

**The macroeconomic context of the firms in Romania –
benchmarks, evolutions and certain prospective evaluations**

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Abstract

The present paper starts from the theoretical premise according to which the business environment of firms (as macroeconomic entities) is influenced to a greater or less extent by the behaviour of certain essential macroeconomic variables of the market economies.

In this respect, our methodological approach investigates the behaviours of six macroeconomic variables (GDP, prices, inflation, exchange rate, budget and credit), in certain periods for which relevant statistical data are available.

Keywords: *macroeconomic variable; GDP; inflation; exchange rate; budget; credit;*

JEL Classification: *B41, E31, G21, H25.*

1. Introduction.

The presentation of the macroeconomic context of firms from Romania presumes the use of certain quantification indicators, in real terms, of the level and trends of processes characteristic to emergent economies.

As a quasi – general rule, the transformation of nominal empirical values into real values was made through the intermediary of two general price deflators (implicit GDP price deflator and consumer price deflator), and the tendencies of the investigated macroeconomic variables are reflected by the dynamics of related indicators, under their real expressions.

2. Economic growth – fragmented and asymmetrically

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- Compared to the year 1989 (reference year in „decline” compared to the historical peak year 1987), the general economic growth (PIBT and VABT) as well, as the sectoral growth (IND and CONS) experienced significant fragmentation (decline in the periods 1990 – 1992 and 1997 – 1999, and increase in the periods 1993 – 1996 and 2000 – 2007);
- The only sector where economic growth was experienced in early transition was agriculture (AVSPP), but its annual dynamics featured strong oscillations;
- Starting with the year 2000, one of the „driving engines” of economic growth became the sector of constructions (CONS), the dynamics of this branch surpassing by far the overall economy aggregate (in the year 2007, the index was about 2.6 times compared to 1989, while PIBT was only 1.2 times).

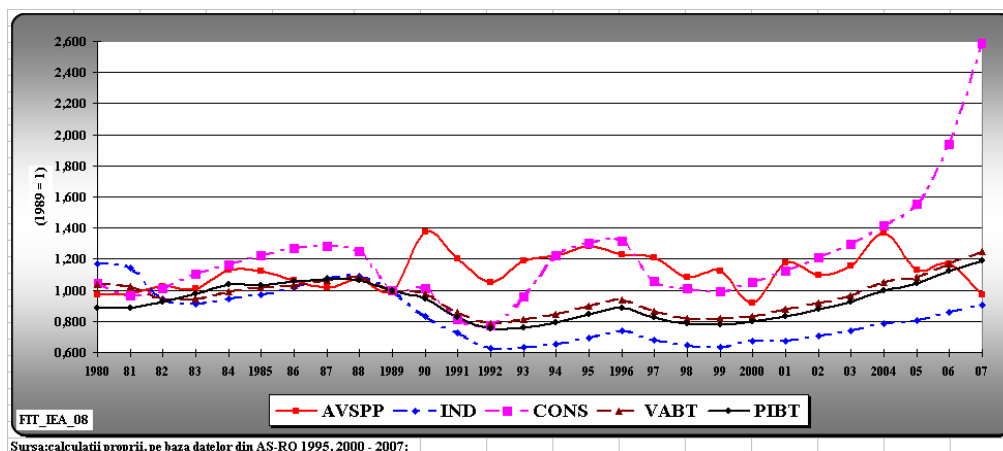


Figure 1. Gross Value Added in national economy (volume indices), 1980 - 2007 (1989 = 1)

3. Real sectoral prices – quasi - general regress

Compared to the general rigidity of prices during the command economy (1980 – 1989), in the transition period the quasi-general decreasing trend in the real prices of the economic activities (agriculture, industry, constructions, etc.) generating goods was accompanied by a quasi-continuous increase of the real prices of services (RRAM) (Figure 2).

Several aspects have to be mentioned, among which:

- In the main sectors taken into consideration that produce goods (agriculture, industry, constructions), the specific real prices have not been stimulating enough so as to ensure internal and external sectoral competitiveness; their real price indices in 2007 ranged from 0.564 (agriculture) to 0.764 (constructions), compared to 1989;
- The real prices of the domestic trade (COM) and of services (RRAM) are much greater than those in the year 1989, being also the main contributors to inflation “feeding”.

