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Dark Clouds in the Romanian Economy **at the Beginning of 2019**

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Abstract

This article emphasizes that, as the former Romania Prime-Ministry and professor with the Bucharest Academy of Economic Studies, Radu Vasile, was saying, economy is like plasticine, if you squeeze it in your fist, it leaks between your fingers. The doubled average salaries and the doubled minimal salary during the last 5 years in Romania resulted into more shopping (most of it, imported goods) that resulted into quicker growth of imports as against exports. It also resulted into increased expenditure of the State which deepened the budget deficit, making Romania have the highest budget deficit in Europe in 2018. A GDP expanded at the expense of the fiscal deficit or current account deficit is susceptible to destabilize the positive trend of an economy. Briefly, the "blood" of the economy saw a high level of cholesterol, so a diet should be followed to bring it to normal values, the question is: How to adjust it?

Key words macroeconomic policy, budget deficit, commercial deficit, current account, foreign-controlled enterprises

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

Introduction. Literature review

During the last 5 years, salaries in the Romanian public sector as well as the minimal salary have doubled. In the private sector, the increase was only 60%. Both theoretically and practically, the reference for salary growth, in any economic entity, should be productivity. Productivity increased with almost 50%, while the exchange rate – which could have helped – depreciated with 5.3%. All this was reflected in the evolution of the two deficits – the budget deficit and the current account deficit. The problem is that the budget construction follows the same model like in 2019 – salaries increased with more than 10%, while productivity will increased with 3% (if we add the inflation, we reach 7%), and this is reflected in the competitiveness of the Romanian producers, as well as in the current account deficit, which is Romania's biggest vulnerability. This was also the indicator that showed a problem before the 2008 crisis, and it is also the indicator that reflects the demand surplus, because surplus does not go into inflation in Romania, but in the current account deficit. These deficits must be financed. There are countries with higher deficits, but when an investor comes and finances this deficit, no more problems. Romania does not have this luck.

The turmoil at the beginning of 2019 regarding the abrupt adoption of fiscal measures (G.O no 114/2018), with negative impact upon the economy (such as the taxes on bank assets and additional taxes in energy and communications sectors), showed the limited ability of the local investors to finance the budget deficit and the needs of the State. We, therefore, depend on the foreign investors, on the foreign capital, like all the neighboring countries. Given the lax fiscal policy, if we exceed the deficit threshold of 3%, combined with the recession in the Eurozone, this pessimistic scenario would lead to a significant depreciation of the Leu (N.B. the Romanian currency).

Macroeconomic stability within the regional economic integration must be an imperative and a real chance to quickly surpass the current limitations (Razić and Kasumović, 2019).

The countries that experienced the 2008 crisis and had stronger fiscal status suffered less, which shows that more political action would have protect against damages. Extraordinary fiscal and quasi-fiscal actions to support the financial sector after the crisis seem to have contributed to diminished production loss on medium term (Chen et al., 2019).

According to Auerbach (2017) and Blanchard & Summers (2017), the renewed recognition of the discretionary fiscal policy is an anti-cyclic tool to manage the demand.

It is important to maintain economy on an increasing trend, while paying attention to protect the macroeconomic balance regained after the painful process of adjustment following the international financial crisis. The only way to progress is to adopt a coherent mix of macroeconomic policies and strong structural reforms, meant to increase Romania's growth potential and to improve its resistance to shocks. This approach should not leave room for pro-cyclic approaches.

1. Research methodology and data

This research has been based on analysis and interpretation of data needed to emphasize Romania's macroeconomic status, data provided by Eurostat, the Romanian National Bank, the Romanian National Institute of Statistics and the Romanian Ministry of Public Finance, as well as opinions and theories from the specialized literature, in order to extract the trends that may characterize Romania's economic and financial status, as against the European context.

2. Romania's macroeconomic problems at the beginning of 2019

2.1. Romania's budget deficit in 2018, calculated by the European Commission, is 3.3% of the GDP according to the ESA methodology, which is the methodology that matters when we calculate the surplus deficit

The country report published in February 2019 by the European Commission shows that Romania had in 2018 a budget deficit of 3.3% of the din GDP according to the ESA methodology (ESA - European System of Accounts). The European methodology to calculate the deficit does not take into account some exceptional revenues, the so-called one-off revenues, that is, occasional revenues, that the Government cannot count on each year.

