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Romania Shows More and More Red Flags, With Values Significantly Beyond the Balanced Trends

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Abstract *This article analyses the fact that, although the budgetary and fiscal measures are the main leverage by which the government influences the Romanian economy, and their adopting and implementation should be based upon an analysis of their impact on medium term, theoretically and practically, and time is needed to understand and accommodate them in the business plans, the transparency and predictability requirements, which are vital for any stable economy, are still hard to fulfil. In Romania, very often, out of various reasons, mainly political, the economic policy decisions rather deepen the cyclic tensions of economy instead of attenuating them. The consecutive increases of the minimal wages have been done at a fast pace, which has not been supported by the appropriate evolution of productivity.*

Key words Economic policy, budgetary execution, current account, consumption, increased labour cost, resource productivity

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

1. Introduction and literature review

It's becoming obvious that economic policies have not only anti-cyclic features, as theory says it should happen. Very often, due to various reasons, mainly political, the economic policy decisions rather deepen the cyclic tension of economy, instead of attenuating them. Thus, economic policies become highly pro-cyclic, which is valid also for the monetary policies, as well as for the fiscal and budgetary environment. There are no obvious differences between the anti-cyclic and pro-cyclic policies, therefore. "A justification of the pro-cyclic trend is that the fiscal authorities would like to promote an anti-cyclic fiscal policy but they do not possess appropriate information on the current cyclic conditions, because the real time estimation of the indicators associated with the economic cycle is subject to significant uncertainty, mainly due to the reviewed estimations of the potential GDP. A pro-cyclic trend of the fiscal policy may result ex-post, although the intention of the fiscal authority was to promote an anti-cyclic fiscal position" (Socol and Feraru, 2017).

The crisis initiated in 2008 in the USA is a good occasion to think about the methods and logics of the economic policies. To ensure sustainability of the economic decisions, it is vital to distinguish between what was before and what followed the economic-financial crisis, in terms of economic performance, and in terms of economic policies decisions. Major risks are coming into being as the anti-cyclic policies actually have become pro-cyclic policies of the next crisis (Barbu, 2017). Moreover, when we analyse the proposal package, we should see clearly where they lead, if they stimulate or inhibit the business environment, what the effects are, and whom they bring advantages or disadvantages to. Briefly, we need an analysis of their impact on medium term and enough time to understand them and accommodate them in the business plans. The changes in fiscal policies place in opposition all the social and professional categories, the unions and the owners' associations, public and private employees. The decision to make the changes despite the opposition of the society may be the final blow that may push the Romanian economy down the slide.

At the same time, inflation makes its presence obvious in economy. Imbalances are appearing gradually across the entire economy, discretely and often masked by apparently positive evolution of certain economic parameters. Details are always seen only by a minority whose voice is not heard across the overall noise and these details are even less seen from abroad. In Romania, the minimal wages was increased 12 times during the last 8 years, and the Government's governing plan indicates 3 more increases by 2020, from 1,450 lei (2017) to 2,400 lei. The challenge comes from the fact that all consecutive increases of the minimal wages were done very quickly, not supported by a corresponding evolution of productivity, which led to macroeconomic deviations and enhanced the imbalances.

According to many economists, both in the sector of tradable and non-tradable goods, the economic prosperity is determined by productivity. Measured as value of the production of goods and services per unit of resources (human resources, capital and knowledge, natural resources), productivity in economic activity of a country determines the living standard of a nation (Porter, 1990). The fiscal public policy, in various economies, takes into account a set of deliberate governmental actions regarding the imposition of taxes and money allocation and expenditure in order to influence the macroeconomic variables in the right direction (Khan *et al*., 2012).

The response of the public authorities, across the world, to the economic and financial crisis was fiscal policies that mainly had short term goals. However, due to the side effects, the impact of these measures was not always favourable on long term (Maşca *et al.,* 2015). To maintain fiscal sustainability is vital for the country's financial capability and macroeconomic stability (Dornean and Oanea, 2015). The fiscal policy exerts influences on the GDP, the private consumption and the private investments, and upon the prices of dwellings, shares, as well as on the level of prices and the average cost of debt refinancing – interest rate (Afonso and Sousa, 2011).

Some studies revealed that, among various countries, there is considerable heterogeneity of the fiscal multipliers (Baum *et al*., 2012). Inadequate fiscal measures, that aggravate the economic situation of a country, are adopted because decision-makers ignore the state of the economy and the fiscal behaviour (Mencinger *et al*., 2017). The aggravation of the fiscal situation of several countries, with negative implications upon the economic growth, was caused by the fact that the pro-cyclic measures of fiscal behaviours that were adopted coincided with the reduction of prudence both in the public and private sectors (in 't Veld, 2013).

