

The Investment Policy Key Element for the Development and Integration of Romania Into the EU

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Abstract. The present paper presents some elements for evaluation of the level of certain macroeconomic indices for Romania in the last years, and more precisely the index for inflation, the deficit of the current account, the GDP structure, with the aim of identifying certain efficient policies and strategies in order to ensure the continuity of the country's economic development. The charts show the way in which the annual inflation has evolved, the annual deficit of the current account and foreign investments in Romania. Last years' governmental policies for macro-stabilization and economic growth are identified, and we propose to go on with allocating investment funds, especially in infrastructure.

Key words: annual inflation, GDP, current account deficit, investments, infrastructure

1. Introduction

The European integration process of Romania also involved the creation and maintenance of certain macroeconomic indices to allow for the existence of macroeconomic stability, as well as for an on-going economic development. The economic stability and economic growth have manifested during the last years as permanent tendencies, becoming a constant of the Romanian economy. The best example to illustrate the above mentioned argument is the fluctuation of the index for inflation which, expressed through the annual inflation, decreased continuously.

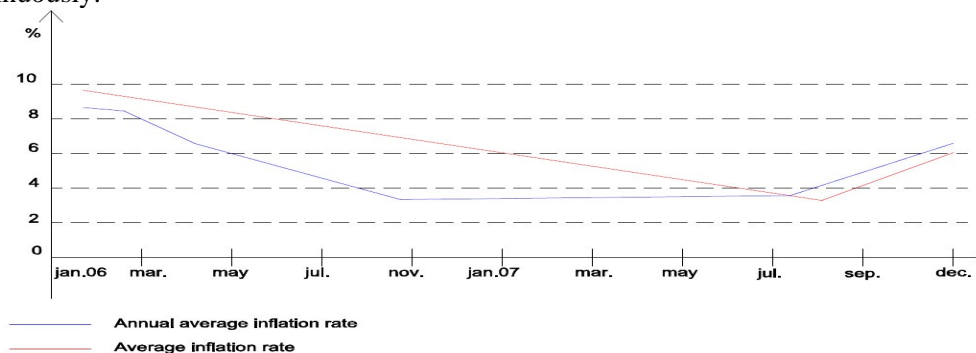


Chart 1 - Evolution of disinflation process

source: National Bank of Romania)

Starting with the year 2000, the average annual rate gradually decreased yearly, from 45.7% (year 2000) to 9.0% in 2005, then to 6.6% in 2004 and it reached 4.3% in September 2007. Thus we are confronted with a process of disinflation, at least until September 2007. We observe the tendency of constant decrease of inflation until August 2007, when we perceive a release period that might lead to another inflation trend. According to last forecasts made by the National Bank of Romania, the annual inflation rate shall reach around 6.56% in 2007, percentage close to that of the year 2006. At the end of 2007 the harmonized inflation rate reached 6%, with a rise after september 2007. In 2008, the inflation for the first 6 months reached 7-8%, and is expected to decrease in the 4th quarter to reach an annual average of 6-6,5%. Therefore the estimated inflation rate for 2008 will be bigger then in 2007.

The situation of the annual inflation on the last three years is presented in:

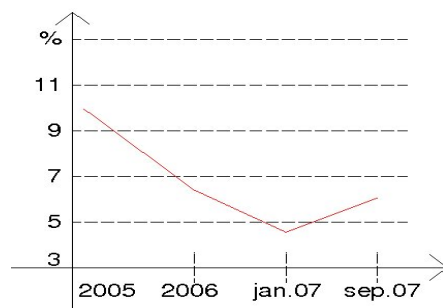


Chart 2

(source: National Bank of Romania)

The decreasing trend of annual inflation can be explained through a lower exchange rate leu/ euro, which boosted imports and therefore the internal consumption. The overvaluation of leu, in comparison with the euro/ dollar became an obstacle for exporters, still it imposed the achievement of certain economic performances equal to similar products in the EU. There are at least two reasons for a potential reverse in the trend of disinflation from September 2007:

- severe drought during this year's summertime;
- an increase in the national trade deficit.