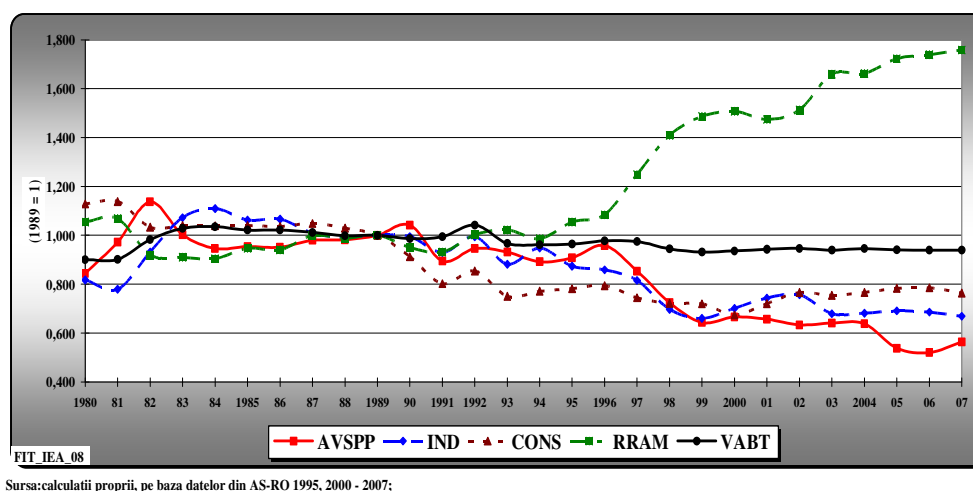
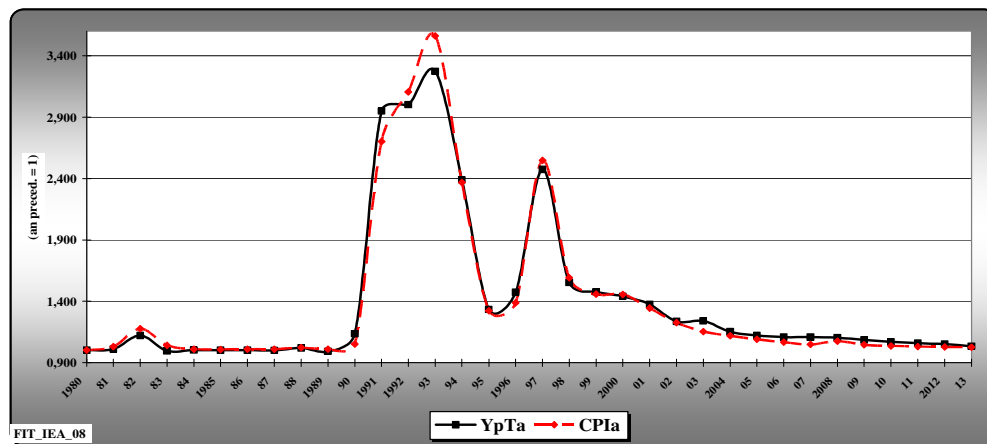


Figure 2. Real price indices of the Gross Value Added in national economy, 1980 - 2007 (1989 = 1)

4. Inflation boost – even more temperate

The net difference between the command economy and competition-driven economy, as regards prices, consists of the following aspects (**Figure 3**):

- In the period 1981 – 1989, the oscillation range of the annual indices of the two general price deflators was between 0.991 and 1.121 (for the GDP deflator - YpTa) and between 1.009 and 1.176 (for the consumer price deflator - CPIa);
- In the 19 years of the transition period (1990 – 2008), the variability margin of the two deflator indices considerably increased, from 1.102 (2008) to 3.274 (1993), for the implicit GDP prices and from 1.048 (2007) to 3.561 (1993), for the population's consumer prices;
- The larger amplitude of the consumer prices increase could be explained in part by the psychological compendency of the producers' and consumers' behaviours;
- The presence, in the command economy period, of only one inflation boost (1982) (at that time named "price resettlement"), unlike the period of great transformations when two great inflation boosts were experienced (the period 1991 – 1994 and year 1997);
- The gradual diminution of the amplitude of price increase in the economy and of the consumer prices, until the 2013 horizon, facilitates the predictability of the business plans of companies, with favourable consequences upon the improvement of their internal and external competitiveness.



Sursa: calculatii proprii, pe baza datelor INS, BNR, CNP, 2008

Figure 3 Annual price deflators GDP and CPI, 1980 - 2013

5. Foreign exchange rate – mainly unfavourable

As one of the main prices in the economy (domestic currency price), the real exchange rate in the reference period (1985 – 2007) mainly experienced a depreciation phenomenon (**Figure 4**).