The Romanian Ministry of Public Finance calculated a budget deficit of 2.88% of the GDP, according to the cash methodology, after performing some tricks and after transferring some expenditure from 2018 to 2019.

When it comes to the excessive deficit procedure against a member state, the CE takes into account the ESA deficit.

According to the CE calculations, in the absence of measures to correct the public finance, the budget deficit will reach 4.7% of the GDP in 2019.

Table 1. Evolution of key economic indicators in Romania

Table 1.1: **Key economic, financial and social indicators - Romania**

						forecast		
	2004-07	2008-12	2013-15	2016	2017	2018	2019	2020
Real GDP (y-o-y)	6.8	0.7	3.6	4.8	7.0	4.0	3.8	3.6
Potential growth (y-o-y)	5.7	2.9	2.7	3.6	4.5	4.6	4.1	4.1
General government balance (% of GDP)	-1.7	-6.1	-1.4	-2.9	-2.9	-3.3	-3.4	-4.7
Structural budget balance (% of GDP)	.	.	-0.6	-2.2	-3.4	-3.3	-3.4	-4.6
General government gross debt (% of GDP)	14.6	27.0	38.2	37.3	35.1	35.1	35.9	38.2
Tax-to-GDP ratio (%) (3)	28.5	27.3	27.6	26.5	25.8	26.2	26.2	26.2
Tax rate for a single person earning the average wage (%)	27.2	28.5	25.6	.	.	.	.	.
Tax rate for a single person earning 50% of the average wage (%)	22.7	25.5	22.9	.	.	.	.	.

Source: EUROPEAN COMMISSION, 2019. *2019 country report on Romania, including a detailed balance regarding the prevent and the correction of economic imbalances*, Brussels, 27.2.2019, pp. 16, [Online] Available at: https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-romania_ro.pdf [Accessed 02 May, 2019].

The 2018 budget was adjusted with tricks that allowed the Government to close the budget with a cash deficit under the threshold of 3% requested by the EU. For instance, in December 2018, four billion lei revenue under the chapter "other amounts received from the EU for operational programs funded within the convergence objective" (as against only 7.7 million lei one month before) appeared in the execution. These amounts correspond to projects funded from public money, for which reimbursement from EU funds was requested later on, but the Government requested this money from Brussels very late, that is, in December. To note that, in order to calculate the 2018 deficit, the EC did not take into account the revenues corresponding to the projects completed in the previous years, even if the money was transferred last year. According to the Romanian Fiscal Council, only 1.4 billion lei are reflected as revenues for 2018 in the ESA budget calculation.

The additional dividends requested to the state-owned companies were not taken into account in the ESA deficit calculation either.

Regarding the expenses, a difference in the deficit calculation appears in the tax on salaries and income. The ESA methodology calculates from January to January, so it includes the negative impact of the reduced tax on income from 16% to 10%, entered into force at the beginning of 2018, but reflected in the budget execution only in February (salaries for December are paid in January). In the January 2019 execution, the Romanian Ministry of Public Finance shows that 2 billion lei were collected into this chapter, with 1.2 billion lei, that is 37.6%, less than in January 2018, so the ESA deficit calculation included a full year with reduced revenue for this chapter.

Another trick that helped making the cash deficit correspond to the target, but produced effects in terms of ESA deficit, was the postponing of the payment of pensions from December 2018 to January 2019.

In December 2018, the data of the Ministry of Public Finance show that the money spent on social assistance was only 7.3 billion lei, 14.1% less than in December 2017, which is unlikely. In January 2019, the amount jumped to 10.3 billion lei, that is, 27.9% more than in January 2018.

Regarding the structural deficit, the EC calculated it at the value of 3.3% of the GDP in 2018, and in 2019, it is estimated to reach 3.4% of the GDP, just like the budget deficit. If Romania does not take any correction measure, the structural deficit will reach 4.6% of the GDP in 2019, far from the undertaken target of 1%. At the end of 2018, the EC recommended Romania an annual adjustment of at least 1% of the GDP in 2019.

A reduced structural balance can be achieved only by a gradual reduction of the budget deficit to levels lower than the maximal threshold of 3% of the GDP, that is, an adjustment that is opposite to the adjustment currently made by the Government of constant increasing of the public deficit.

