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X-Ray of Romania's main macroeconomic Aspects at the End of the first 9 Months in 2019

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Abstract

This research highlights that fact that, in macroeconomic terms, 2019 brought a higher decline of the public finance, which was reflected in the budget deficit, the trade deficit and the current account, which gives Romania a warning from the point of view of the financial markets. Romania needs more than a GDP with a plus, it needs a GDP that reflects competitive plus, based on quality. Competitiveness is a problem difficult to solve. The question is how to manage the fiscal and the macroeconomic risks in 2020, in a complex legislative environment, in the context of the need of budget corrections and imports.

Key words macroeconomic references, budget deficit, trade deficit, current account, importance of agriculture in GDP formation

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

Introduction. Literature review

2019 is close to its end, and if it hadn't been for the fiscal measures insufficiently argumented for, that caused anxiety among investors of big companies that have been affected, business would have been calmer, given the continuation of the economic growth, although slower.

The current account of the payment balance had a deficit of 8.1 billion euro for the first 9 months in 2019, compared to 6.79 billion euro between January-September 2018, according to the data published on 13 November 2019 by the National Bank of Romania. The direct investments of non-residents were 4.23 billion euro (compared to 4.5 billion euro between January - September 2018). The total foreign debt increased with 8.39 billion euro during the first 9 months, the increase resulted from Eurobonds issued by the Ministry of Public Finance.

At the moment, economists consider that Romania, or the Romanian government, has not enough budget resources to cover the payment commitments while preserving the current fiscal environment. To add the economic recession that haunts Europe and starts affecting the trade flow. Almost 80% of the Romanian foreign trade, exports+imports of over 140 billion euro of a GDP, of 200 billion euro, is carried out with the EU, and Romania's main trade partners is Germany.

One recurrent major concern of the business environment over the last years is the quality of dialogue between the taxpayer and the decision-maker regarding the adoption of legislative measures with fiscal impact.

Beyond domestic fiscal and legislative problems, Romania must transpose certain European directives in its national legislation that will have impact upon companies and business. Among them, will mark the fiscal milieu of 2020 the following: DAC - 6 / the directive regarding the intermediaries, the anti-abuse rules in BEPS times, the directive regarding the mechanisms to solve fiscal litigations in the EU.

The level of sophistication of the fiscal litigations, especially cross-border ones, is increasing, and this can be seen in Romania. These changes will result into a new contentious-fiscal-administrative mechanism that will lead, among others, to more complex negotiations between various fiscal jurisdictions.

Paradoxically, the investors, whether Romanian or foreign, do not want lower taxes but legislative and fiscal stability and predictability and a reasonable macroeconomic framework, without economic growth excesses or salaries that trigger corrections.

In order to quickly overcome the current limitations, within the framework of regional economic integration, macroeconomic stability should be a real chance and an imperative (Razić and Kasumović, 2019).

„International experience suggests that achieving sustainable debt reduction could be better facilitated by adopting explicit fiscal rules. … This commitment could be further strengthened by adopting explicit fiscal rules designed to avoid pro-cyclical behavior, build sufficient fiscal buffers, make the conduct of fiscal policy accountable, transparent and predictable, keep the cost of borrowing low, and thereby ensure debt sustainability. There is ample evidence indicating that countries with well-designed and binding fiscal rules tend to have stronger fiscal performance and better access to sources of funding than those without fiscal rules" (Cevik, 2019; Debrun and others, 2008; Schaechter and others, 2012).

1. Research methodology and data

Starting from the opinions and the theories in the specialized literature and the data provided by Eurostat, by the Romanian National Bank, the National Statistics Institute and the Ministry of Public Finance, we have made a synopsis of Romania's macroeconomic status at the end of the first 9 months in 2019.

2. Romania's macroeconomic references at the end of the first 9 months in 2019

2.1. Budget deficit increases to 2.6% of the GDP in September, which means 61% growth as against 2018

The budget deficit rises to 2.6% of the GDP in September 2019, as against 2.1% in August, according to the data published on 30 October 2019 by the Ministry of Public Finance.

For the first 9 months of 2019, the accrued deficit of the general budget was 26.9 billion lei, 61% higher than the same period in 2018.

