ECONOMIC GROWTH AND ECONOMIC STABILITY IN ROMANIA

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ABSTRACT

The topic concerns an issue of utmost importance and actuality in the context of the specific dynamics of the economy. Knowledge / expertise globally is reflected in the growth / development of national economies and improving living standards of the population. Arguments underlying this statement are reflected in the values held by certain indicators and their effects on national economies. The study is based upon an analysis in terms of economic growth in our country and which are the factors that influenced economic imbalances.

As a first step we will try to answer the question "What are the factors that influence economic growth and stability?" and identify its evolution over time. A second stage of the study will be to analyze the major changes that lead towards stimulating economic growth.

Keywords: Economic growth, human development, budget deficit, structural deficit, macroeconomic balances, stimulating economic

INTRODUCTION

Economy or economic activity is a specifically human activity, man is the only being who is aware of the need to act following, hypothetically, to satisfy certain current or future needs; in other words, needs / necessities native obliges the individual to combine different types of resources to obtain goods and services.

Next, select and synthetic, we will only discus some authors who analyzed directly or indirectly aspects related to economic balance of dynamic economies. Directly associated issues concerning economic equilibrium theory in this area deals extensively with what we call "economic crisis"; periods of recession / depression in economic life may take the form of more severe imbalances, namely the economic crisis. In such situations (as do the global economy from 2008 to the present), many failures occur, reduce revenue, increase unemployment, reduce investments etc. General economic theory suggests that there are two major directions in which the capitalist state should act to overcome a period of economic crisis, respectively [9]:

a. some economists such as Keynes believe that the state must intervene through public spending and investment to balance the employment level, so reducing unemployment, which will generate further income growth and consumption growth in general;

b. other economists such as von Hayek believe that, on the contrary, the market economy should be left free from state interference and that the mechanism will restore the balance of economic competition; this perspective to explain the evolution of economic life itself believes that the market tends to strike a balance and that the state, in fact, only induces imbalances in the economy.

Analysis of the current economy allows the outline of directions in which economic theory will probably develop in the future. First, it is obvious that the economy and financial system have become highly interdependent systems.

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LITERATURE REVIEW

In developing the classical theories of economic growth Adam Smith has had a significant influence through the vision in which human capital accumulation, technological progress and labor specialization are considered as main sources of economic growth. Based on these considerations, Thomas Malthus, David Ricardo and John Stuart Mill shared some of the ideas in The Wealth of Nations regarding the role and place of ownership in growth and confirmed that private benefit derives from tracking private interest guiding individuals in their decisions and activities.

The theories of the 1950s and 1960s have seen economic growth process as a series of successive steps in a trend of development of the company. They compress models based on certain assumptions. The most famous model is the model Solow - Swan, through which it is determined the output level of an economy using mutual interaction between capital, labor and technology.

Vision of 1980 on economic growth, does not put an emphasis on using internal or external conjuncture factors, but largely as a component whose effectiveness depends on the degree of state intervention and regulation and standardization economy.

Some authors reduce economic growth only to quantitative changes (A. Lewis), while others think that it implies qualitative changes, including structural changes (S. Kuznets). Some authors identify the growth, development and progress, others distinguish them.

Next, we will stop only on certain authors who have examined the direct / indirect aspects of economic balance, dynamic economies [1]. In the development of a general theory of economic growth, S. Kuznets believes that this is a difficult and complicated undertaking. In his "*Economic Growth and Structure*" (1965), S. Kuznets believes that to achieve this objective, there must be taken into account the five elements [3]: a)increase of population; b) evolution of knowledge stock; c) long-term adaptation processes of each country to its growth potential; d) foreign economic relations of the countries, both in terms of cooperation and conflict; e) Inter-relationship between these components.

Ramirez et. al. [5] exploring the links between economic growth and human development, identifying two ways, one from economic growth to human development and the other, in reverse, from human development to economic growth, they found that there is a strong positive relationship both ways and public spending on social services and education are important connections that determine the relationship between economic growth and human development, while the investment rate and income distribution are important connections that determine the relationship between human development and economic growth.

Ranis and Stewart [6] confirm the importance of two-way links over time, from economic growth to human development, human development including investment report. Economic growth, which plays an important role in human development can be prioritized or simultaneously. Therefore, the traditional policy measures that support the improvement of human development should wait until economic expansion permits, it appears to be an error.