2. Increasing red flags, with values significantly beyond balanced evolutions

2.1. Final value of GDP for 2015

In October 2017, the Romanian National Institute of Statistics (NIS) announced the 2015 final value for the GDP of 712,658.5 million lei in current prices, meaning a growth rate in real terms of 4% as against 2014. Compared to the semi-final version of 711,102.7 million lei, growth was less significant (+0.22%), but enough to change the value of 3.9% announced one year ago for the 2015 economic growth.

After the 7-year economic cycle, 2008 – 2014, ended close to zero, 2015 brought a surplus of 4% in real terms. The calculation basis was higher than previously known. This is the starting point in establishing the final GDP for 2016 and for 2017. Technically, the higher basis means unfavourable basic effect for the economic growth already announced for 2016 and 2017. After the great performance of +8.5% in the 2nd year after the EU accession and the manifestation of the economic crisis, 2 years of decline followed, 2 years of stability and 2 years of recovery, in real terms, close to the 2008 GDP (Table 1).

Table 1. GDP evolution between 2008-2015 (final values)

	Year							
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
GDP growth	+8.5	-7.1	-0.8	+1.1	+0.6	+3.5	+3.1	+4.0
GDP (2008 = 100)	100	92.9	92.1	93.2	93.7	97.0	100	104

Source: Eurostat and National Institute of Statistics, own calculations

It was only in 2015 that Romania resumed its progress as against 2008, which shows that Romania needed 6 years to resume its economic growth, after the deviation from macroeconomic stability caused, at an extent still unknown, by the global crisis, and the strong domestic consumption growth measures. The average growth rate for the 8 years, 2008 – 2015, was, according to official statistics, 1.61% per year, and the average of the economic results, for the same 8 years, did not return (only 96.56%) to the promised prosperity of the year 2008, which turned out to be an illusion for 2 years.

The presented data are a good occasion to estimate what we won after the consumerist frenzy of 2007-2008 (resembling to 2016 – 2017 in terms of forced domestic consumption and not benefiting from the same foreign investments). The average (96.13) of the economic outcome of 2009 – 2015 was 3.5% below the gallop of +15.4% between 2007-2008 (cumulated, growth is 6.9% in 2007 and 8.5% in 2008). Since 2008, the Romanians have had a worse life than in 2008 because the living standard of that year was not sustainable. If they had known in 2008 that they would live worse for years and they would triple the foreign debt, would the population and the leaders have pushed the domestic consumption? What may happen if the GDP for 2016, at a stage of stable semi-final value, is confirmed for +4.8%, and economic growth for 2017 remains the estimated one when the second budget adjustment was done in 2017 (approved by the Government on 15th November 2017) namely 6.1% as against 5.6% which was estimated when the first budget adjustment was done in

September 2017, of 5.2%, estimation taken into account when the 2017 budget was designed? The answer is simple. We shall reach +14.9% as against 2014, whose GDP was equal to 2008, which resembles to the +15.4 % for 2007-2008.

2.2. Romanian economy seen from outside

The most recent data provided by Eurostat in October 2017 for the short term economic analysis are not susceptible to reassure the potential investors and to improve Romania's country rating, despite the economic growth for the first 9 months of 2017, as against the same period of time in 2016, namely 7.0%, for the gross series, and 6.9%, for the seasonally adjusted series, according to the report of 14 November 2017 of the National Institute of Statistics which shows an accelerated economic growth in the 3rd quarter, as against the 2nd quarter of 2017, when economy increased with 6.1% as against the same period of time in 2016, for the gross series. Growth in the 3rd quarter of 2017 was 2.6%, after +2% in the 2nd quarter, and the 1st quarter of 2017.

Eurostat provides a selection of macroeconomic indicators of major interest to reflect the situation of the member states. These indicators are standardized and harmonised to ensure comparability among EU countries (Principal European Economic Indicators -PEEIs). Here is how the Romanian economy is seen from outside, based on the EU centralised analysis, and what are the conclusions we can draw from the recent economic evolutions (Table 2):

