

‘LUCIAN BLAGA’ UNIVERSITY OF SIBIU

Faculty of Economic Sciences

THESIS SUMMARY

**ECONOMIC GROWTH IN ROMANIA IN THE PRE AND
POST-ACCESSION PERIOD**

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The aim of the research is represented by the analysis of the economic growth evolution for a period of minimum 10 years in our country and by determining those factors that can stimulate the growth in the market economy conditions.

Knowledge stage

Thesis domain highlights an important number of papers and specialized magazines, both of Romanian and foreign authors, or experienced academics, who's valuable papers were considered compulsory bibliography. Those papers and researches can be found in the 'Bibliography' section, and also quoted in the thesis.

The thesis development was realized having into consideration the plan, including the chapters, subchapters and the related bibliography, using the known research methods.

The main objectives followed in the thesis are:

O1: presentation of the main theoretical aspects, together with a presentation of the main economic growth theories and models

O2: realizing a short history of Romanian economy after 1989, marking the main events that took place in this period

O3: analysis and interpretation of the main relevant macroeconomic indicators in terms of economic growth, both at Romanian and European Union's levels

O4: comparative analysis of the European funds granted to Romania in the pre and post-accession period, having into view that one of the main objectives of regional development is represented by the economic growth

O5: identifying the main factors that can stimulate the economic growth – in this case, we identified the investments and the credit

O6: analysis of the link between credit and economic growth, in the context of the global economic crisis

O7: analysis on the impact of foreign investments on the economy of the host country

O8: identification and exposure of the relationship between investments and economic growth

Research methods used within thesis:

1. *Documentation*, especially theoretic documentation, in this respect numerous books, national and international articles and studies being studied.

2. *Mathematical and statistical methods*, as classification, synthesis, mathematic modeling, graphic representation of events and phenomenon investigated.
3. *Interdisciplinary research method*, method based on knowledge from other fields, like technology, statistics, mathematic, informatics, law.
4. *Mathematical modeling, used to determine the connection between Gross Domestic Product and the credits given to households and to public administrations.*

The thesis was structured on 4 chapters, as follows:

I. Stages of market economy formation in Romania. Genesis and evolution

The first chapter starts by exposing some of the most consecrated opinions about what economic growth represents. We briefly presented the main theories and economic growth models. Following the brief analysis of the mentioned models, we realized a history of the Romanian economy after 1989, and we analyzed how it evolved since its first steps to the market economy. At the same time, there were mentioned the transition stages through a really functional market economy, from various famous authors vision.

The market economy was detailed more, and we presented various models of market economy considered as successful by various specialists. Simultaneously there were analyzed the economic recovery policies in the transition period, starting with the fiscal policy and ending with the social policy, which is one of the most difficult for the countries in transition, and which can be realized only with the highest costs.

The research couldn't be finished without analyzing the tough connection between the economic growth and sustainable development. So, we noticed that, while population revenues increase, a higher attention is given to the environmental problems, but, paradoxically, once with the buying power increase of a country, the pressure on the environment is in a continuously growth.

II. The economic growth trajectory in the context of EU accession and integration

In the summary of the second chapter we identified which are the main indicators that reveal the economic growth in EU, and studied their evolution on a minimum 10 year period. We considered that, for the present research, is relevant an analysis of the same indicators for Romania.

Having into consideration the fact that the European funds represent one of the most important "engines" of economic growth, we identified the main financing programs, both in the

pre-accession period and post accession-period, but also the perspectives for the 2014-2020 period of time. Given the fact that in the period 2011-2013 the financing for multiple operational programs was blocked, due to some irregularities discovered in the procedures of public procurement, we proposed some measures to streamline those procedures, improvement that could conduct to a better absorption of the European funds in the future.

In order to have a general perspective over all that means economic growth in European Union, we studied the Growth Strategy of European Union 2020 Europe, which was elaborated in a period when the constant progresses in terms of economic growth and job creation were the most advanced in the last 10 years.

In the end of the chapter, using the benchmarking method, we analyzed the measures adopted by other countries regarding the economic growth process.

III. The impact of the credit in economic growth

In the third chapter the main elements of the credit were identified, in order to have a general view and to determine if they influence or not the economic growth.