The amounts collected to the consolidated general budget were 228.7 billion lei, that is 22.2% of the GDP, as against 21.7% of the GDP for the same period of time in 2018. The amounts collected were 11.6% higher, 23.7 billion lei more as against the same period of time in 2018.

Contributions from insurance increased with 15.3%, tax on profit with 14.5%, and VAT with 11.9%, according to the Ministry of Public Finance.

The contributions from insurance were influenced by the number of employees, the gross average income, the minimal wages and the new legislation regarding the transfer of contributions from the employer to the employee, regulated by Governmental Emergency Ordinance no 79/2017.

Money collected from taxes on property increased with 14.1% that is 0.7 billion lei.

77.8% less money were collected as tax on the use of goods, authorization of goods, or activities as a result of the Governmental Emergency Ordinance 52/2017 regarding the restitution of taxes on cars and vehicles, taxes on pollution, taxes on polluting emissions from vehicles and environmental stamp for vehicles.

The amounts from the EU into the account of the payments effected are 11.1 billion lei.

The expenditure of the consolidated budget was 255.6 billion lei, 15.3% higher than the same period in 2018.

Expenditure with the staff were 20.2% higher than in the first 9 months in 2018, caused by the salary increase as a result of Law no 153/2017 regarding the wages of the staff paid from public money.

The expenditure with goods and services increased with 16.4% as against the first 9 months in 2018. Significant growth occurred in the budget of the national unique health insurance funds and in the public budget, as well as in subsidies, 11.3%.

The expenditure with social assistance increased with 11.1% as against the same period in 2018, due to the increased pension point with 10% starting with 1 July 2018, that is, from 1,000 lei to 1,100 lei, and with 15% starting with 1 September 2019, that is from 1,100 lei to 1,125 lei, and the social benefit for retired people from 520 lei to 640 lei (starting with 1 July 2018) and from 640 lei to 704 lei (starting with September 2019).

The expenditure for investments, including expenditure for investments, including for capital, and for development programs funded from foreign and domestic funds, were 22.9 billion lei, that is 50,5% higher than the same period in 2018.

The global markets and the decline of the public funds (high probability that the budget deficit exceed 3% of the GDP in 2019) increased the interest rate in the 10-year state bonds from 2.7% to 4.26% in the first week in November 2019.

2.2. How to increase the deficit 5 times in 3 years without building anything significant

The deficit of the consolidated general budget for the first 9 months in 2019 increased with more than 11 billion lei as against the same period in 2018, and went up to 27 billion lei (-2.62% of the estimated GDP), according to data published by the Ministry of public finance, due to the amounts collected to the budget that increased with 11.6%, which meant 4.1% economic growth.

The evolution of the budget before the last quarter since 2016 is significant in this respect:

Table 1. Evolution of the budget deficit before the last quarter (2016 - 2019, % of the GDP)

	Year			
	2016	**2017**	**2018**	**2019**
Budget deficit	-0.49	-0.79	-1.78	-2.62
Final result	-2.40	-2.84	-2.88	?
Deficit of the 4th quarter	-1.91	-2.05	-1.10	-0.38*

Source: Ministry of Public Finance data processing

* *needed to fall within the limit of -3% deficit of the GDP*

We added the results at the end of each year and the last quarter, in order to see the chances to fall within the deficit of -3% of the GDP. Practically, no chance (the budget law on 2019 stipulated a deficit of -2.76% of the GDP. For that, we need an almost balanced execution of the budget in the last quarter of the year, which is impossible).

In the first 9 months of 2019, the problem is not the rate of the budget revenue (+11.6%, more above the 4.1% growth of the GDP). The explanation of the harmful increased deficit is the expenditure increase with 15.3%. If we had agreed in 2016 to spend only what we collect, namely 63 billion de lei instead of 86 billion lei, six seventh of the current deficit of 27 billion lei hadn't existed.

The data in the consolidated general budget show a budget deficit of -2.41% of the GDP, after the amount of the VAT collected slightly increased above the general average (11.9% as against 11.6%), and the amount collected from excises were 8.8% above the figure for the same period in 2018. Tax on profit increased with 14.5%, and contributions to insurance with 15.3%, but tax on wages and income is strangely only +3.4%, despite the fact that contributions were transferred from the employer to the employee on 1 January 2018.

Social insurance (pensions) and health deficits together are 6 billion lei in the structure of the general consolidated budget.