The quasi-general decline of the purchasing power of the domestic currency compared to the reference currencies (US dollar and euro) adversely impacted the capacity of the Romanian firms to get connected to the European and international commercial flows, under competitiveness conditions. Several aspects are worth mentioning with regard to the evolution of the real foreign exchange rate in the period 1991 – 2007:

- The stronger depreciation tendency of the real exchange rate of the Romanian domestic currency in relation to the US dollar, compared to the real exchange rate of our domestic currency in relation to the European single currency (euro). Thus, through both usual (GDP and CPI) price deflators, the real exchange rate in relation to the US dollar accounted for in the year 2007 only 25.4% and 29.8% respectively of its value in 1991;
- With regard to the European single currency (euro), the real exchange rate experienced, under the general depreciation trend in the period 1991 – 2007, several “revigoration” moments: (1991, 1995, 1999, using the GDP deflator; 1991, 1995, 1996, 2003, using the CPI deflator). The indices reached 30.2% and 35.5% respectively in the year 2007 compared to 1991;
- The prospective evaluations of the real exchange rate until 2013 are not at all optimistic, as the depreciation trend of the domestic currency will systematically continue to reach index levels ranging from 14,9% to 27,3%;
- The direct consequence of the real depreciation of the domestic currency for the companies consists in cheaper exports and more expensive imports, as corrosive phenomena of the financial equilibrium both at micro- and macro-economic level.

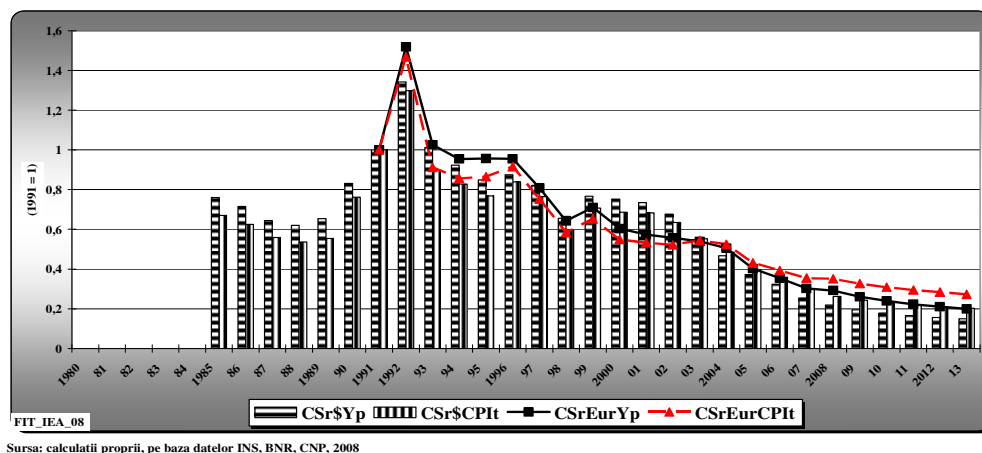


Figure 4. Real exchange rate of domestic currency, 1985 – 2013

6. Real budgetary deficit – very unstable and unpredictable

In the period 1992 – 2006 (1991 = 1), the regressive dynamics of the real public budget incomes surpassed the dynamics of real expenditures

(**Figure 5**), with significant yearly oscillations, which generated a very unstable and unpredictable behaviour of the real budgetary deficit (the amplitude of indices ranging from 0.501, in the year 2004 to 2.830, in 1996).

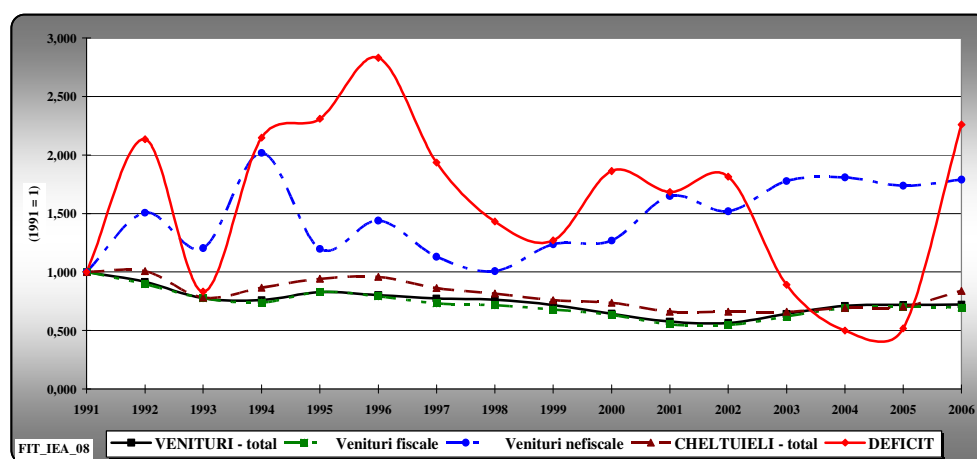
The correlation analysis of the dynamics of the two “scales” of the public budget (incomes and expenditures) in relation to the total GDP dynamics can reveal a relative degradation of the driving effect by the economic activity of this macro-variable.