Table 2. Evolution of indicators that characterize Romania's economy

	T1 - 2016	**T2 - 2016**	**T3 - 2016**	**T4 - 2016**	**T1 - 2017**	**T2 - 2017**
Labour force cost (%, T/T-4)	+11.9	+13.3	+14.7	+12.3	+17.2	+18.6
Turnover in services (%, T/T-4)	+7.5	+9.2	+11.5	+7.9	+9.1	+11.1
Employment (T/T-1)	-1.5	-0.6	-0.2	+1.6	0	-0.6
Vacancies rate (%)	1.3	1.2	1.4	1.3	1.3	1.3
Dwellings prices	+2.6	+6.8	+7.1	+7.3	+5.1	+7.2
Current account	-0.5	-5.1	-1.5	-1.2	-2.1	-5.2
	April 2017	**May 2017**	**June 2017**	**July 2017**	**August 2017**	**September 2017**
Unemployment (%)	4.8	5.2	5.0	5.2	5.1	n.a.
Industrial production (%, L/L-12)	+1.3	+14.6	+11.8	+7.6	+10.3	n.a.
Constructions (%, L/L-12)	-18.1	-11.2	-6.1	+1.7	n.a.	n.a.
Long term bonds profitability (%/year)	3.79	3.75	3.67	3.84	3.86	3.89
Euro/leu exchange rate	4.53	4.55	4.57	4.57	4.58	4.60

Source: Eurostat data processing

As we can see, the increasing labour force cost, much above economic progress, is alarming. The average values presented in the EU analysis do not include the fact that labour is exaggeratedly remunerated in the public sector as against the private sector, where the average value in the processing industry is below 90% of the national value.

To note that the increased additional benefits to the labour force resulted only in increased turnover in the service sector. Services cannot be imported and the development of the service sector did not keep the pace with the increased income, although the progress was double as against economic growth. To note that a significant part of the additional money made went to the advance payments for dwellings, which exceeded the maximal threshold of +6% (after it had returned to "normal" parameters) as against 2016, defined as warning level for macroeconomic stability. Romania is gradually losing indicators out of the 13 fulfilled an year ago, 13 out of 14 possible to show macroeconomic stability, as agreed in the EU, and the next one will be most probably the budget deficit of a maximum of 3% of the GDP.

Employment became negative in the 2nd quarter in 2017, after seeming to have improved during the previous 2 quarters, and the vacancy rate is still higher than in 2016. Unemployment remained low as against the EU average, but stable above 5%. However, the unexpectedly good, for the moment, trend of industrial production, the recovery of the constructions sector (to be still confirmed by following data) and employment, still acceptable, saved the indicators in the table from turning red all the prospects of economic stability.

The efficiency of the state-issued bonds for long term loans continued to increase towards 4%, after the minimum of 3.67% (pretty significant as against other EU countries) in June. Which means that we borrow at higher prices and we should avoid additional debts. The euro/leu exchange rate, estimated with the first 2 decimals, slowly increased between April and November, and reached the threshold of 4.64 lei/euro at mid November 2017. It's true however that a law of economics called the "impossible trinity", says that, in any economy, you cannot have a fix exchange rate, free circulation of capital and an independent monetary policy at the same time. The "impossible trinity" makes that, when we have free capital input and output, interests and the exchange rate become mutual safety valves. A tight exchange rate comes in a package with volatile interests and the other way round, and the National Bank of Romania, according to its discourse, will no longer protect the stability of the exchange rate, as it is concerned by the liquidity of the monetary market and the stability of the interests' rate, given the Government's increasing need of resources.

2.3. The budget deficit after 8 months of 2017

The general consolidated budget had, after 8 months of 2017, a deficit of about 6.5 billion lei, meaning 0.78% of the GDP estimated for 2017 at the first budget adjustment in September 2017. The result is below last year's performance, when, on 31st August 2016, the budget balance was minus, namely -3.41 billion lei, -0.41% of GDP. This result is a serious concern, because at the end of 2016, Romania hardly managed the maximum of deficit allowed of 3% of the GDP.

The weaker result, compared to the first 8 months in 2016, resulted from the combination of the advance of 13.2 billion lei in revenue, with the increase of 16.6 billion lei in expenditure. Romania made expenditure beyond its possibilities corresponding to the economic growth, and wasted this advantage instead of taking advantage for consolidating its public finance.

Table 3. Evolution of revenues and expenditure during the first 8 months in 2017, as against the same period of time in 2016

Category	Period		Period	
	8 months 2016 (billion. Lei)	**% of GDP**	**8 months 2017 (billion. Lei)**	**% of GDP ***
Revenues	147.22	19.3	160.37	19.2
Expenditure	150.34	19.7	166.91	19.9
Surplus/Deficit	- 3.12	- 0.41	- 6.53	- 0.78

Source: Ministry of Public Finance data processing

* GDP estimated at the first budget adjustment in September 2017

As expected, once the prognosis of the GDP for 2017 was re-done, the budget revenues appeared as lower. Hence the problem created by the current expenditure effected and the future expenditure committed, which appeared higher in the GDP. Since they increased significantly higher than the revenues, it is very serious that the expenditure were not directed to investments and development, but went into the bottomless bag of consumption according to weird criteria (for instance, irrespective of the level of the pension, the pension point was artificially increased, in equal ratios for all the retired).