Before actually proceeding to review the credit situation of the current Romanian financial system, we realized a short history of the Romanian banking system, from its foundation until present. Given the fact that one of the main causes of the global economic crisis was represented by the uncontrolled expansion of credit, we analyzed the relationship between credit and global crisis. In this sense, we studied some opinions of some specialists in this field.

The practical research of the chapter consists in the empirical analysis of the influence of credits given to householders and to public administration on GDP, realized with the procedure PROC REG, in SAS program.

IV. Investments stimulation – mean to increase the economic growth

In the last chapter we analyzed the foreign direct investments, as well as their impact over the host country, and also the investments realized with public funds. In order to better simplify the concepts of “localization” and “delocalization” we considered that a short case study about the situation of the Nokia Company in Romania, from its foundation until leaving the country, would be benefic.

At the same time, we realized a short comparison of the investments attracted by the Romanian counties, noting the fact the Sibiu county is situated on the first places in which

concerns investment attractions, situation in which the project “Sibiu – European Capital of Culture in 2007” contributed a lot, together with the recent airport modernization.

In the end of the chapter I approached the case of China, noting the fact that the foreign direct investments attracted by this country managed to generate lots of positive externalities in the economy.

The research results were presented in more than 10 international conferences, 5 national conferences, 10 articles indexed in international databases, as well in articles published in the Romanian specialized magazines.

The relevance of research results is confirmed also by consulting more than 150 publications, found in the “Bibliography” section and quoted in the thesis.

Having into consideration the 8 objectives formulated in the introduction of the present paper, we conclude the following:

O1: presentation of the main theoretical aspects, together with a presentation of the main economic growth theories and models

In this sense, I analyzed the scientific literature and studied the definitions that the famous economists S. Kuznets, J.Fourastie, R. Lucas and F.Perroux gave to the economic growth. We mention that the first economist that brings a clear distinction between the concepts of economic growth and economic development is F. Perroux. Evidently, the two concepts are tough connected, their common characteristics being the cause of the frequent confusions. Following a rigorous analysis of the scientific literature in the field, we conclude the fact that **the economic development involves a process of economic growth.**

Since the times of Adam Smith, the great economists were preoccupied by the causes that generate an increase of the national wealth, and economic development. So, in the first chapter, there were analyzed the theory of Adam Smith, considered the father of economic liberalism, the theory of Thomas Robert Malthus, who continued Smith’s ideas, and we noticed the fact that both theories have a strong agrarian character. The research continues with the exposure of David Ricardo’s theory, which is a completely original one. According to him, the capital can be accumulated in two ways: or by savings, as a result of revenues growth, or by decreasing the consumption.

In 1936, an important reaction, belonging to the English lord J. M. Keynes, on the new economic reality appears. He added, to the existing theories about the economic growth, new

concepts, and we are talking about the multiplier and the accelerator. **One of the weaknesses of the Keynesian theory is represented by the use of some parameters through which the increase in GDP is determined, without having into consideration the technical progress, which, before WWII constituted an important growth factor.**

During the three glorious decades, the Englishman Roy Harrod and the American Evsey Domar elaborated each one a model of economic growth. Having into consideration that the structure of those models is similar, in the majority of the publications they are treated as a single model of economic growth. The conclusion of the Harrod-Domar model is that, for an equilibrated growth, with a complete occupation of the work force, it is necessary that the increase of the guaranteed rate that depends by the saving customs of people and by the production technique to be equal with the natural rate, that depends of the increase of work force.

The next step was the analysis of the Robert Solow model that allows uniform replacements between capital and labor.

Along with the economic development it appeared a new model of economic growth, elaborated by Paul Romer and Robert Lucas, on the line of the traditional growth model. This model highlights the existence of some increasing yields in the case of the new production factors, especially the information.

Having into consideration the formulated objective, together with the statements above, we consider the objective accomplished.