Local budgets and budgets of public institutions that are self-funded, totally or partially, have a plus of about 3 billion lei, despite problems that townhalls face – which makes the local surplus diminish the general minus.

Table 2. Budget results for the first 9 months in 2019 (million lei)

Budget	**Revenue**	**Expenditure**	**Surplus / Deficit**	
	mil. lei	**mil. lei**	**mil. lei**	**% din GDP**
General consolidated budget, out of which:	228,666.2	255,639.0	-26,972.8	-2.62
State budget	107,784.9	132,604.8	-24,819.8	-2.41
Local budgets	58,863.3	56,974.5	1,888.8	+0.18
Budgets of public institutions totally or partially self-funded	21,975.9	20,751.2	1,224.6	+0.12
Social insurance budget	50,559.2	52,763.0	-2,203.8	-0.21
National health fund	27,516.3	30,489.8	-2,973.5	-0.29

Source: Ministry of Public Finance data processing

Expenditure with staff already reached 7.4% of the GDP, towards the threshold of 10% which is likely to be towards the end of 2019.

The wages growth in the public sector (+20.2%) was significantly above the general average of +15.3%, while social assistance, despite the increased pension point on 1 January and 1 September, the growth (+11.1%) was symmetrically below the same average.

Table 3. Evolution of public expenditure in the first 9 months in 2019, as against the same period in 2018

Category	Period	Period	Evolution	Variation % 2019/2018
	9 months 2018 (billion Lei)	9 months 2019 (billion Lei)	billion Lei	
Total expenditure, Out of which:	221.72	255.64	+33. 2	+15.3%
- Expenditure with staff	63.28	76.03	+12.75	+20.2%
- Social assistance	76.17	84.65	+8.48	+11.1%
- Goods and services	30.19	35.15	+4.96	+16.4%
- Capital expenditure	11.28	14.73	+3.45	+30.5%
- Projects with non-reimbursable foreign funds	10.56	12.95	+2.39	+22.6%
- Subsidies	4.82	5.36	+0.54	+11.3%
- Interests	9.71	9.71	0	0%

Source: Ministry of Public Finance data processing

To note the considerable progress on the 3 investment segments, where capital expenditure (+30.5%) were followed by 22.6% increased amounts paid for participation in projects with non-reimbursable foreign funds. Where higher budget involvement should have taken place in order to absorb better the EU funds.

Interest payment at the end of the first 9 months in 2019 remained the same like in 2018 despite the increased public debt with 9 billion euro as against the end of 2018, out of which 6 billion euro on medium and long term.

2.3. Romania's current account deficit increased with more than 19% after 9 months. Debt increases, foreign investments decrease

Romania's current account of the payment balance had a deficit of 8.103 billion euro during the first 9 months in 2019, 19.2% more than the same period in 2018, when it was 6.798 billion euro, according to the data published on 13 November 2019 by the Romanian National Bank.

Deficit growth would have been even higher if the payment balance in service sector hadn't been positive with a surplus of 6.587 billion euro.

The goods balance had a deficit higher with 2.342 billion euro, the services balance had a surplus higher with 343 million euro. The primary revenue balance had a deficit lower with 747 million euro, and the secondary revenue balance had a surplus lower with 53 million euro.

Between January – September 2019, the total foreign debt increased with 8.398 billion euro (+8.41%), to 108.2 billion euro. The structure is:

- Long term foreign debt was 73.831 billion euro on 30 September 2019 (68.2% of the total foreign debt), 8.1% more than in 31 December 2018;
- Short term foreign debt on 30 September 2019 was 34.408 billion euro (31.8% of the total foreign debt), 9.0% more as against 31 December 2018.

The service rate of the long-term foreign debt was 17.1% between January – September 2019, as against 22.6% in 2018. The coverage rate of goods and services imports on 30 September 2019 was 5.0 months, as against 4.9 months on 31 December 2018. The coverage rate of short-term foreign debt, calculated as residual value, with the RNB currency reserves on 30 September 2019 was 75.0%, as against 74.1% on 31 December 2018.

FDI decreased in the first 9 months in 2019 with 6.26% as against the same period in 2018, to 4.237 billion euro, according to RNB data.