It is not clear / concise defined the term "growth" to "economic development" (this last concept further include issues related to the quality of the human factor in a country) but most often economists refer to macroeconomic indicators such as: GDP growth; the employment volume; the amount of capital and the investment rate; the innovation and scientific research; absorption capacity of the internal market; participation in international economic circuit [4].

Some authors show that further investigation is needed to determine certain influential factors (other than income per capita), underlying human development of a state [7,8].

According to Ranis, et al [6] between economic growth and human development is a two-way relationship. Moreover, the first meaning lies in economic growth, benefiting from human development by gross national income (GNI). In particular, the GNI encourages human development through family expenses, governmental and organizational as well as NGOs. With economic growth, family and personal income will increase and so more will be spent, and this will be known by an increase in human development. Moreover, with increasing consumption, health and education among the population increases, also contributing to growth.

The Budget Deficit and the Evolution of Economic Growth

According to some economists, growth is synonymous with economic, social and even economic progress. Most economists would agree, however, that the concepts of growth and economic development should not be opposed to each other, but not overlapping [2].

In Romania, during the period of growth before the financial crisis, the fiscal impulse was positive thus exacerbating the imbalances accumulated in the economy.

Table 1. The Evolution of Economic Growth and Budget Deficits during 2008-2018

	2008	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*)*	*2016*	*2017*	*2018*
Real growth of GDP	8,5	-7,1	-0,8	1,1	0,6	3,5	2,6	2,5	3,0	3,3	3,5
ESA deficit	-5,7	-9.0	-6,6	-5,5	-3,0	-2,2	-2,0	-1,2	-1,1	-1,1	-0,9
Structural deficit	-8,3	-9,6	-6,1	-3,8	-2,5	-1,7	-1,6	-1	-1	-1	-1

Source: MFP, Eurostat, INS

*) plus 0.25 percentage points to help support co-financing projects from European funds

From Table no. 1 and Chart no. 1 is noted that during 2008-2011, the country recorded the largest budget deficits which generated significant risks to economic growth and stability. The implementation of fiscal consolidation measures aimed at reducing the budget deficit and the improvement of the state of public finances.

Promoting inadequate policies has led to the deterioration of macroeconomic balances, which determined in 2009 that Romania's economic growth to remain at minus 7.1% to plus 8.5% in 2008, Romania is a country that has had greater imbalances at the beginning of the global crisis, therefore, necessary adjustment efforts were higher than in other countries in the region.

In 2013, Romania's economic growth was 3.5%, the third year of growth (1.1% in 2011 and 0.6% in 2012), which reinforces the tendency for recovery from the economic and financial crisis that affected Romania in 2009 and 2010. The increase in 2013 was due mainly to positive contribution of net exports, while domestic demand declined due to lower gross fixed capital formation and government consumption.

In 2009-2011, the structural budget deficit fell from 9.6% of GDP to 3.8% of GDP, the adjustment pace being very fast. Reducing the budget deficit by 2008 was necessary, but the means chosen in 2010-2011 involved significant social costs negatively influencing Romania's economic growth potential. For the period 2009-2012 the size of the original structural fiscal imbalance was raised.