To note that September 2017 was the deadline for more than 1 billion euro, from the macroeconomic stability loan taken by Romania from the EU in 2009, expenditure that we did not make, due to the planning of the due dates for the election campaign, in 2016. The surplus of expenditure focused mainly on the staff expenditure which increased with 0.5% of the GDP for the first 8 months (after an explosive increase with 21.4% from one year to another). By imposing taxes on this increased expenditure (moving the money from one pocket to another) a growth of +0.3% of the GDP resulted in revenues, which coincides, in net values, with the increased total expenditure.

Regarding expenditure, the increased wages were balanced by the significant decrease of the expenditure with goods and services and by the cuts of funds from the capital expenditure. The funding of projects with non-reimbursable assistance was the only sector where things went better than last year (it would have been difficult to go worse after the „technocrat" government).

Unfortunately, the absorption of the EU funds, the only source with enough amplitude to balance the public budget, was not brought to its real potential. The miracle of quick accreditation of the management authorities that manage operational programs to overcome the bureaucratic obstacles imposed by Brussels did not take place and interest to manage such draconically controlled funds was not high either. The increased pension point, without a reason, with 9%, at mid-2017, sent the chronic deficit of the social insurance budget to more than 4 billion euro per year, a deficit which will have to be covered with money from the state budget. The measures taken by the Government moved therefore the focus from investments (medium and long term sustainable development) to consumption (short term).

Table 4. Evolution of budget expenditure for the first 8 months of 2017, as against the same period of time in 2016

Category	Period		Period		Variation % GDP 2017/2016
	8 months 2016 (billion. Lei)	% of the GDP	8 months 2017 (billion. Lei)	% of the GDP*	
Total expenditure, Out of which:	150.34	19.7	166.91	19.9	+0.2
- Staff expenditure	37.01	4.9	44.92	5.4	+0.5
- Goods and services	23.46	3.1	24.42	2.9	-0.2
- Interests	7.91	1.0	7.44	0.9	-0.1
- Subsidies	4.06	0.5	4.25	0.5	0
- Projects with non-reimbursable foreign funds	6.49	0.8	8.71	1.0	+0.2
- Social assistance	53.76	7.1	59.85	7.1	0
- Capital expenditure	7.85	1.0	6.38	0.8	-0.2

Source: Ministry of Public Finance data processing

* GDP estimated at the first budget adjustment in September 2017

2.4. The current account deficit after 9 months, 45% higher

According to the data of the National Bank of Romania, for the first part of November 2017, the current account of the payment balance had a deficit of 4,919 million euro for the first 9 months of 2017, with 45% higher than the same period in 2016. The minus in goods increased with more than 26% and exceeded the threshold of 8 billion euro, while the plus in services increased with less than 1%, due to a reduction (-32 million euro) of the net amounts brought by transport services. The difference in pace between the exported goods and the imported goods was negative (+9.6% as against 12.0%), which contributed to a worse minus resulted from the exchange of products with foreign partners up to 4.5% of the GDP estimated at the first budget adjustment in September 2017. In the payment balance (the data are not perfectly compatible with the National Institute of Statistics, because the National Bank of Romania adjusts the data to ensure the principle of „exchange of economic ownership"), Romania has a minus of 0.5 % of the GDP per month from the foreign trade with goods.

For the other 2 components of the current account, the major positive change is that the minus found from primary revenue (from labour, direct investments, portfolio and other investments, and primary revenue such as taxes or subsidies) significantly diminished, to 562 million euro or 13.4%, for the first 9 months of 2017. Unfortunately, in terms of secondary revenue, where we find the funds transferred by those who work abroad, the positive balance decreased with 10.5% as against the same period in 2016. The funds sent to Romania (-22%, from about 4 billion euro to 3.1 billion euro) and the funds sent from Romanian to other countries (-33%, from 2 billion euro to 1.35 billion euro) diminished significantly.

Table 5. Current account of the payment balance (million euro)

Period	January – September 2016			January – September 2017		
	Credit	***Debit***	***Net***	***Credit***	***Debit***	***Net***
Goods	38,712	45,199	-6,487	42,430	50,617	-8,187
Services	13,191	7,415	+5,776	15,061	9,243	+5,818
-processing services	1,951	143	+1,808	2,173	137	+2,036
-transport services	4,079	1,389	+2,690	4,498	1,840	+2,658
-tourism - trips	1,186	1,424	-238	1,736	2,354	-618
-other services	5,975	4,459	+1,516	6,654	4,912	+1,742
Primary revenue	2,220	6,392	-4,172	2,755	6,365	-3,610
Secondary revenue	4,025	2,027	+1,998	3,137	1,349	+1,788
Total current account	58,148	61,033	-2,885	63,383	67,574	-4,191

Source: National Bank of Romania

The largest amount brought into the services current account came from transport (+2,658 million euro net). The second positive contribution to the payment balance came from the processing services of goods owned by third parties (+2,036 million euro), a significant amount which sustains the payment balance, which represents a pure export of relatively cheap labour force. The secondary income, including the money sent home by Romanians who work abroad, appear on the 3rd place in net expression, slightly above the „other services" (+1,788 million euro as against 1,742 million euro).