Capital participations (including the estimated net reinvested profit) were 3.473 billion euro, and the intragroup credits were 764 million euro net value.

The number of foreign companies newly created decreased in the first 9 months in 2019 with 0.7%, as against the same period of 2018 to 4,166, according to data collected by the National Office of the Trade Register (ONRC).

The 4,166 newly created companies had a total of registered capital of 17.342 million USD, 57.3% less than in January – September 2018.

The biggest number of foreign companies created were Italian, that is 48,416.

The biggest value of social capital had the Dutch companies, that is 12,487 billion USD, in 5,368 companies.

Companies with the highest foreign capital registered: Pirelli Tyres Romania (Italy, 174.7 mil. USD), B. Braun Pharmaceutical (Austria, 15.7 mil. USD) and CNUD-EFCO Operations (Belgium, 11 mil. USD).

2.4. September 2019 – trade deficit, 22% higher than September 2018

The trade deficit in September 2019 was 1,189.1 million euro, 22% higher than in September 2018, and 13% below the previous month, according to data published by the National Institute of Statistics. This evolution took place against a background of increased exports and imports (+4.4% and +7.0% respectively, as against September 2018), after 3 months of decrease.

Cumulated for the first 9 months in 2019, FOB exports were 51.85 billion euro, and CIF imports (including transport and insurance costs) were 63.89 billion euro. Trade deficit increased to 12.05 billion euro, 21% higher as against the first 9 months in 2018 (the officially foreseen increase of the trade deficit in 2019 had been 11.6%).

Exports increased at the highest level for the last 4 years and exceeded 6 billion euro. The coverage rate of imports with exports slightly increased to 84.6%, but remained below last year's level. It is a value typical of the crisis years of 2010-2012 (see the table).

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

	Year										
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019***
Coverage rate Imports with Exports	77.9%	83.1%	85.9%	86.0%	92.7%	93.5%	90.4%	88.9%	86.4%	85.3%	84.6%

* After 9 months

Source: National Institute of Statistics data processing

The deficit of goods in foreign trade, after the first 9 months in 2019, reached 5.5% of the GDP estimated for 2019. From exports of 6.1 billion euro and imports of 7.3 billion euro resulted a monthly deficit of 1.2 billion euro in September 2019, lower than in the previous months, but helped by the season (see the result in 2018).

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

Month	Export	Import	Trade 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%

Month	Export	Import	Trade deficit	Modification % current month as against the same month in the previous year	
				Export	Import
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%
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%
March 2019	6,129.0	7,361.1	-1,232.1	+0.4%	+2.7%
April 2019	5,532.6	6,915.3	-1,382.7	+5.7%	+10.6%
May 2019	6,272.7	7,754.3	-1,481.6	+6.8%	+8.5%
June 2019	5,559.6	6,690.5	-1,130.9	-5.5%	-6.9%
July 2019	5,841.1	7,596.6	-1,755.5	-1.0%	+5.9%
August 2019	5,003.2	6,368.6	-1,365.4	-2.5%	-2.5%
September 2019	6,099.4	7,288.5	-1,189.1	+4.4%	+7.0%

Source: National Institute of Statistics data processing

In the first 9 months in 2019, trade with EU countries was 39.8 billion euro in exports and 47.7 billion euro in import (77% of total exports and 75% of total imports). Non-EU trade was 12.1 billion euro exports and 16.2 billion euro imports (23% of the total exports and 25% of the total imports).

Negative balance of 7 billion euro resulted in the trade with EU countries and 3.75 billion euro with non-EU countries. The deficit weigh for the trade with non-EU countries was 35% of the total, over the weight of about 25% of this segment in the total foreign trade.

Table 6. Structure of Romania's foreign trade - intra-EU 28 and extra-EU 28 – in the first 9 months in 2019 (million euro)

	Export	Import	Surplus/Deficit	Weigh in deficit
intra-EU 28 trade	39,758.1	47,688.3	-7,930.2	66%
extra-EU 28 trade	12,088.6	16,203.4	-4,114.8	34%
Total	51,846.7	63,891.7	-12,045.0	100%

Source: National Institute of Statistics data processing

Machines and transport equipment (the only positive sector) reversed the descending trend from the previous months, and trade in September 2019 was like in July 2019 (+868 million euro, as against +777 million euro in August

2019).

