28 trade	11,867.7	15,329.0	-3,461.3	35%
Total	50,848,6	60,799.2	-9,950.6	100%

Source*:* National Institute of Statistics data processing

For other manufactured products, for the first 3 quarters in 2018, we had a minus of 2.25 billion, while in fuels and lubricating oils, the minus was similar with 2.28 billion euro. The major difference between the 2 segments can be found in the coverage of 88% in the first case and only 49% in the second case.

Table 10. Structure of international trade of Romania– main categories of products – in the first 9 months in 2018 (million euro)

Category	Export (mil. Euro)	Import (mil. Euro)	Sold (mil. Euro)	Coverage (%)
Machinery and transport equipment	24,082	23,056	+1,026	104
Other manufactured products	16,404	18,662	-2,258	88
Food, animals	3,072	4,433	-1,361	67
Fuels and lubricating oils	2,163	4,444	-2,281	49
Chemicals and others related products	2,228	7,717	-5,489	29
Raw materials	1,897	1,831	+66	104
Total	50,849	60,799	-9,950	84

Source*:* National Institute of Statistics data processing

Other 1.36 billion euro, which we could have been better off without, to balance the foreign deficit, come from the food industry. Despite the climate and the competitive advantages of the raw materials, the food industry did not manage to cover the domestic demand for which the imported products worked better.

Romania – the only EU country where the duration of working life diminished

According to Eurostat, the duration of the working life in Romania diminished with almost 3 years between 2000 – 2017. The expected duration of working life estimates how long a person who is 15 years old at the moment of the estimation will be active on the labour in a particular country and in a particular year.

Practically, the relation between Romania and the EU is the opposite as against what it was at the beginning of the 21st century. At that time, Romania had an expected duration of working life of 36 years as against 32.9 years in Europe. In 2017, Romania had 33.4 years, while the average in the EU was 35.9.

The essence of these Eurostat statistics shows that Romania is the only EU member state where the duration of working life increased in this century.

The period estimated to be working life increased at that particular time with 4.0 years in Bulgaria, 6.2 years in Hungary, 2.3 years in the Czech Republic and 2.2 years in Poland. (even if it remained lower than in Bulgaria and Poland).

Romania ranks 8th in terms of appetite for work, in a ranking where Italy has 31.6 years, followed by Greece with 32.7 years. In addition, the situation is complicated by the unemployment in each country, by the number of the disabled who cannot work any longer etc.

From the 5th place held among countries that work the most in 2000 (after Denmark, Finland and the UK), Romania ranks now after the other European countries, and has seen the most spectacular evolution (a regress that is difficult to explain) among all European countries. The 4 countries above-mentioned had an ascending trend, and Germany (nota bene) came from behind with +4.1 years.