To note, within the context of fluxes highly increased in both directions, the major progress of the negative balance in tourism (+160%!), from -238 million euro for the first 3 quarters in 2016 to -618 million euro in the same period in 2017. The balance of the long term deposits of non-residents diminished with 11.5% during the first 9 months in 2017 (from 3.64 million euro to 3.22 million euro). The payments into these deposits amounted to more than 1 billion euro.

The direct investments of non-residents were comparable to the first 3 quarters of 2016 (3,352 million euro as against 3,307 million euro). Capital participations (including the re-invested profit) were 3,238 million euro, while the intragroup credits had a slightly positive balance, of 114 million euro. The total foreign debt increased with 0.3% as against the end of the 2016, up to 93.2 billion euro. The payments made for the foreign debt for the first 9 months of 2017 were 50.15 billion euro.

Table 6. Evolution of the foreign debt of Romania, on components, between 2012-2017 (million euro)

Components foreign debt	**Year**					
	2012	**2013**	**2014**	**2015**	**2016**	**2017 ***
Medium and long term foreign debt	78,760	76,591	75,725	70,558	69,645	68,965
Short term foreign debt	20,921	19,491	18,577	19,876	23,265	24,239
Total foreign debt	99,681	96,442	94,302	90,034	92,910	93,204

Source: National Bank of Romania

* After the first 9 months

The rate of the medium and long term foreign debt service, of 22.6% in January-September 2017, was significantly below the 30% of the year 2016. The coverage of the goods and services imports clearly diminished below the threshold theoretically recommendable of 6 months (5.6 months), much below the 6.3 months of the end of 2016. The coverage of the short term foreign debt with National Bank of Romania foreign currency reserves (recommended to be above 100%) increased to 89.5%, close to the rate of the end of 2016, 90.5 %. A good trend in terms of macroeconomic stability, the short term foreign debt avoided the threshold of 25 billion euro towards which they were heading at the beginning of the year and stopped at 24.24 billion euro.

2.5. Anomaly of wages growth in Romania

According to the report published by Eurostat, Romania ranked the 1st in the EU in terms of labour cost in the 2nd quarter of 2017, at significant distance from the following countries, with +18.6% for the entire economy. Hungary (+13.0%), the Czech republic (+11.1%), Bulgaria (11.0%) and Lithuania (+10.4%) come next. To note that the increase of the labour cost across the EU was only 2.2%, and 1.8% in the Eurozone.

The gross average wages announced by the National Institute of Statistics for August 2017 was 3,290 lei, 1.2% higher than the previous month. The net average wages was 2,364 lei, 514 euro at the exchange rate of September 2017 (the month when the money was actually collected) or 1,004 euro as purchase power in terms of average EU prices. As against October 1990, the reference month, the actual wages index decreased to 178.3%, after having reached the threshold of 180% in July. Although the growth rate as against the same month of the previous year was high, 12.6% (see the Table), stayed more than double as against the economic growth of the first half of 2017.

Moreover, given the average increase in the exchange rate euro/leu close to 4.60 lei/euro in August 2017, the average net income decreased towards the psychological threshold of 1,000 euro, calculated as against the EU average prices (to equal the actual purchase power). The highest increase in wages were still seen in the public sector, where the health sector and the public administration sector saw a double increase as against the average increase in the entire economy, while the education sector saw a slight increase above the average.

Table 7. Evolution of the average wages and purchase power for the last 20 months

Month	**Net average wages (lei)**	**Euro/leu**	**Net average wages**		**Purchase power (%, 12 months)**
			Euro	**Euro as against the standard purchase power**	
January 2016	1,943	4.4818	434	847	+14.1
February 2016	1,950	4.4657	437	853	+15.8
March 2016	2,051	4.4727	459	896	+15.5
April 2016	2086	4.4994	464	906	+16.1
May 2016	2,063	4.5218	456	891	+18.1
June 2016	2,078	4.4858	463	905	+15.1
July 2016	2,078	4.4594	466	910	+13.3