Despite a recovery in export, surplus in machines and transport equipment remains relatively low, it was 17% at the end of the first quarter, 12% of the negative balance of the foreign trade at the middle of the year and currently only 7% for the first 9 months in 2019.

Table 7. Structure of Romania's foreign trade – main categories of commodities – in the first 9 months in 2019 (million euro)

Category	Export (mil. Euro)	Import (mil. Euro)	Balance (mil. Euro)	Coverage rate (%)
Machines and transport equipment	24,550	23,682	+868	104
Other manufactured products	16,660	19,446	-2,786	86
Food, animals	3,404	4,880	-1,476	70
Fuels and lubricants	2,109	4,847	-2,738	44
Chemical products and derivatives	2,368	8,555	-6,187	28
Raw materials	1,714	1,812	-98	95
Total	51,847	63,892	-12,045	81

Source: National Institute of Statistics data processing

Deficit in food products reached 1.5 billion euro, and the sectorial coverage rate of imports with exports was 70%, as against almost 100% 5 years ago. Fuels and lubricants reached, together with „other manufactured products", 2.7 – 2.8 billion euro.

The negative balance of chemical products trade exceeded 6 billion euro and it is half of the total trade deficit. Hence, the problem faced by foreign trade in its effort to reset the country's commercial balance.

2.5. Wages increase – twice higher than the GDP growth and 4 times higher than productivity growth

According to the National Institute of Statistics, the wages costs for a job increased with 42% during the last 4 years (36% if we transform the cost in euro), double pace as against the GDP growth, of 21%.

For a foreign investor, from 717 euro the average cost with the wages to 975 euro, and the threshold of 1,000 euro per month was crossed this year.

The purchase power increased between 2015 – 2018 with 36%, as well as the wages in euro.

From 144.6% as against October 1990, before the deregulation of prices, the index shows an evolution of the ability to buy goods and services of 196.9% for the 4 years.

Table 8. Evolution of the wage costs for a job and of the net wages between 2015-2018

		Year				
		2015	**2016**	**2017**	**2018**	**2018/2015**
Wages cost	Lei	3,189	3,493	4,008	4,537	+42%
	Euro	717.4	777.8	877.4	975.0	+36%
Net wages income	Lei	1,859	2,046	2,338	2,642	+42%
	Euro	418	456	512	568	+36%
Leu/Euro exchange rate		4.4450	4.4908	4.5681	4.6535	+5%

Source: National Institute of Statistics and National Bank of Romania data processing

Four years where economic growth was due, almost equally, to the increased number of employees (+10%) and to the increased productivity (+10%, but the two values are not added but multiplied, in order to obtain the cumulated value of 21%).

Table 9. Evolution of number of employees, productivity and GDP between 2015-2018

	Year				
	2015	**2016**	**2017**	**2018**	**2018/2015**
Number of employees (thousands of people)	4.611,4	4.759,4	4.945,9	5.068,1	+10%
Productivity	0%	+0.9%	+6.2%	+3.1%	+10%
GDP growth	+3.9%	+4.8%	+7.0%	+4.1%	+21%

Source: National Institute of Statistics and National Bank of Romania data processing

In other words, economic growth was half extensive and half intensive, which should be a warning, since it is difficult to say how to maintain the average number of employees on medium and long term, and the prevailing factor should be the productivity growth.

Coming back to wages increase and wages costs, to note that increases varied from one economic activity to another, which caused significant mutations in various occupations. The most spectacular increase (+114%) was in the medical sector which evolved from below the average wages to top 5.

Reflecting changes in economy, and inevitably set on postindustrial path, IT sector (+37.6%) became the first, while financial intermediation and insurance (+15.1%) as well as extracting industry (only +8.3%) maintained their positions, despite their growth rates that rank among the last.