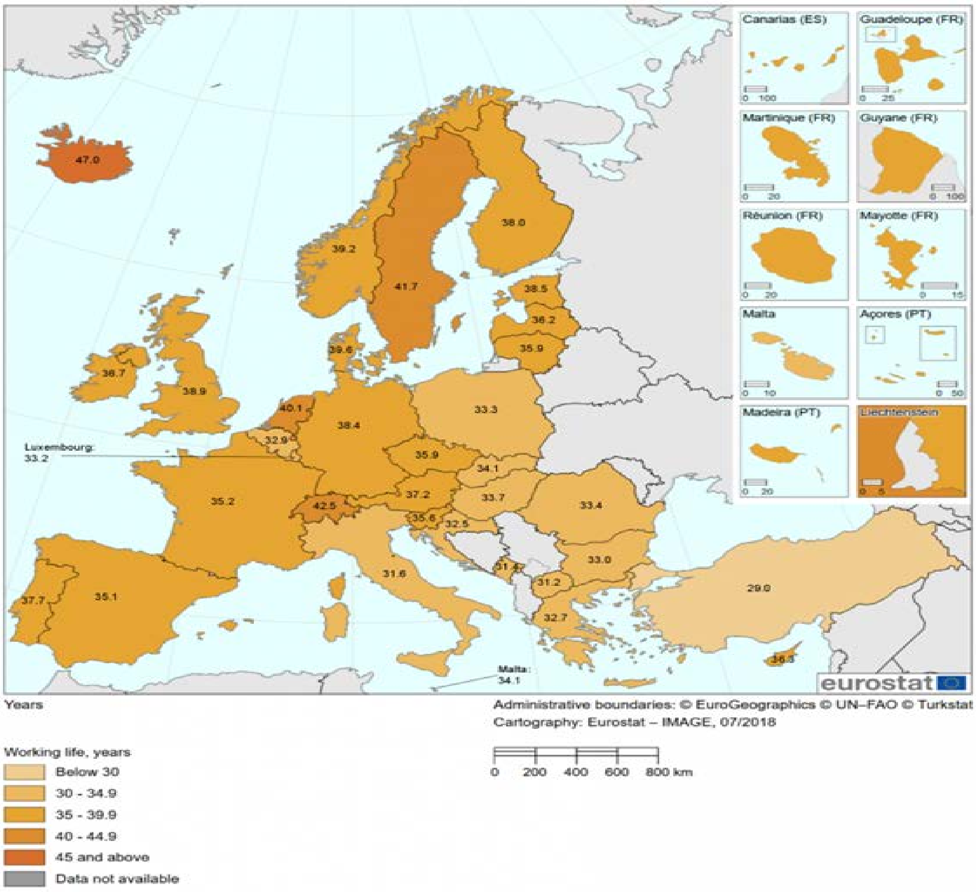

Figure no. 1. Estimated duration of working life, by country – for a person who is 15 years old in 2017

Source: Eurostat. Duration of working life – statistics.
https://ec.europa.eu/eurostat/statistics-explained/index.php/Duration_of_working_life_-_statistics#Development_over_the_period_2000_-_2017

To note that, in Romania, the decreasing evolution of the duration of the working life was 3 times smaller in men than in women, from 37.8 years for men in 2000, to 36.4 years in 2017 and from 34.2 years to only 30.1 years in the same period of time.

Which led to a significant gap as against the EU average in women (-3.3 years) than in men (-1.4 years).

Table 11. Expected duration of working life in Romania as against the EU average

	Year			
	2000		2017	
	Romania	UE	Romania	UE
Total	36.0	32.9	33.4	35.9
Men	37.8	36.4	36.4	38.4
Women	34.2	29.2	30.1	33.4

Source*:* Eurostat. Duration of working life – statistics.
https://ec.europa.eu/eurostat/statistics-explained/index.php/Duration_of_working_life_-_statistics#Development_over_the_period_2000_-_2017

Both men and women, Europeans started to work as much as Romanians used to work and, through a strange convergence, Romanians, instead of maintaining the values before EU accession, started to work like the Europeans at the time when Romania was not a EU member.

The consequences on the living standard and the perspectives to have a decent pension (resulted from the number of years contributed to the social insurance, obviously insufficient in the legal provisions regarding the women) can be seen in the current workforce deficit and will be seen in the long term in the costs incurred by the public budget with the social protection for non-contributive categories on longer periods of time.

FDI balance in the Romanian economy in 2017

The FDI balance in the Romanian economy increased in 2017 to 75,581 million euro, however, it decreased from 41% of the GDP to 40.2%. The data collected and made public by the Romanian National Bank show that 69.5% of this amount (52,746 million euro) was equity contribution (including re-invested profit) of the foreign companies. The remaining 30.5% was represented by the net loan received by these foreign companies from abroad (23,105 million euro). The net FDI in 2017 was 4,797 million euro, 6% more than in 2016. To note that, the significant changes in the structure per components, where the capital participations decreased with 30%, to 2,235 million euro, while the re-invested profit (assimilated, from the methodological point of view, with a foreign investment) went up to more than 50%, that is 1,733 million euro.

To note the high value of the loss incurred by the FDI as against the profit declared by the FDI (2,809 million euro loss as against 8,068 million euro profit, and after deducting the dividends of 3,526 million euro, the re-invested amount resulted, according to the international methodology BPM6).

Out of the FDI increase with 5.2 billion euro, the new investments in the processing industry represented a third (1.81 billion euro). The same in constructions and real estate (which exceeded the threshold of 15% of the total), followed by trade (1.45 billion euro).

The financial brokerage and insurance lags behind, with a little more than 0.5 billion euro.

The power production, gas production and water continued the oscillating evolution that did not progress over the last 4 years. The significant decrease of the FDI in IT&C is also surprising (-478 million euro).