Month	Net average wages (lei)	Euro/leu	Net average wages		Purchase power (%, 12 months)
			Euro	Euro as against the standard purchase power	
August 2016	2,076	4.4506	466	911	+14.7
September 2016	2,094	4.4942	466	910	+14.9
October 2016	2,108	4.5102	467	913	+13.2
November 2016	2,172	4.5173	481	939	+14.0
December 2016	2,354	4.5016	523	1,021	+12.0
January 2017	2,300	4.5120	510	996	+18.3
February 2017	2,236	4.5482	492	960	+14.5
March 2017	2,342	4.5299	517	1,009	+14.0
April 2017	2,366	4.5540	519	1,014	+12.7
May 2017	2,363	4.5714	517	1,009	+13.8
June 2017	2,380	4.5681	521	1,017	+13.5
July 2017	2,391	4.5784	522	1,020	+13.5
August 2017	2,364	4.5978	514	1,004	+12.6

Source: National Institute of Statistics

To note the increase in the public administration sector as against the previous month, while other public sector employees had lower wages. To note also the double wages in the public sector as against the national average (which radically changes the redistribution within national economy), and the fact that an auxiliary activity, such as trade, exceeded the processing industry which is the main source of economic growth. The wages in the processing industry decreased, for the first time in the last years, to less than 90% as against the average wages in economy. The explanation is the fact that the difference in the growth pace reached over 2%. It's entirely atypical situation among the EU countries (in most of them, the situation is the opposite) and it is deteriorating.

Table 8. Evolution of wages growth per sectors between July 2016 - July 2017 (in August, July wages are given)

Sector	Wages in August 2016 (lei)	Wages in August 2017 (lei)	Evolution
Health	2,069	2,666	+28.8%
Public administration, defense, etc.	2,987	3,833	+28.3%
Education	1,926	2,211	+14.8%
Trade	1,859	2,094	+12.6%
Transport	2,055	2,304	+12.1%
Processing industry	1,892	2,116	+11.8%
Constructions	1,582	1,746	+10.4%
Information, telecommunications	4,329	4,699	+8.5%
Financial brokerage, insurance	4,025	4,204	+4.4%
Average in economy	**2,076**	**2,364**	**+13.9%**

Source: National Institute of Statistics data processing

While the wages increase in the health sector calmed down, from 36.5% in the previous month to 28.8% in August 2017, the public administration kept the pace of wages growth and almost reached the level of the medical sector, although it started at a much higher level. Public servants reached a favourable difference of 44% as against the health sector and 73% as against the education sector. The information and telecom sector (with a remarkable contribution to the economic growth pace this year) kept a robust pace of wages increase while having a deficit of skilled staff. Most probably this level of 8.5%) would have the maximum allowed by the macroeconomic evolution for other sectors too.

The only wages with growth pace below the GDP growth pace were in financial brokerage and insurance. Which should be a warning and make us think, at least in contrast with the hazardous measures already taken in the public sector, where a gradual wages growth has been initiated to take place by 2022. According to the National Institute of Statistics, published on Thursday, 9th November 2017, the consumption prices increased to 2.63% in October 2017, as against the same month in 2016, from 1.8% in September / September 2016, which is the natural consequence of the increased production costs of companies, especially following the wages pressure, and the demand surplus, stimulated by the fiscal policy that encouraged the consumption. The prices of the non-food goods increased with 3.52%, and the prices of the non-food goods (+3.26%) expressed the inflationist pressure. The prices of services diminished with 0.33%, as against October 2016.

2.6. Romania – involution of the productivity of resources, compared to the EU countries

Romania ranks the last but one among the EU countries in terms of resource productivity in economy, with only 0.70 euro per kilo of raw material used in 2016, according to data published by Eurostat. Surprisingly, Romania ranks at less than 2/3 compared to the 2000 index and have stagnated since 2001. To note for reference that Romania slightly supersedes Bulgaria (0.68 euro/kg), and ranks 1/3 of the EU28 average (2.07 euro/kg) and remains at significant distance behind Italy (3.98 euro/kg), the Netherlands (3.96 euro/kg), Luxemburg (3.65 euro/kg), Britain (3.59 euro/kg) or Spain (3.17 euro/kg). Eurostat shows that between 2000 - 2016, when resource productivity increased in all the EU countries from 1.47 euro/kg to 2.07 euro/kg (41% in actual terms), Romania showed a decrease in this basic indicator of economic growth, from 1.09 euro/kg towards 0.70 euro/kg. Consequently, the ratio between resource productivity in Romania and the EU average deteriorated from 74% to 34%. ”Resource productivity of country is measured by dividing the GDP to the internal consumption of materials (internal production, plus the difference between imported raw materials and exported raw materials). To ensure comparability among various countries, and to follow correctly the evolution in time, we use GDP/inhabitant in actual terms, adjusted to the volume and prices of a year of reference” (Barbu, 2016).