This statement can be supported by two indicators measuring the GDP budgetary intensity:

- By the ratio of the real budgetary income index to GDP index, which in the year 2006 (compared to 1991 = 1) was 0.528 (minimum level), with a variation amplitude up to 1.004 (1992);
- By the ratio of the real budgetary expenditure index to GDP index, which in the year 2006 (compared to 1991 = 1) was 0.614, with a variation amplitude ranging from 0.555 (2005) to 1.106 (1992);

The regressive trend of the real budgetary incomes was mainly the result of the fiscal incomes and within these by indirect fiscality (VAT, excise taxes, customs duties) and less by non-fiscal incomes. The slower regression trend of real budgetary expenditures was mainly the result of two great budgetary chapters (social – cultural and financing the economic actions)

The differential between the dynamics, in real terms (using the GDP price deflator), of the budgetary incomes and expenditures may suggest either a certain weakness of the administrative capacity in incomes collection or a relative dilettantism in the substantiation of budgetary priorities.



Sursa: calculatii proprii, pe baza datelor INS, BNR, CNP, 2008

Figure 5. Incomes, expenditures and budgetary deficit, 1992 – 2006 (1991 = 1)

7. Domestic credit – a relative “jammed engine” of the economy

In a fully functional market economy, the credit represents an essential macroeconomic variable for financing the firms.

In real terms, the trends of total domestic credit and of governmental credit (**Figure 6**) had, in the period 1991 – 2006 (1990 = 1), inflection points, at the level of the years 2000 – 2001, when a slight revigoration started, after the steady decline in the period 1991 – 2000.

In relation to the GDP dynamics, the dynamics of the real domestic and non-governmental credit had inflection points at about the same “moments” (1999 and 2000), which in fact coincide with the years when the general economic growth was resumed, after the two severe contraction periods of the Romanian economy (1990 – 1992 and 1997 – 1999).

It is quite surprising to notice the almost unusual dynamics of foreign exchange credit, which in the year 2006, in real terms, was over 5.6 times higher than in the year 1990, while the credit in domestic currency was about 5 times lower.

At the same time, a stronger revigoration of the medium- and long-term credit can be noticed, compared to short-term credit.

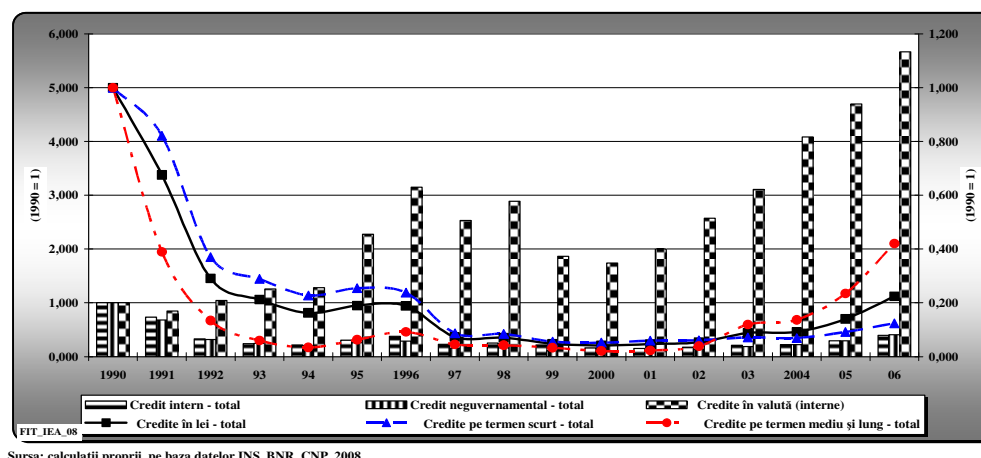


Fig. 6 (Real) total domestic and non-governmental credit, 1990 – 2006

8. Conclusions

The analysis of trends experienced by the six macro-economic variables taken into consideration in the present paper, in the period 1990 -2006 and the prospective evaluations of some of them for the period 2007 - 2013, make it possible to formulate certain conclusions:

- The macro-economic context of the firm in the reference period was neither very friendly nor totally hostile to strengthening the capacity of firms to generate economic-financial performance, under fierce competition conditions on the European Single Market;
- In the main sectors producing goods that have been taken into consideration (agriculture, industry, constructions), the real specific prices were not stimulating enough so as to ensure internal and external sectoral competitiveness;
- The gradual diminishing trend of the amplitude in the increase of prices in the economy facilitates the predictability of the business plans of firms;
- The quasi-general decline of the real exchange rate of the national currency unfavourably affected the capacity of the Romanian firms to get connected to the European and international commercial flows, under competitiveness conditions.
- In the period 1992 – 2006 (1991 = 1), the regressive dynamics of the real incomes of the public budget surpassed the dynamics of the real expenditures, with great yearly oscillations of the two indices, resulting in a very unstable and unpredictable behaviour of the real budgetary deficit;
- In real terms, the trends of total domestic and governmental credit, in the period 1991 – 2006 (1990 = 1), experienced inflection points in the years 2000 – 2001, when a slight revigoration started, after the systematic decline in the period 1991 – 2000.

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