Inside the processing industry, the sectors that enjoyed FDI were: means of transport (928 million euro), petroleum processing, chemicals, rubber and plastics (352 million euro) and metallurgy (242 million euro). To note that the processing industry ranks below trade in terms of re-invested profit (650 million euro as against 669 million euro).

Table 12. Evolution of breakdown on main activities of the FDI balance between 2014 - 2017

Fields	**FDI balance on:**				
	31.12.2014	**31.12.2015**	**31.12.2016**	**31.12.2017**	**Weight**
	Value (mil. euro)	**Value (mil. euro)**	**Value (mil. euro)**	**Value (mil. euro)**	**%**
Total, d.c.	60,198	64,433	70,113	75,581	100
Industry, d.c.	29,324	28,746	30,979	32,666	43.2
- Processing industry	19,275	20,477	22,435	24,250	32.1
- Power, gas, water	6,704	6,317	6,713	6,451	8.5
- Extractive industry	3,345	1,952	1,831	1,965	2.6
Constructions and real estate transactions	5,917	7,877	9,794	11,611	15.3
Trade	7,058	7,861	8,994	10,446	13.7
Financial brokerage, insurance	7,798	8,428	8,844	9,398	12.3
Professional, technical activities	3,074	4,56	3,908	4,088	5.4
IT&C	3,598	3,690	3,628	3,150	4.2
Agriculture, silviculture,fishing	1,504	1,662	1,836	2,272	3.0
Transports	1,029	1,191	1,215	1,247	1.6
Hotels and restaurants	541	504	411	449	0.6
Other activities	355	418	504	524	0.7

Source*:* National Bank of Romania

Despite the fact that Romania has a remarkable tourism potential, statistics regarding the FDI do not confirm this on hotels and restaurants.

The weight of this sector in the total FDI remained very low and the amount placed, although slightly increased in 2017, were below the level of 2014 and 2015.

The manufacturing activity of foreign companies increased between 2009 – 2017, except for a slight decrease of the turnover in 2014 and a temporary decrease of the number of employees in 2010. 2017 had the highest increased of the turnover of the FDI on the last 9 years, and the number of employees exceeded the threshold of 1.3 million people.

Table 13. Evolution of the turnover of the FDI companies and the average number of employees in these companies between 2009-2017

Year	Turnover (mil. euro)	Number of employees (thousands of people)
2009	116,422	1,138
2010	122,158	1,126
2011	137,498	1,149
2012	139,610	1,169
2013	142,202	1,147
2014	141,505	1,184
2015	143,868	1,228
2016	148,364	1,264
2017	164,805	1,309

Source*:* National Bank of Romania, FDIs in Romania in 2017.
http://www.bnr.ro/PublicationDocuments.aspx?icid=9403

Per total, the net revenue of the FDIs in Romania last year was 5,877 million euro, 16% more than in 2016. It resulted from the net profit of 5,259 million euro (+23%) and the net revenue from interests received for loans given by mother-companies to their companies in Romania, of 618 million euro (-21%).

To note also the importance of the FDI companies in terms of foreign trade, with 73.4% of the export and 66.0% of the import, values with marginal decrease as against 2016. These weights were balanced by the processing industry, with 79.8% of the export and 80.5% of the import. The maximal values were in the machinery, tools and equipment (93.1%, and 89.8%, respectively), dominated by the foreign capital.

The net revenue resulted from FDIs in Romania were 13% of the GDP in 2017. As against the accumulated balance of 40.2% of the GDP, remarkable profitability results, which should make us think about the to-and-fro effects in economy.

Weight of the gross formation of fixed capital (GFFC) in the GDP was the lowest in the region since 2008

Romanian investments in productive assets are far from keeping the pace with the economic growth based on consumption. The competitiveness of the Romanian real economy lags behind the economies of other CEECs. The weight of the GFFC in the GDP has had the biggest decrease in the region since 2008, more than the Greek one, and Greece was on the brink of bankruptcy and hardly escaped the technical recession.

On the other hand, Romania continues to have the highest economic growth in the EU, even after the adjustment of 6.9% last year, to less than 4%, according to this year's independent estimations.

The acquisitions of productive assets in economy, the main component of GFFC, diminished in Romania from 37.4% of the GDP in 2008, to 22.6% in 2017, that is with 15%.

The decrease in Greece was 11%, according to Eurostat.

While the decrease of the investments in productive assets in the GDP was stronger in Romania in the last 10 years, the other CEECs kept a balance.