3.2. Budget deficit of 0.51% of the GDP after the first two months in 2019

The general consolidated budget, based on the data from the Romanian Ministry of Public Finance, after the first two months in 2019, recorded a deficit of 5.2 billion lei, that is, 0.51% of the GDP estimated for 2019. This is a result that is better than the same period in 2018, when the minus of the public finance was almost 5.5 billion lei, that is, 0.58% of the GDP already sent official in its provisional version.

The results are, however, questionable in terms of covering the capital needs and the co-funding of projects that attract non-reimbursable funds: if the latter remained like in 2018, the deficit would be 70% higher.

Table 2. Evolution of budget revenues and expenditure in the first 2 months in 2017-2019

Category	**2 months 2017 (mil. lei)**	**2 months 2018 (mil. lei)**	**2 months 2019 (mil. lei)**
Total revenue	34,889.7	42,304.7	46,693.8
Total expenses	34,492.6	47,788.0	51,905.0
Surplus/Deficit	+3,024.1 (+0.05%GDP)	-5,483.3 (-0.58%GDP)	-5,211.2 (-0.51%GDP)

Source: Ministry of Public Finance data processing

If we correlate the target for 2019, -2.76% of the GDP and the result at the end of 2018, that is 2.91% of the GDP mentioned in the official statistics, Romania seems to correspond to the requirements, and it will have only to repeat last year's working style. If we look however at the result after two months of 2017, the results were better (+0.05% of the GDP), the final deficit increased to 2.88% of the GDP.

To note, as positive evolution, the growth of the revenues in January and February was higher as against the growth of the expenses (+10.4% revenues as against +8.6% expenses, both in nominal terms). If we adjust with the average inflation, we reach real values of +6.4% revenues and +4.9% revenues, both (most probably) over the economic growth.

Table 3. Evolution of the budget expenses in the first 2 months in 2019, as against the same period in 2018

Category	Period 2 months 2018 (billion Lei)	Period 2 months 2019 (billion Lei)	Evolution billion Lei	Variation % 2019/2018
Total expenses, out of which:	47.79	51.91	+4.12	+8.6%
- Expenses with staff	12.58	15.75	+1.44	+25.2%
- Social assistance	16.21	19.13	+2.92	+18.0%
- Goods and services	5.40	6.56	+1.16	+21.5%
- Expenses with capital	3.33	0.72	-2.61	-78.3%
- Projects with nin-reimbursable foreign funds	3.29	2.57	-0.72	-21.9%
- Subsidies	1.90	0.70	-1.20	-63.2%
- Interests	5.08	6.48	+1.40	+27.56%

Source: Ministry of Public Finance data processing

To note the good percentage of the expenses with goods and services (+21.5%). Unfortunately, for the projects with non-reimbursable funds (-21.9%) and especially for the expenses with capital (-78.3%) the values decreased significantly. The communiqué of the Romanian Ministry of Public Finance also shows a significant decrease of the expenses with subsidies (from 1.9 billion lei to only 0.7 billion lei).

If these components of the budget expenses had remained like in 2018, the deficit would have been more than 70% higher, which indicates limited allocation of funds for these segments in order to keep under control the deficit affected by the increase (not sustainable) of the expenses with public salaries (+25.2%) and social protection (+18.0%).

Public investments, that is, expenses with capital, increased to 722.6 million lei, 78.3% less than in the first two months in 2018, when they were 3.3 billion lei.

In the first two months in 2019, the public administration operated without an approved budget, so only current payments were effected, needed for the public administration to work. If Romania had begun 2019 with a budget published in the Official Gazette, and in the first two months, the Government had incurred expenses with investments of at least the same amount like in the same period in 2018, the budget deficit would have been 0.7% of the GDP.

Regarding the projects with EU funds, the state spent as much as it collected in the first two months. In other words, the state deducted invoices of 2.3 billion lei (25.7% less than in the first two months in 2018) from Brussels, while, in terms of expenses, the state co-financed 2.5 billion lei (21.9% less than in 2018).

Public investments are often used as “buffer” for the consolidated general budget, payments for projects funded from the public budget are often postponed for the last months of the year, to ensure the deficit target of 3% of the GDP. In the last three months of 2018, for instance, expenses with capital of 8.5 billion lei were made, more than in the first seven months of the year. In 2018, the expenses with capital were 23.8 billion lei, that is 2.5% of the GDP, slightly increased as against 2017, when we saw a negative record as the investments funded exclusively with public funds were 2.3% of the GDP.