Table 10. Wages cost increase, per economic activities, between 2015-2018 (lei)

No	Activity	Year		Increase
		2015	2018	
1.	TOTAL ECONOMY	3,189	4,573	+43.4%
2.	Health and social assistance	3,087	6,606	+114%
3.	Agriculture, silviculture, fishery	2,375	3,675	+54.7%
4.	Public administration	4,033	6,230	+54.5%
5.	Education	3,238	4,884	+50.8%
6.	Administrative and support services	2,446	3,567	+45.8%
7.	Hotels and restaurants	1,824	2,653	+45.4%
8.	Gross and retail trade	2,650	3,785	+42.8%
9.	Real estate transactions	2,637	3,727	+41.3%
10.	Water distribution, sanitation, waste	2,779	3,885	+39.8%
11.	Processing industry	2,958	4,113	+39.0%
12.	IT&C	6,267	8,623	+37.6%
13.	Constructions	2,435	3,324	+36.5%
14.	Transport and storage	3,244	4,321	+33.2%
15.	Professional and scientific activities	4,648	5,949	+28.0%
16.	Electricity, heating, gas, hot water	5,475	6,646	+21.4%
17.	Financial intermediation and insurance	6,903	7,947	+15.1%
18.	Extracting industry	6,978	7,560	+8.3%

Source: National Institute of Statistics data processing

To note the 3 out of the first 4 positions taken by public activities, with an increase that is difficult to explain (NB. armed forces and assimilated sectors have been excluded), above the level in the education sector which is vital for Romania's development.

Pressure on public budget increased significantly, since the percentage of wages expenditure in the GDP increased from 7.4% in 2015 to 9.1% in 2018 (data from the Ministry of Public Finance), and it is likely to exceed 10% in 2019. This is only the direct effect, while the indirect effect is to increase the wages and implicitly, wages costs in the private sector, which affected competitiveness and generated higher foreign deficits.

At the middle of 2019, the wages cost was 5,200 lei on the average for a job (5,091 lei gross wages and 3,119 lei net wages), which means 63% higher as against 2015 and +18% as against the average in 2018, without any labour productivity in 2019 (+0.2%).

For the decline of 2% in nominal value of leu as against euro, the wages cost increased to almost 1,100 euro /job or more than 50% as against 2015, which explains the withdrawal of some production plants by some multinational companies and reduction of the industrial contribution to the GDP growth towards zero.

2.6. Status of Agriculture in 2018 – contribution to GDP

The value of the agricultural production increased in 2018 with 7.2% as against 2017, according to the final data published by the National Institute of Statistics. The vegetal sector increased with 11.5%, while the animal sector decreased with 2.6%, and its weight declined to only 27.7%. The service sector in agriculture increased with 16.9% and reached a weight of 1.4% in the total.

The highest results per development region were in the Western part of Romania, especially in Banat area, where vegetal production increased with more than 20% as against 2018. The same area had a decline that was higher than the national average in animal husbandry.

Table 11. Index of agricultural production, per development regions, in 2018

Region	Total	Vegetal production	Animal production	Agricultural services
TOTAL	+7.2%	+11.5%	-2.6%	+16.9%
West	+12.0%	+20.1%	-3.5%	+2.7%
North-West	+8.6%	+14.6%	-1.3%	-11.7%
North-East	+7.9%	+14.2%	-2.4%	+0.8%
South-East	+7.0%	+11.2%	-6.5%	+20.8%
South-Muntenia	+6.2%	+9.0%	-2.1%	+14.5%
Bucharest-Ilfov	+4.9%	+2.3%	-22.4%	+22.8%
South-West Oltenia	+4.9%	+6.3%	+0.8%	-2.0%
Centre	+4.5%	+8.4%	-1.5%	+57.7%

Source: National Institute of Statistics data processing

The Eastern regions followed the same pattern of progress in the vegetal sector and decline of the animal production, with overall values close to the national average. The only region that didn't have negative results in animal husbandry, Oltenia, had lower performance in the vegetal sector, which made Oltenia rank the last but one in the national top in agriculture in 2018.

Per total, the agricultural sector had the highest value in this decade, when the vegetal production varied significantly, as it has depended on the weather (it was only in 2017 that the achievements of 2011 were seen again). The animal production didn't exceed the threshold of 25 billion lei (maximal value was reached in 2014) and decreased again in 2018.

Table 12. Agricultural production between 2011-2018 (billion lei current prices)

	Year							
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Total	76.51	64.26	78.46	74.52	68.75	69.35	78.49	86.35
Vegetal production	54.18	40.17	53.84	49.06	43.57	45.16	53.22	61.22
Animal production	21.78	23.56	23.88	24.48	24.32	23.29	24.33	23.90
Agricultural services	0.55	0.54	0.74	0.98	0.86	0.90	0.95	1.23

Source: National Institute of Statistics data processing

Despite a relatively good result and positive influence of 0.4 % to the economic growth of 4.1% in 2018, and the weight of agriculture in the gross added value remained under 5%. As a result of poor valorization of the vegetal production and the decline in animal husbandry, imports of food products increased in the last years.