Table 14. Evolution of the weight of the GFFC in the GDP

Year	GFFC / GDP								
	U.E.	Bulgaria	Czech republic	Germany	Greece	Hungary	Poland	Romania	Slovakia
2008	22.4%	33.0%	29.0%	20.3%	23.8%	23.2%	23.1%	37.4%	25.5%
2009	20.5%	27.9%	27.1%	19.2%	20.8%	22.7%	21.4%	25.4%	21.7%
2010	20.0%	22.2%	26.9%	19.4%	17.6%	20.2%	20.3%	26.1%	22.1%
2011	20.2%	20.9%	26.5%	20.3%	15.3%	19.7%	20.7%	27.2%	24.0%
2012	19.7%	21.3%	25.9%	20.1%	12.6%	19.3%	19.8%	27.4%	21.2%
2013	19.3%	21.2%	25.1%	19.7%	12.2%	20.9%	18.8%	24.8%	20.7%
2014	19.4%	21.1%	25.1%	20.0%	11.5%	22.2%	19.7%	24.3%	20.7%
2015	19.7%	21.0%	26.5%	19.9%	11.6%	22.5%	20.1%	24.8%	24.3%
2016	19.9%	18.6%	24.9%	20.1%	12.1%	19.6%	18.0%	22.9%	21.3%
2017	20.2%	18.5%	24.7%	20.3%	12.9%	22.2%	17.7%	22.6%	21.4%

Source*:* Eurostat

As against the decrease of almost 14.8% in Romania, Hungary lost 0.9%, Slovakia lost 4.2%, Czech Republic lost 4.3% and Poland lost 5.4%.

Germany had in 2017, like in 2008, the same GFFC / GDP ratio of 20.3%, variations around the threshold of 20% were minor, like in the case of the EU average whose difference was only 2.3% as against 2008. The trend does not stop here. „The two quarterly restraints under the form of GFFC in the current year led to an opposite annual dynamics. Poorer results, as against the 1st quarter, were seen in the equipment acquisition and in constructions", says the latest RNB report about the inflation in 2018.

Conclusions

An analysis of the budget execution for the first 9 months in 2018 indicates a deficit of 16.8 billion lei (1.77% of the GDP). As against the GDP, it exceeds more than twice the deficit in the same period of 2017, with 6.8 billion lei (0.79% of the GDP). That 2017 ended with a deficit of 2.88%, close to the maximal level of 3% of the GDP stipulated by the Maastricht treaty confirms the concern regarding the risks to fail to comply with the budget deficit target for 2018, even if the investment plans for the current year are fulfilled.

The reduction of the planned expenditure remains a mechanism to control the budget deficit. The mechanisms of control the most used are reduction of planned expenditure, including from investments, despite the negative impact that the limitation of such allocations have upon the real and potential economic growth.

The analysis of the first 9 months of 2018, expenditure for investments, including capital expenditure, and expenditure corresponding to the development programs funded from domestic and foreign sources were 15.2 billion lei. Although with 25.7% higher than in the same period in 2017, as against the investments planned for this year of 38.5 billion lei (4.2% of the GDP), the implementation in the first 9 months of only 39.5% (1.6% of the GDP).

A long term sustainable economic growth cannot be achieved without real commitment for investments and structural reforms that could increase the impact of investments in economy and society in general, through strengthened capacity of the public institutions and through enhanced quality of the public expenditure.

There is a need to use the investments as an active tool for sustainable economic growth by replacing the model of economic growth based on consumption with policies oriented towards competitiveness and systematic development of the capital, in all its forms.

Practically, no matter how much „financial engineering", the due date of the original economic policy to increase social benefits on a large scale and to cut taxes (a sort of left-right policy, painfully paid by those caught in the middle, especially the middle class, small entrepreneurs and people at the beginning of their career and private life) will implacably come.

Undoubtedly, the fact that the balanced mix of macroeconomic policies and the implementation of structural reforms meant to stimulate the long term growth potential are essential to preserve the macroeconomic stability and to strengthen the capacity of the Romanian economy to cope with adverse evolutions.

To keep macro-stability and domestic balance is essential. We must look after the macro-stability because it is the source of sustainability and durability and Romania's evolution within the EU. There is no other valid alternative to the coherent macroeconomic policies. If we do not preserve coherence, sooner or later the country will suffer.

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