The champion of improved resource use in 2000 has been Ireland so far, with a significantly improved such economic indicator economic during the last 12 years, followed closely by Spain and Italy. The next platoon, at significant distance behind, includes Britain and it is led by 2 former communist countries, Slovenia and the Czech Republic. Great performance were achieved by Hungary and Poland, which had the advantage of starting from little performance, superseded (as we should have done), the 2 major European economies, France and Germany. To note that Bulgaria also improved its results with 20% and Croatia, the new EU member, that saw a strong decline in 2004, similar to the one in Romania, reached higher values that the ones at the beginnings.

Table 9. Evolution of resource productivity in the EU countries between 2000-2016

(2000 = 100)

Country	**2000**	**2004**	**2008**	**2012**	**2016**
Ireland	100	98.3	110.0	197.6	230.6
Spain	100	93.4	109.7	199.9	225.5
Italy	100	117.6	126.4	170.6	225.0
Slovenia	100	102.8	113.3	169.9	177.5
Czech republic	100	110.0	132.7	160.6	172.5
UK	100	109.6	131.3	157.8	170.3
Cyprus	100	107.6	72.5	132.9	166.5
Hungary	100	90.6	117.9	171.8	156.3
The Netherlands	100	113.3	113.7	127.7	152.9
Slovakia	100	94,6	106,2	142,0	151,5
Poland	100	111.7	115.6	121.6	149.5
France	100	106.8	112.9	126.2	145.5
Luxemburg	100	94.2	119.1	125.7	143.0
Germany	100	110.4	121.9	125.3	137
Latvia	100	122.0	147.4	142.3	135.3
Belgium	100	106.8	99.1	117.0	133.8
Lithuania	100	98.9	99.6	128.4	131.1
Portugal	100	106.5	93.1	121.6	129.6
Austria	100	102.8	113.6	118.1	122.5
Denmark	100	101.9	101.7	113.7	121.5
Bulgaria	100	94.4	105.6	124.5	120.0
Finland	100	102.2	105.4	116.6	115.5
Estonia	100	99.8	102.4	99.3	114.3
Greece	100	102.2	86.7	105.7	114.1
Sweden	100	106.3	105.7	105.3	104.3
Croatia	100	70.7	70.0	103.8	102.5
Malta	100	95.8	140.3	107.5	99.1
Romania	100	**71.6**	**51.8**	**61.1**	**64.4**

Source: Eurostat database

In Romania, resource productivity decreased abruptly until 2008, when economy was booming. The recovery of the last 8 years analysed repaired the disaster in the analysed indicator, but still makes Romania rank the last across the EU, showing a trend. The growth pace was better than the EU average (34% resource productivity growth in 2016 as against 31% the EU average), but insufficient to make up for the gaps compared with the other countries. Beyond the quantitative economic results, looking good at first sight, we should pay attention to the quality of the economic growth, as this is the weak segment in terms of actual convergence with the EU economies. Without neglecting the quantitative expansion, we urgently need a more clear and intensive growth.

Obviously, it can be done only long term, by cleverly aiming at strategic fields to improve resource productivity, not by taking bulk measures for the entire economy. In addition, let us not forget education, as it is hard to believe that we can efficiently sell resource without well-trained human resources. It's the only way to increase competitiveness (which is increasingly difficult on a unique enlarged market). Competitiveness will materialize in gradual and partial substitution of material consumption with the wages growth. Achieved not through administrative and arbitrary income growth, but through demand and supply, on a labour market based upon a strong national currency.

2.7. Indicator regarding the trust in the Romanian economy of the Association of Romanian Investment Professionals (CFA)

CFA Romania is the association of Romanian investment professionals, most of them own the title of Chartered Financial Analyst, qualification given by the CFA Institute (USA), organization with more than 180 members. The indicator CFA Romania of macroeconomic trust, launched in 2011, measures the anticipations of the financial analysts regarding the economic activity in Romania for the next 12 months. The macroeconomic trust indicator ranges between 0 (lack of trust) and 100 (full trust in the Romanian economy) and it is calculated based on 6 questions about: current conditions - business environment and labour market; anticipations, one year horizon for the business environment, labour market, evolution of the personal income compared with the economy and of personal wealth compared with the economy. The survey is conducted for the last week of every month among members of the CFA Romania and candidates of levels II and III of CFA exams. Apart from questions needed to calculate the macroeconomic trust indicator, the survey assesses the anticipations, for 1 year horizon, for the inflation rate, interest rates, EUR/RON exchange rate, BET exchange index, global macroeconomic conditions and the oil price. The macroeconomic trust indicator of CFA Romania, calculated upon the estimations of the members, diminished in September 2017 with 5.3 points compared with the previous month, reaching 45.4 points, especially as a result of the worsened perception upon the way in which economy would evolve in the next year, show the CFA data. The decrease in September comes after the macroeconomic trust indicator of CFA Romania decreased in August with 9 points, in July with 0.3 points and in June with 6.6 points.