O2: realizing a short history of Romanian economy after 1989, marking the main events that took place in this period

After the Revolution from 1989, in Romania it was wished that the transition be a process of radical changes, regarding especially the passing from the mainly state property to the one mainly private. For every state, the main transition years are tough, revealing serious imbalances in the national economy. In order to accomplish with this objective, I pointed which are the main steps of transition, from the perspective of various authors. The first transition years in our country were heavy, in the period of 1990s-1992s the country facing the first ample recession. In the 1993s-1996s, the inflation decreased, and a positive dynamics of production was registered. The external debt rapidly increased, and the difficulties in financing the extern deficits were higher and higher. In 2000, the economy highlighted slight signs of recovery, amid the decrease

of inflation. A GDP growth of 2,1% is remarked, and the inflation reached the value of 40,7%. The next two years were relatively good, the numbers showing an increase in GDP in 2001 with 5,7% and in 2002 with 4,9%. It is to mention the fact that in the year of 2003 the US senator recognized Romania's economy as being a functional market economy. With the onset of the economic and financial crisis, Romania's economy was strongly affected, the macroeconomic indicators showing this fact. Until present, the recovery signs were weak, with an only 2% economic growth, which difficultly covers the inflation rate.

O3: analysis and interpretation of the main relevant macroeconomic indicators in terms of economic growth, both at Romanian and European Union's levels

The first stage of this objective consisted in identifying the relevant macroeconomic indicators for economic growth. In this sense, we identified the population, the GDP evolution, the employment rate, the unemployment rate, the national net revenue and the annual inflation rate. Those indicators were analyzed and interpreted in the second chapter, both at UE's level and at Romania's level.

Briefly, the main indicator of economic growth evolution, the Gross Domestic Product, had high fluctuations for our country. The highest decrease was in 2009, when, due to the economic crisis on the international markets, Romania's GDP decreased with 15% as against 2008. In 2010 a slow increase is remarked compared to 2009, when the GDP increase with 3 percentage points compared to the previous year.

O4: comparative analysis of the European funds granted to Romania in the pre and post-accession period, having into view that one of the main objectives of regional development is represented by the economic growth

The assumption that leded the accomplishment of this objective is that one of the main objectives of regional development is represented by the economic growth. After an attentive analysis of the regional development characteristics, we conclude that this aims to streamline and to increase the number of activities and projects developed locally, and by using the existing resources.

Romania benefited of pre-accession funds in the period before 2007, those funds being Phare, Sapard and Ispa. After 2007, it benefited of post-accession funds. The first remark

regarding this type of aids came from the European Union is that the pre-accession funds had a more increased absorption rate than the post-accession funds, in some cases the Phare funds having an increased absorption rate of 80 and even 100%. We consider that this situation was reached because of the heavy procedures in accessing the funds. The public procurement procedures, hampered with each change in legislation, had an impact in all that means the hinder of the absorption process, situation that lead to a low absorption rate in Romania, according to data given by the Fiscal Council, the country being surpassed even by Bulgaria. In this sense, we formulated some proposals in order to improve the process of public procurement. Even if the European funds represent a main “engine” in order to resume the economic growth in Romania, we consider that our country must also take into consideration its own resources in achieving this desideratum.

O5: identifying the main factors that can stimulate the economic growth – in this case, we identified the investments and the credit

As shown in the enunciation of the fifth objective of the present thesis, we considered that the two of the most important factors that can lead to the economic growth stimulation are the credit and the investments. The complete arguing it is found in the chapters III and IV of the present paper.

We consider that one of the most important causes of economic stagnation is represented by the absence of credit, having into consideration that no economy no matter how developed it is, can not grow in the absence of credit. This situation will be detailed in the next objective of the present paper.

The investments, both foreign and national, have an impact on the economic growth, on the capital investments, on the payment balance, on the budgetary expenditures and revenues, on the work force, and, not the last, on the economic competitiveness. A largely debate on this situation can be found in the eight objective of the thesis.

O6: analysis of the link between credit and economic growth, in the context of the global economic crisis

One of the most important causes of Romanian economy's stagnation is the absence of economic credit. It is indubitable the fact that no economy, no matter how efficient it is, can not develop in the absence of credit.

Having the experience of transition to the market economy, we realize that this negatively affected the credit policy. Because of the lack of credits, Romanian economy doesn't reinvigorates with currency, so the possibility of starting new projects doesn't exist. It is not difficult to understand the concrete way in which increasing the credit influences the economic growth. When the credit increases, the consumers can borrow and spend more and the enterprises can borrow and invest more. The increase of consumption and investments generates new work places and brings an increase in revenues and profits. Moreover, the credit expansion tends to generate an increase in the price of assets, increasing their net value. An increase in the assets prices offer its owner the chance to borrow more, because the increase in his fortune. This cycle of credit extension leads to an increase of expenditures, investments, and generates new work places, increasing the wealth, which makes people happier as long they are activating in this circle. Finally, each economic expansion induced by credit has a final when one or more important economic sector became unable to return its debts.