If we add the projects funded with EU money, the total value of investments in 2018 was 48.7 billion lei, that is 5.1% of the GDP, as against 38.2 billion lei in 2017, that is 4.5% of the GDP.

The infrastructure projects suffered the most, although they may be funded from non-reimbursable EU funds, and, although they enjoy significant allocations at the beginning of a year, they end up with lack of achievements.

Between 2016-2018, since the funds for the 2014-2020 European financial exercise were released, the budget executions for infrastructure were 6.8 billion lei less than the amounts allocated through the Budget Laws for each year.

2.3. Commercial deficit: 45% growth after the first 2 months in 2019

Romania’s commercial deficit in February 2019 was 1,152 million euro, 30% higher than in the same month in 2018. The result is better than in the first month of 2019, but the propensity to expand the minus from foreign trade is a concern, as imports grow faster than exports.

Cumulated for the first two months of 2018, FOB exports were 11,403.0 million euro, and CIF imports (including transport and insurance costs) 13,816.1 million euro. The deficit reached 2.413 billion de euro, 45% more than January-February 2018.

Despite the increase, the coverage of the imports with the exports reached the level of 2017 and 2018, like in 2011 – 2012. It is no sustainable on the long term and we shall have to find a way to return to the practice of 2013 – 2014 (when the coverage was over 90%) which took Romania out of the economic crisis.

Table 4. Evolution of the coverage of imports with export between 2009-2019

	Year										
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019***
Coverage Import with Exports	77.9%	83.1%	85.9%	86.0%	92.7%	93.5%	90.4%	88.9%	86.4%	85.3%	86.0%

* after 2 months

Source: National Institute of Statistics data processing

To note, the deficit on the goods in foreign trade was already 1.1% of the GDP estimated for 2019.

Unfortunately, production did not keep the pace with the revenues growth, and competitiveness translated into the quality/price ratio that was below the competitiveness of the products from Western-style countries, from the economic point of view (Hungary and Poland are the best examples).

Table 5. Evolution of Romania's foreign trade between January 2017 – February 2019 (million euro)

Month	Export	Import	Commercial deficit	Modification% current month as against the same month in the previous year	
				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,.456.5	6,341.1	-884.6	+7.6%	+10.7%
March 2018	6,107.2	7,167.9	-1,060.7	+9.8%	+10.8%
April 2018	5,233.9	6,250.4	-1,016.5	+9.7%	+7.3%
May 2018	5,870.9	7,143.9	-1,273.3	+5.2%	+6.8%
June 2018	5,883.5	7,186.7	-1,303.2	+10.0%	+9.7%
July 2018	5,900.6	7,172.8	-1,272.2	+12.9%	+15.4%
August 2018	5,132.9	6,532.4	-1,399.5	+4.3%	+9.0%
September 2018	5,839.9	6,813.3	-973.4	+5.1%	+3.4%
October 2018	6,337.5	8,227.1	-1,889.6	+10.0%	+16.1%
November 2018	5,941.5	7,509.2	-1,567.7	+2.7%	+8.7%
December 2018	4,604.1	6,320.0	-1,715.9	+2.4%	+3.5%

Month	Export	Import	Commercial deficit	Modification% current month as against the same month in the previous year	
				Export	Import
January 2019	5,510.7	6,770.0	-1,259.3	+1.6%	+9.2%
February 2019	5,891.8	7,043.8	-1,152.0	+8.0%	+11.1%

Source: National Institute of Statistics data processing

In February 2019, the exchanges with the EU countries were 8.88 billion euro for exports and 10.29 billion euro for imports (78% of total exports and 75% of total imports).

In terms of exchanges with countries outside the EU, exports were 2.53 billion euro and imports were 3.52 billion euro (22% of the total exports and 25% of total imports).

Negative balance of 1.4 billion euro resulted from exchanges with countries outside the EU and 1 billion from exchanges with countries outside the EU. This phenomenon should be analyzed carefully, given the fact that the deficit in the trade with non-Euro countries remained over the threshold of 40% of the total (much more than the percentage in the total exchanges), while, 4 years ago, Romania had a small surplus in its foreign trade.