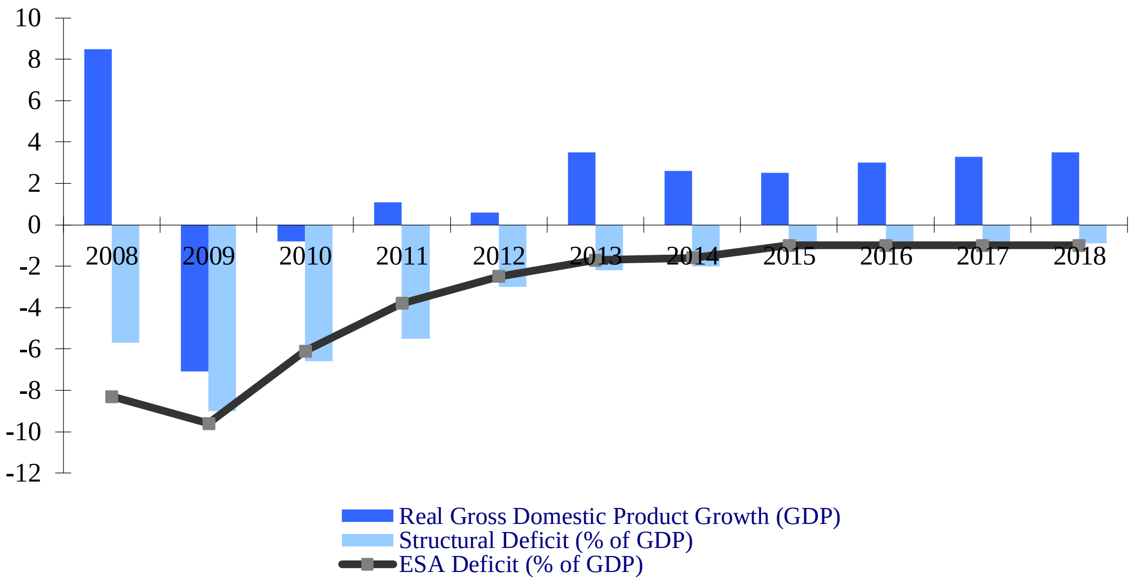
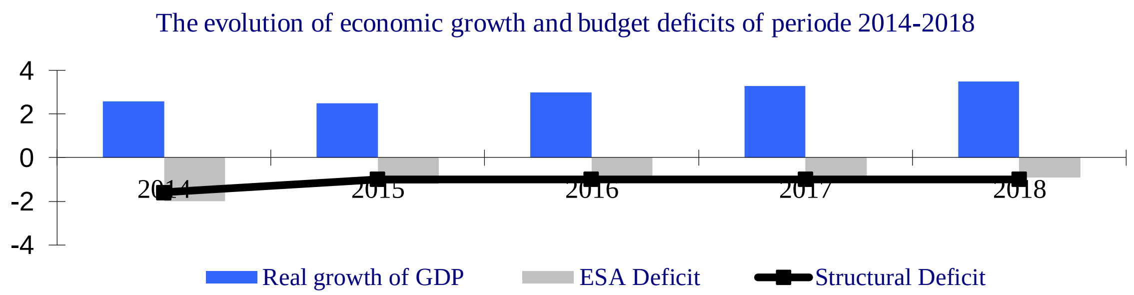


Chart 1. The Evolution of Economic Growth

The adjustment was achieved primarily on the expenditure side, structural reforms being promoted particularly in staff salary budget public pension system and budgetary programming. In case of income, the most important measure was raising the standard VAT rate from 19 to 24% since July 2010. Since 2011 - the year the European regulations came into force which stipulates the obligation of annual reduction of the structural deficit at least 0.5 percentage points - Romania has reduced the deficit by 4.4 percentage points, from 6.1% of GDP in 2010 to 1.7% of GDP in 2013.

Stimulating Economic Growth

Since 2013 it was imposed a new vision of further fiscal consolidation, to stimulate economic growth, to equitably distribute the burden of adjustment, to remove disparities and social tensions increase. For the first time in Romania in 2013 ESA deficit (2.2% of GDP) was lower than the cash (2.5% of GDP).



Source: GR/MFP

Chart 2. The Evolution of Economic Growth and Budget Deficits

The issues that lead to stimulating economic growth:

i. Domestic demand is the engine of economic growth and on the supply side is expected to improve economic activity in industries with high export potential in the construction sector that can capitalize on existing infrastructure needs in all areas, and in the services sector;

ii. The growth rate of gross fixed capital formation;

iii. Increase household consumption expenditure;

iv. Funding on state aid;

v. Increase of public investment

vi. The reduction of CAS payable by employers by 5 percentage points by Law no.123 / 2014 amending Law no.571 / 2003 on the Tax Code will consider creating a friendly business environment, increasing jobs and stimulating private investment;

vii. Strategic contribution of the European Structural Funds and Investment (funds FESI) during 2014-2020, which will aim to achieve a comprehensive development based on economic growth and social inclusion;

viii. Measures to ensure greater participation in the labor market by 2020 to achieve a 70% employment rate for the population aged 20-64 in line with Europe 2020 priorities;

ix. Registered unemployment will decrease, the unemployment rate falling to 4.5% at the end of 2018.

In 2015 capital expenditure totals 44.8 billion lei, 8.7 billion more than in 2014, representing about 6.3% of GDP and their share in total budget expenditure of 18.7%, up to 3.2 points percentage compared to 2014.