For the practical part of this objective we used SAS statistic soft, by means of which we aimed to analyze which is the impact that credits have on GDP. We have chosen two types of credits, those given to households, in order to analyze the credits granted to the private sector, and those granted to the public administration. We noticed that there is a stronger correlation between the credits for population and GDP, compared to those granted to the public administrations and GDP, the correlation coefficient being double in the first case, which means that the efficiency of the credits for population is much higher, this thing influencing the economic growth, while the money obtained by crediting the public administrations are used with a lower efficiency.

O7: analysis on the impact of foreign investments on the economy of the host country

Analyzing numerous papers in the field, we encountered opinions according which the Foreign Direct Investments generate economic growth in the host country, but, in the same time,

some authors argue that, in many cases, those generate also negative effects at macroeconomic level. Over the years, there were many trials to test if there is any relationship between the inflows of foreign capital in form of FDIs and the economic growth of the host country. The only information regarding those flows, covering a high number of countries and long periods of time, are those based on financial flows, as there are those revealed in the payment balances and in the national accounts. In which concerns the case of Romania, the data given by the National Bank and by the National Institute of Statistic reveal that our country has serious discrepancies in which concerns the FDIs attracted, compared to the other countries of the European Union. In this sense, it is necessary to ensure incentives and facilities for the foreign investors. We consider that a reduction in the taxation of the turnover, the preferential credits and direct subvention according would have a positive impact on attracting the foreign direct investments in Romania.

O8: identification and exposure of the relationship between investments and economic growth

It is already known that the main problem of the economic science, both in theory and practice, is the economic growth. The main factors that lead to economic growth are the technical progress, innovations, investments, scientific research and foreign trade. In the actual economic context, we consider that one of the most important factors that can generate an increase in economy are the investments.

Although in Romania in the last years foreign capital was attracted and conducted to activities that need a high percent of local resources, mostly in technology and knowledge, the level of foreign investments still low. The economical theory and practice of the other countries prove that the foreign investments flows intensify and have an impact in the economic, social and natural level according to the governmental policies applied by each country. As a consequence of this fact, Romania's development strategy on long term must focus with priority on improving the infrastructure and on developing human and technological resources, in such way to reduce the imbalances with the other states of the EU. The measures that should be applied are:

- An increase in the quality of human resources, by increasing the investments in education, including the programs of continuous training of the workforce. The society of the

XXI century is a society based on knowledge, and this thing transforms the education in a main objective for each country in the world.

- Development of the research-development programs, including by realizing some PPP partnerships (between the public and private sectors).

- Encouraging the private initiatives, by reducing the bureaucracy and by creating an efficient administration.

We consider that only by investments, especially by attracting FDIs, Romania can reduce its gaps compared to the other European countries.

Further developments

As it can be seen from the contents of the present paper, the objectives established and presented in the introduction were accomplished, but, as a direct consequence of the deepening of the theme, a series of future challenges arose, challenges that will generate further developments of the subject regarding the economic growth. We intend that, in the close future, **to proceed in identifying some other factors that stimulate the economic growth**, considering that in the present research there have already been identified two – credit and investments – and developed, each of them, in a chapter.

At the same time, we consider important **to identify some fields where Romania is performing**, and can excel compared to other countries, as well as to propose some solutions in order to stimulate the economic growth, in accordance with what was already shown.

Another future direction that is wished to be developed is linked to the big problem **population-economic growth**. In this sense, we propose the identification of some solutions that would attenuate the demographic problem connected to the ageing of the population, as well as a decrease in the rates of economic and demographic dependency, having in view the social budget deficits that will go deeper in the next 10-20 years, reaching unsustainable levels.

At the same time, we propose **to realize some econometric studies, having as basis the economic growth models** successfully implemented in states similar with Romania.

The topic approached in the present paper has proven to be actual and necessary, and having into consideration the future research directions, we express our conviction that it will constitute a challenge in the following period too.

Keywords: economic growth, market economy, credit, national investments, foreign direct investments, pre and post-accession funds, sustainable development, sustainability