In September 2017, according to the CFA, the decrease was generated by both components of the indicator. The indicator of the current conditions was 63.9 points, a decrease of 4.6 points, while the indicator of the anticipations decreased with 5.7 points, up to 36.1 points (lowest since October 2012). The survey shows that the expectations about the business conditions in Romania in the following 12 months worsened, the indicator decreased in September to -70%, from -60% in August and -25% in July, and 72.1% of the interviewed expect the business conditions to worsen in the near future. According to the survey, regarding the EUR/RON exchange rate, 79.1% of the participants anticipate a depreciation of the leu in the next 12 months, compared with 74% in the previous survey. Analysts expect a worsened labour market in the next year, with a balance of -35% of the replies (39.5% of the interviewed expect a worsening), from -31% in August and -5% in July. Analysts also estimate an increase of the population's income in the next year bigger than in the previous month (+10% in September as against +17% in August and +14% in July). Analysts who are CFA members also estimate, on average, an inflation of 2.36% for October 2017 – October 2018, lower than in the previous report (2.55%). Regarding the global economy, for the next year, 76.7% of the interviewed expect normal economic conditions, while 14% expect better conditions.

3. Conclusions

The economic growth above the forecasted one did not ensure convergence of the fiscal income with the planned target, as expected, and initial evaluations of the additional needs of current expenses were substantially exceeded in the budget. We can avoid exceeding the deficit cap only by significantly reducing the public investments, by inversing tax cuts that were done in the past and by introducing additional discretionary measures in the income, such as extraordinary dividend payments from state companies. Eurostat data show that we must take measure to calm down the evolution of some indicators that „flushed out of the riverbed". Preferably, through governmental measures, to change fiscal policies and income policies, by corroborating them with the monetary policies, which can only partially make up for the optimization deficit of the Government, a Government busier with political disputes than with the management of the national economy. The prospects of the fiscal policy and income policy are hard to anticipate in the current context, due to uncertainties regarding the concrete way to implement the unified wages law, and the accompanying set of measures, meant to attenuate its expansionist effects; to add uncertainties regarding the corrective fiscal measures that may be adopted in the context of budgetary deviations, including the prospect of the potential effects upon the investment behaviour and the consumption behaviour, which require careful monitoring. To note that the increase of the labour cost in the 2nd quarter of 2017, was 2.2% across the EU, and only 1.8% across the Eurozone. The growth pace of the labour costs was 10 times higher in Romania as against the Eurozone. Which will affect the attractiveness of foreign investments based on low wages. Which will have to be replaced with other facilities, such as infrastructure, quality of the business environment etc. In addition, the increase labour cost will be reflected in the production costs and future price increase, while the money flux on the market will have to find its balance in the supply of goods, from domestic production or import.

We realize now the consequences and the duration of the measures taken on the spot, pushed by election campaigns and deficit of explanations to the general public about public finance (who do not wonder a basic question: How can we afford an income that is triple as against the economic growth ?). Let us hope that the similarities between what we are experiencing at present and what happened in 2007-2008 are a coincidence. This time, growth should be sustainable, with no more problems on the global market and no more deviations. To keep in mind that the euro/leu exchange market started from 3.34 lei in 2007 to 3.68 lei in 2008 and 4.24 lei in 2009, and the public debt increased from 13% of the GDP to 40% after the agreement with the IMF. With the hope that, this time, the outcome will be different, Romania's political decision-takers started a massive consumption and postponed investments ad Kalendas Graecas which will send Romania into stagnation. Since the correlation GDP-purchase power was recovered in 2016, Romanian could not go along the same path in 2017 without facing major risks. The purchase power could not simply grow triple as against the GDP, because it is not mathematically sustainable, and the risk of later plunge is imminent (that is why the EU requested urgent measure to balance the public finances). It is even more unacceptable the continuation of the carnival of increasing the wages in 2018. A set of wages increase in the public sector have been already announced. Correction through inflation (including the current account deficit and the exchange rate) and the cost through additional debt are a certainty. God forbid that global conditions become unfavourable. To have a sustainable economic growth, we need to maintain macroeconomic balance and increased factors that contribute to increase GDP - capital, labour force and productivity. Fiscal relaxation only cannot lead to long term sustainable growth.

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