Table 13. Weight of agriculture in the GDP between 2011-2018

	Year							
	2011	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Contribution of agriculture (billion Lei)	36.3	27.9	34.4	31.5	29.8	29.7	37.5	40.9
VAB (billion Lei)	487.7	524.0	561.4	589.9	625.9	683.5	777.7	851.0
GDP (billion Lei)	557.3	596.7	637.4	667.6	712.8	761.5	858.3	940.5
Agriculture in VAB (%)	7.5	5.3	6.1	5.3	4.8	4.3	4.8	4.8
Agriculture in GDP (%)	6.5	4.7	5.4	4.7	4.2	3.9	4.4	4.3

Source: National Institute of Statistics data processing

To note the result of the trade with food in 2018, of -1.86 billion euro. It was 3 times higher than the only sectorial surplus, in machines and transport equipment (+618 million euro).

While in 2014, Romania had an almost balanced (imports covered 100% with exports) foreign trade with food products, the coverage rate decreased to 83% in 2016, 75% in 2017, and 70% in 2018. The same in 2019 at the end of the first 8 months, when Romania incurred a sectorial deficit of 1.4 billion euro.

2.7. Agriculture remained, after the first 9 months in 2019, the most dynamic sector for bank loans

Loans in the agricultural sector had the most dynamic trend in 2019, with 15.4% more in the first 9 months in 2019, as against the same period in 2018, twice higher than the total private loan rate, according to the data published by the Romanian National Bank. The loans given and the commitments made by banks on the local market in agriculture reached 18.7 billion lei at the end of September 2019, 1 billion lei more as against June 2019, and 2.5 billion lei more than September 2018.

Although agriculture enjoyed significant funds in the last years, it remains only 4.2% of the total private loans given by banks on local market, a total of 421.5 billion lei.

Given the evolution of agriculture in the last 3 months, the weight of agriculture in the total private loans given by banks on local market has slightly increased.

Since most big banks intensified sectorial loans, the dynamics of the loans given for agriculture is not surprising, it is a segment that both commercial banks and the EU constantly emphasized during the last years.

Service sector ranks the 2nd in terms of private loans, 7% increase, loans exceeded 100 billion lei in the first 6 months in 2019, and reached almost 104 billion lei in September. The service segment increased in the 3rd quarter with 3% and with 7% as against the same period in 2018.

The service segment increases as a result of economic growth based on consumption. Loans in this sector represent a quarter of the total private loans given by banks for the local economy.

The lowest loan dynamics was in the industrial sector, according to RNB data. Loans for industry increased with 2.1%, as against the first 9 months in 2018, and reached a total of 72.5 billion lei in September 2019.

The loans given to the industry are 17.4% of the total loans given by banks for the local market. On the other hand, the loans for constructions increased with almost 2% in September 2019 as against June 2019, and 4.2% as against the same period in 2018.

Although the construction sector recovered in 2019 due to the fiscal facilities through the Governmental Emergency Ordinance 114, the weight in the total private loans is only 7%.

The loans to the populations remains the highest, with 40% of the total, they increased with 1% in the last quarter, that is 1 billion lei, as against the end of June 2019. As against September 2018, the growth pace was almost 9%.

Public administration and defense, as well as social insurance, education, health and social assistance had loans with 300 mil. lei more in September 2019 than in June 2019, and more with 11.4%, 20 billion lei than in September 2018. This sector represents 4.6% of the private loans given and of the commitments of the loan institutions.

2.8. Inflation is circumstantial in September 2019, in the target corridor: 3.49%

With 3.49%, the annual index of the consumer prices for the population re-entered the target corridor of 2.5% plus/minus 1%, as prices have remained constant (+0.09%) in September 2019. The result made public by the NSI enjoyed the favorable effect of the relatively high inflation in September 2018 (+0.49%) and exceeded the expectations of the RNB that had foreseen 3.7% for the end of the 3rd quarter.