Table 6. Structure of Romania's foreign commercial exchanges - inside the EU and outside the EU – in the first two months in 2019 (million euro)

	Export	Import	Surplus/Deficit	Percentage in the deficit
Inside the EU trade	8,878.0	10,291.1	-1,413.1	59%
Outside the EU trade	2,525.0	3,525.0	-1,000.0	41%
Total	11,403.0	13,816.1	-2,413.1	100%

Source: National Institute of Statistics data processing

The positive balance from the machinery and transport equipment sector (the only one left) covered 18% of the total deficit, with a pretty good positive balance of 434 million euro.

Unfortunately, it was annulled by the higher minus in the other manufactured products (-507 million euro), a minus that tells us that we need more industrial sectors to be competitive.

The deficit, difficult to accept, (given the pedo-climatic conditions) in food products continued.

This deficit reached a significant sectorial level below other manufactured products, of only 65%. Simplified, about 5/6 of the surplus in the auto industry goes to the imported food.

Table 7. Structure of Romania's international trade – main group of products – in the first two months in 2019 (million euro)

Group	Export (mil. Euro)	Import (mil. Euro)	Sold (mil. Euro)	Coverage (%)
Machinery and transport equipment	5,518	5,084	+434	109
Other manufactured products	3,651	4,158	-507	88
Food, live animals	680	1,053	-373	65
Fuels and lubricants	443	1,060	-617	38
Chemicals and derivatives	525	1,920	-1,395	27
Raw materials and other materials	365	407	-42	90
Total	11,403.0	13,816.1	-2,413.1	83

Source: National Institute of Statistics data processing

The last blow in the foreign trade, however, came from petrochemicals, a sector that generated over two billion euro or 6/7 of the commercial deficit of the first two months of the year, 58% in chemical products and derivatives and

26% in fuels and lubricants.

Just like in agriculture, it makes no sense to have natural resources if we don't know to put them to good use.

To keep in mind that the EU saw a deficit of the commercial balance of 24.9 billion euro, while the Euro zone had a surplus of 1.5 billion euro in January 2019 as against January 2018. The EU commercial deficit increased with 0.5 billion euro, and the Euro zone surplus became half of the 3.1 billion euro plus in the same period in 2018, according to the Eurostat preliminary estimation. The imports in energy (especially from Russia) were decisive, as well as the "other manufactured products" (especially from China).

The EU exports were 153.6 billion euro in January 2019, and increased with 2.1% as against January 2018, while the EU imports increased with 3.9%, to 178.5 billion euro.

In 2018, the EU had a deficit of the commercial balance of 24.6 billion euro, and a surplus of 22.1 billion euro in 2017, while the Euro zone reported a surplus of 193.4 billion euro, as against a surplus of 240.8 billion euro in 2017.

The EU has a commercial surplus with the USA increased to 11.5 billion euro, in January 2019, and a deficit with China, also increased to 21.4 billion euro. The EU exports to the US and China increased with 12.4% and 10%, respectively, while imports increased with 11.7% and 5.7%, respectively.

The second biggest commercial deficit of the EU is with Russia, 8.1 billion euro. The biggest deficit source is the import of raw materials and especially energy, with 26.6 billion euro higher than exports, of only 7.9 billion euro.

Romania contributed with 0.6 billion euro to the EU commercial deficit in January 2019, with 20% more than in 2018.

2.4. Current account deficit in January 2019

The current account deficit of Romania's payment balance is 114 million euro in January 2019, 16.3 times more than in January 2018, according to the Romanian National Bank, published on 18th March 2019.

In the structure, the goods balance saw a deficit with 476 million euro higher, up to 1.255 billion euro.

The service balance saw a surplus of 623 million euro. Among all services, tourism and travel saw a deficit (-106 mil. euro).

Surplus was also seen in:

- The balance of primary revenues, 250 million euro;
- The balance of secondary revenues, 268 million euro.

In 2018, the current account deficit increased with 57% as against 2017, up to 9.416 billion euro.

The current account of the payment balance includes the amounts collected and the amounts paid by Romania in its commercial relations with the other countries. The main cause of the increased current account deficit is the explosive growth of the commercial deficit, with 62% in January 2019, as against the same month in 2018, up to 1.26 billion euro, show the data published by the National Institute of Statistics.