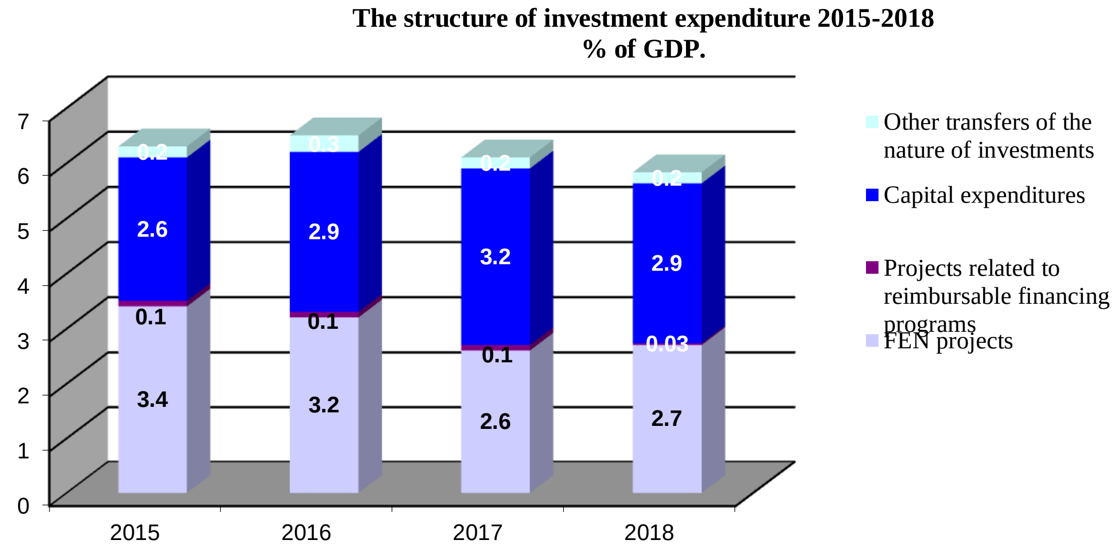


Chart 3. The Structure of Investment Expenditure

To restore macroeconomic balance there have been taken a number of steps towards reducing the budget deficit including:

a. ensuring a sustainable level of expenditure on wages and pensions in the public sector;
b. Orientation of available resources to drive public investment in the fields of infrastructure, agriculture and rural development, energy and advanced technology;

c. Accelerating spending of EU funds to reach absorption rate of 50% -80% until 31 December 2015;
d. rethinking public acquisitions based on the following criteria: opportunity, priority, efficiency;
e. The implementation of multi-annual budget programming projects and programs that will bring significant savings in the budget and will increase the predictability and efficiency of public expenditure;