The decisive influence came from volatile prices, from the vegetables (declining per total with -4.10% and -4.08% for potatoes). Although prices for meat and meat-based products increased again (+0.34%, with +0.39% in pork respectively), prices of the big group of food goods decreased (-0.09%).

To note the reduction (slight) of prices of fresh fruit (-1.02%) was annulled by the increased prices in citrus fruit and other meridional fruit (+2.22%). The prices in the third component of the volatile prices, the eggs, increased with 1.79%.

The highest increase of prices appeared in services (+0.27%), where the main influence came from the increased prices in water, sewage, sanitation (+0.78% in August and a strange +6.53% from the beginning of the year, especially regarding the quality of the services provided). The slight increase in the exchange rate caused increased phone bills with 0.2%.

According to the methodology with the EU standards, the annual IAPC inflation rate decreased from 4.1% to 3.5%. As an average on the last 12 months, it remained high (3.9%) over the average computed according to the national methodology (3.8%). The prices increase as a result of the monetary policy increased to the highest level in the last 4 months (+0.27%, level that is similar with March).

Table 14. Evolution of inflation over the last 12 months

Indicator	Month											
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.
Inflation	+0.52	-0.13	+0.16	+0.83	+0.79	+0.49	+0.61	+0.46	-0.23	-0.20	+0.06	+0.09
CORE 2 adjusted	+0.36	+0.24	+0.17	+0.34	+0.36	+0.27	+0.42	+0.38	+0.22	+0.15	+0.15	+0.27
Annual inflation	+4.25	+3.43	+3.27	+3.32	+3.83	+4.03	+4.11	+4.10	+3.84	+4.12	+3.89	+3.49

Source: National Institute of Statistics data processing

The evolution of the price index in September 2019 as against August on IPC, show that we wouldn't have had a significant decline of the consumer prices if it hadn't been for the season decline of prices in vegetables and the help from the marginal decline in prices of fuels.

To note the very stable prices, so far, in clothing (+0.49%) and footwear (+0.42%).

Per total, at the end of the 3 quarters, the price increase was 2.92%, which implies a gap as against the value foreseen officially for the end of 2019 (4.2%) of 1.24%, which appears reasonable as monthly average (+0.34%) for the last quarter in 2019.

The current perspective of the annual inflation and the associated uncertainty, according to the report on inflation made by the RNB show that, at the end of the year, inflation will grow again over the threshold of 4%. A sustainable comeback in the target corridor of 2.5% plus/minus 1% will take place at the end of 2020.

Conclusions

Romania needs more than a GDP; it needs a GDP to reflect competitive plus based on quality.

Competitiveness through quality is difficult to solve. The Romanian society bears difficulties with historical load. Although new functional markets evolved, and many old markets have been integrated into the new economy, serious deficits still exist. Simply because efficiency can be found in very few companies, most of them foreign companies, where work is done with the goal of productivity, costs and sales. Many of these difficulties will be overcome in time. Until that moment, history does not give time, and we need clear ideas and strict actions to place Romanian economy on a new trend, on a planet that, faced with a potential ne recession, is trying to impose a new economic style and new requirements. In order to love normally on this planet, we must burry the old bad habits. The cardinal question that has no answer for the moment is how we can prepare ourselves for a future economic cycle, since, as analysts say, the cycle started in 2011, after the recession of 2009-2010, is ending.

We may have several immediate options: a serious recession, an easy recession or a contraction around zero or 1-2% a maximum. To have an easy contraction, we'll need to increase productivity and labor competitiveness and we'll achieve more efficiency in economy, as well as healthy growth, higher dividends, and better business.

The solution should be to make the business wheel turn over continuously, so that the money surplus should not end up in prices, disinflation should decrease, and restructuring should be quicker.

We need a healthy GDP. Given the recession announced, we must renew the economic structures, the labor organization and the interest system. if we forced the plus growth, we would achieve only an anemia growth. A better pace of the GDP, without quality growth, would not bring immunity in case of recession.

Beyond the 4 mirrors that reflect the economic growth – total GDP, GDP per capita, GDP per capita as against the purchase power and the GDP pace in percentages, the structure of this synthetic indicator matters a lot. If the production off goods and services does not comply with quality criteria, the added value surplus will not be a compensation for bad times.

„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" (Barbu, 2019).

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