The direct investments of non-residents in Romania were 362 million euro (as against 192 million euro in January 2018), out of which capital participations (including the estimated net reinvested profit) were 341 million euro, and the intra-group credits had the net value of 21 million euro.

The total foreign debt decreased with 817 million euro, and in the structure:

- The long term foreign debt was more than 67.5 billion euro on 31st January 2019 (68.6% of the total foreign debt), with 0.6% less than on 31st December 2018;
- The short term foreign debt was on 31st January 2019 more than 30.8 billion euro (31.4% of the total foreign debt), less with 1.4% as against 31st December 2018.

2.5. Foreign capital in Romania and in the EU – weight of the added value in 2016

Romania ranks the 4th among the EU member states in terms of weight of added value in the national economy of foreign-controlled enterprises in 2016, according to a survey recently done and published by Eurostat at the beginning of April 2019 (Methodological note: *Statistics on foreign-controlled enterprises (FATS) is standardized in the EU and implies direct or indirect control, materialized in the ability to decide the strategy of the enterprise, the manner to manage the activity and the ability to appoint most of the directors. In most cases, this approach implies a foreign investor who owns more than 50% of the equity or voting rights, either directly or indirectly (through another affiliate). There is a chance that a control minority may exist without holding more than half of the shares or voting rights*).

With 44%, Romania ranks immediately below Hungary (51.4%), Slovakia (48.1%) and Luxemburg (44.6%).

Behind Romania and above the 40% we find the Czech Republic (43.3%) and Ireland (43.0%), while the EU average is 25%, and the lowest values are in France (16.4%), Greece (16.3%), Italy (15.8%) and Cyprus (13.4%). To note that the Eurostat statistics refer only to the non-financial sector.

The development trend of that part of the economy under foreign control increased during the last decade with 2.3% across the EU. Even Germany, the European engine, is close to the EU average, with 24.8%.

Although, across the EU, the foreign capital owns only 1.2% of the total number of enterprises, the foreign capital ensures 15.3% of the jobs which (given the result of 25% of the added value in economy) implies a productivity of 163% of the national average of all the EU member states, which shows the additional dynamics, and also explains the interest for investments outside the country of origin.

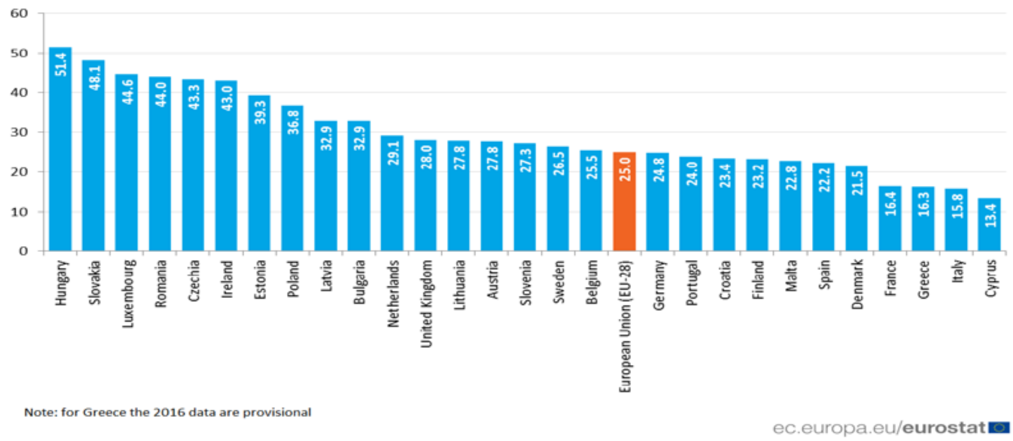

Figure no. 1. Share of value added by foreign-controlled enterprises in the non-financial business economy 2016 – (%)

Source: Eurostat. Foreign-controlled enterprises in EU: value added.
https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20190411-1

More detailed data from Eurostat show that Romania has 1/10 of the foreign-controlled enterprises in the EU (27,662 enterprises out of a total of 280,808 in Europe), and the gross operational surplus is almost 13 billion euro, in between the 8.5 billion euro in Portugal and 20 billion euro in the Czech republic, two countries with a GDP that is close to Romania's.

If we look at the production achieved in the three countries by the foreign-controlled enterprises (88.6 billion euro in Romania, 157.2 billion euro in the Czech Republic and 53.1 billion euro in Portugal), we see values close to profitability, 14% in Romania, over 13% in the Czech Republic but below 16% in Portugal.