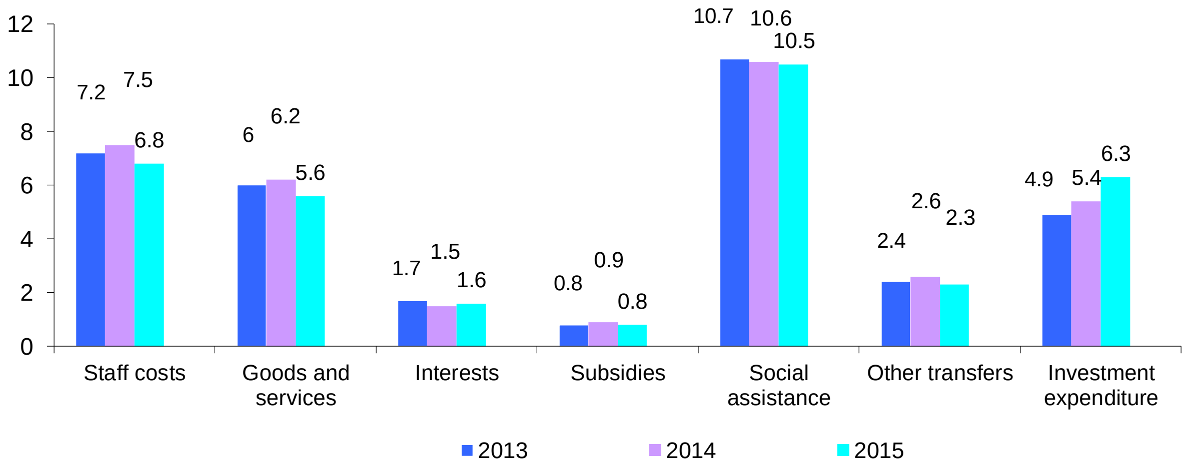
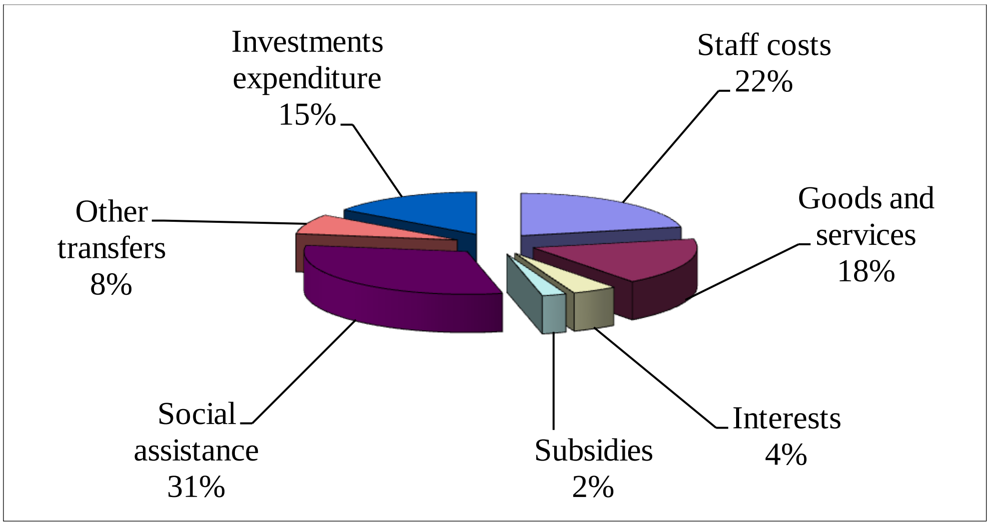
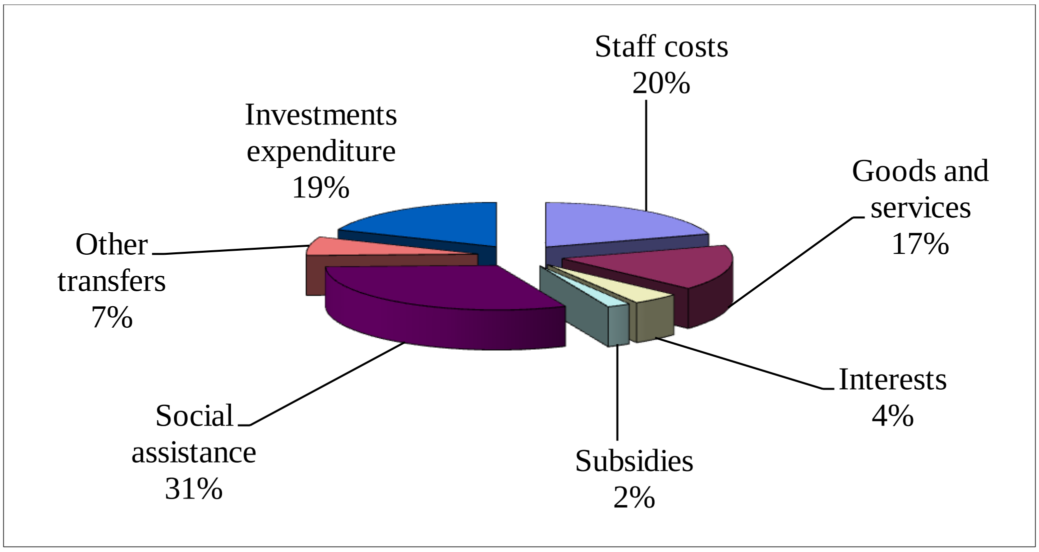


Chart 4. Budgetary Expenditure for the Period 2013-2015



Source: GR/MFP

Chart 5. Share of Expenditure in Total Budgetary Expenditure during 2014



Source: GR/MFP

Chart 6. Share of Expenditure in total Budgetary Expenditure during 2015

CONCLUSIONS

Economic growth and development issues at the country level are connected to economic balance and imbalance state, taking into account the complex and ever dynamic character of needs and resources. There are several factors that determine the dynamics of economic equilibrium, namely:

1. population, which by its number, by age structure and socio-professional groups, skill level, health etc., determine significant changes in the whole application;
2. scientific and technical progress, leading to the emergence of new trends, new sub-branches, changes in their structure and level, and also the renewal of supply and demand, adaptations thereof;
3. behavior of economic agents, changing, entailing new guidelines on the use of revenues, as in the branches and sub-economic structure placing capital in businesses;
4. resource limits, acting restrictive, requiring the allocation of restructuring and combining factors of production.

However, economic growth and crisis issues and / or recessions ultimately remain dependent on prevailing realities that manifest at the level of business organizations.

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