The external deficit reached alarming quotas, such as the 1.77 Mld. euro, the level in August, raising by 32% in comparison with the same period in 2006, according to the National Statistics Commission. The evolution of the deficit in terms of current accounts (in million euro) is as follows:

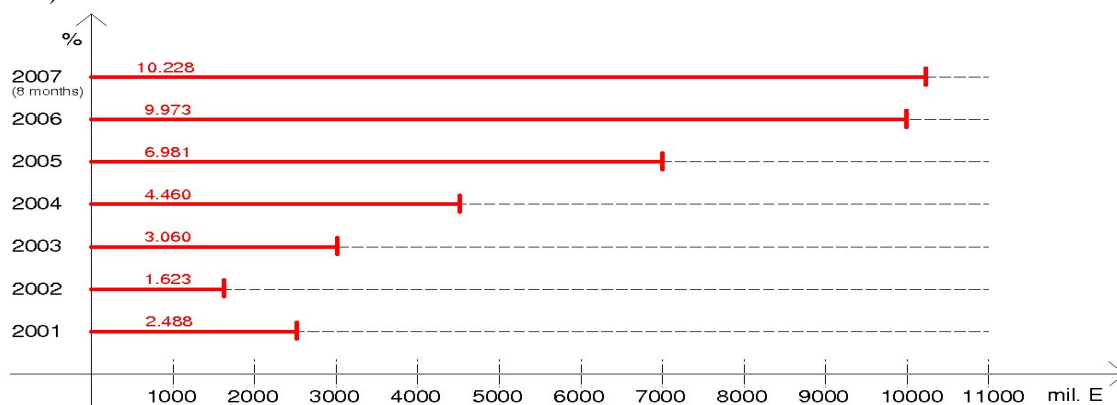


Chart 3

(source: National Bank of Romania)

We observe a permanent increase in the external deficit which had an ascending trend starting with 2004. According to official estimations, by the end of this year we will have reached a

deficit of 14% of the GDP, in comparison with last year's figure (2006), of only 10.3%. We believe that the contradictory evolution of the two indicators, meaning the tendency to reduce inflation and to increase the current account deficit, do call for an appropriate strategy which would allow us to get closer to the levels imposed by the EU, through the evolution of these indices. In 2008, the rising of the commercial deficit in the first 5 months slowed down, reaching 10,74%, bigger then the similar in 2007. In absolute value, it is Eur 8,75 Mld. The slowing of the rising trend of the external balance deficit was mainly due to the exports' dynamics which was bigger then the imports' one.

The evolution of the commercial deficit of Romania in 2008 (mld. E):

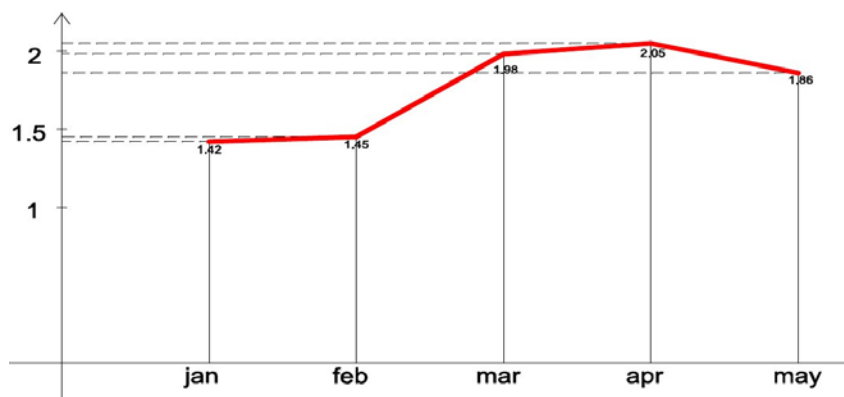


Chart 4

During the first 5 months the commercial deficit of Romania was 8,75 mld. E. The National Comitee for Prognosis anticipates for this year a commercial deficit of 24 mld. E, comparing with 21,59 mld. E in 2007 and estimates it will reach 27 mld. E in 2010.