Beyond the presence of foreign capital in Romania's economy, the balance of the placements of capital matters a lot, as it reflects the net investment status as weight in the GDP (a criterion on the EU macroeconomic dashboard, of -35%). Germany for instance has 25% of the gross VAT produced by foreign-controlled enterprises, but its placements in other countries, in 2016 (when Eurostat completed the analysis started at the beginning of 2019) a net positive status of 51% of the GDP, increased to 61% in 2018. Although the foreign-controlled enterprises in the French economy are significantly less, (see the 16% above), France had a negative net status of -15% of the GDP, thus decreasing to -12% in 2018.

Coming back to the Czech Republic, Romania, and Portugal, the net investment status makes the difference and explains the economic dynamics (moderate, but strong) in the Czech Republic as against the stagnation in Portugal, the Czech Republic achieved the European criterion of -27%, Romania was making efforts to achieve it and it reached -49% (improved later on with 45% due to the GDP growth, but Romania needs Romanian investments abroad), and Portugal lost the train with its -105% of the GDP.

In the context of expanded globalization and integration of the EU unique market, we should learn something and make the difference between "Romanian economy and economy in Romania".

Obviously, if we take into account the 4/5 of the financial sector in the foreign-controlled, the simple majority of the gross added value in Romania depends (whether we like it or not) on decisions taken outside Romania. Decisions that we should take into account when we adopt domestic decisions on the "local economy".

To note also that, according to data published by Eurostat, Romania (although leader in GDP growth with

7%) ranked the last in 2017 in the EU in terms of number of high-growth enterprises (*High-growth enterprises are defined as enterprises that saw an average annual growth of the number of employees of at least 10% over a period of three years. These enterprises play a major role in economic growth and job creation)*. The -2% made Romania rank 24th -25th among the 28 member states, like the UK, as against the EU average of +6% and after the record of +34% in 2016.

As reference, the highest growth in 2017 were in Cyprus (+57%, but a small number of enterprises, which makes the percentage less significant), Slovenia (+20%), Finland (+19%), the Netherlands (+17%), Italy and Lithuania (with 16%).

The opposite were Malta (-18%, but, not significant in terms of number of enterprises), Slovakia (-8%) and Hungary (-3%).

Per sectors, the growth was generalized across the EU, with values between 11.3% in constructions and 10.7% in mining, down to 3% in finance and 2.5% in the processing industry. This was not the case in Romania. Due to the income increase that was higher than the economic growth, the inversion took place between trade and the processing industry, which saw a descending trend in 2017, hence a significant growth of the commercial deficit.

3. Conclusions

Fiscal uncertainty will continue to prevent massive investments in the private sector, while the budget adjustments in the public sector will cause reduced investments and EU funds. The greatest risk for Romania's economic stability of the current fiscal policy (Barbu, 2018).

The process needed to correct the macroeconomic imbalance in the Romanian economy is like a diet: either you go to gym and burn more calories than you consume, or you eat less and turn to surgery. We can adjust it with a strong economic growth, independent of fiscal stimuli, not by giving higher salaries, because the deficit depends on the GDP, but by cutting expenses either in the public sector, or by adjusting the private sector because it faces increased taxes. Increased taxes can be accommodated with expense cuts. Third method would be austerity programs that we already saw after the 2008 crisis.

The recommended solution is "a bit of everything", feasible only if no inflationist shocks of external shocks, and it implies increased productivity in the private sector and public sector (collection, expenditure, no disruptive measures), as well as a gradual depreciation of the Leu, gradual increase of the interests and gradual cut of the deficit.

Under these circumstances, the business environment will become extremely cautious in hiring, taking loans and making new investments because, on the one hand, there is instability and lack of predictability, and on the other hand, there will be an inevitable growth of costs: with the loans, energy, transport, communications, etc. and employees because of the competition of the public sector that offers a 2-figure annual increase of the salary. The reluctance of the business environment is a factor that slows down the economy – if the development plans are reduced, postponed or annulled – which makes difficult the end of such recession of the global situation becomes worse, as many international financial institutions estimate.

Consequently, it is not too late for the institutions of the state to review their economic policies in order to break the vicious circle of mistrust, to ensure economic growth and conditions for Romania to face a global crisis that is imminent.

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