2. Another worrying reason which draws attention upon is covering this deficit through investments and through contracting external debt. This reached the level of 43.6 Mld. euro as of September the 1st, 2007, meaning that it actually reached a double amount in comparison with the year 2004. This means that the main string for cutting down the current account deficit is through the creation of a complex financing process, especially targeted at infrastructure. The dynamics of direct foreign investments in Romanian economy:

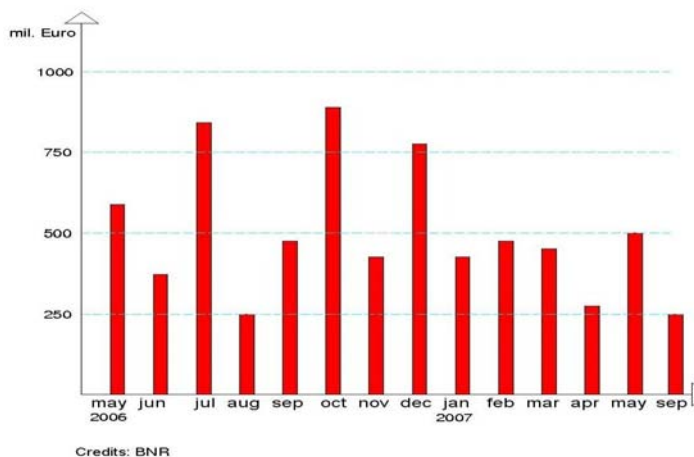


Chart 5

(source: National Bank of Romania)

We observe a lower rate of foreign investments in Romania in 2007, compared to 2006. This issue was also pinpointed by the Romanian Government which, in the state budget draft for 2008 tries to find efficient formulas regarding the attraction of foreign investments in our

country. Moreover, in the last three years there was an increase in the allocation of investment funds, especially the Ministry of Transport which manages all means of transportation in Romania, the volume of these funds varying from one year to another.

The allocation of funds for the first five ministries was done as follows (in Mld. Lei):

2005		2006		2007		Draft 2008	
Min. of Transport	6,2	Min. of Transport	7,9	Min. of Education	13,4	Min. of Education	16,6
Min. of Defence	5,8	Min. of Labour	7,4	Min. of Labour	10,1	Min. of Labour	14,0
Min. of the Interior	4,8	Min. of Education	7,1	Min. of Agriculture	9,8	Min. of Agriculture	12,6
Min. of Labour	4,7	Min. of the Interior	6,5	Min. of the Interior	8,5	Min. of Transport	9,9
Min. of Education	4,9	Min. of Defence	6,3	Min. of Transport	8,5	Min. of Defence	8,4

Source: State budgets for Romania, 2005-2008

We observe that, although the Ministry of Transport has constantly been allotted important sums of money, it is in 2008 only on the fourth position in terms of volume of resources granted. In order to compensate to some extent this aspect, the Romanian Government tried to attract foreign investments in Romania. Thus, the Romanian Agency for Foreign Investments was transformed into the Romanian Agency for Investments, and state grants were given to all companies having initial investments reaching more than 30 million euros and create at least 300 new work places. Moreover, the SMEs shall be supported through grants allocated with the help of the Ministry of Economy and Finance. Nonetheless, taking into account the fact that foreign investments decreased by 6.3% in the first eight months of this year, in comparison with the same period last year (2006), a new analysis of allocation of investments of capital for 2008 is required. Analyzing the main macro-economics indicators and also under pressure from unwanted events (natural disasters), the Government made several budget rectifications, by allocating a financial supplement of 3 Mld. lei to the Min. of Transport, in order to modernize the road and rail infrastructure. This important amount will lead to finalize some major roadways (Bucuresti-Constanta highway) and railways (continuing the modernization of the IV and IX Pan European Corridors).

Conclusions

A well balanced development of the national economy, firstly through the levels of annual national inflation rates, the current account deficit, GDP growth calls for a pragmatic approach, closely related with the needs of our economy. The dynamics of foreign investments shows us that their volume is uncertain, and big privatizations are over.

The most certain way of ensuring the country's well balanced development lies in continuing the process of investment allocation, for modernizing and developing all elements of infrastructure, because it is these which can provide the necessary support for the development of all the other sectors of our national economy.

References

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