

# ROMANIAN ECONOMY BETWEEN ECONOMIC GROWTH AND POVERTY: A REGIONAL APPROACH

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## Abstract

*The paper deals with the contradiction between Romania's economic performances and its population's welfare. The whole analysis is made within the European context. Using the assumption of economic recovery across the EU28, the comparative analysis points out the idea that the Euro area's economic performances are worse than those of the EU28, at least during the latest period.*

*A distinct part of the paper uses regression analysis in order to quantify the economic disparities between EU28, Euro area and Romania.*

*The analysis is focused on relevant economic indicators: GDP growth rate, total investment, labor productivity, saving rate of households, government gross debt. A very interesting analysis is that related to population at risk of poverty or social exclusion.*

*The main conclusion of the paper is that there is a great difference between the official economic growth and population welfare in Romania and this difference becomes greater at NUTS2 regions. The paper uses the latest official statistic data and pertinent diagrams in order to support the analysis and its conclusions.*

**Key words:** economic growth; total investment; risk of poverty; regional disparities

## 1. General approach

Last year the European Union had to face to new important challenges. The Greek crisis was followed by the immigrants' crisis, as well. Their impact on the economic development was high.

Moreover, the EU28 operated as a divided regional organization for the first time. UK reiterated its intention to exit from the EU, while Island quitted its position of candidate country. Greece was close to another exit from the Euro area, while Spain has unsolved economic problems, too.

The Euro area economic performances were lower than in the EU28 (European Commission, 2016). The GDP growth rate, for example, was not able to reach the levels from 2000 (see Figure 1).

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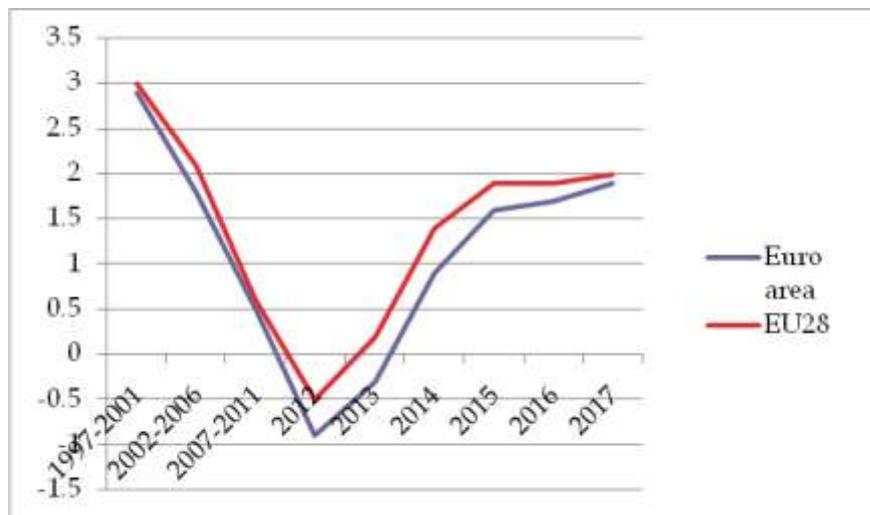


Figure 1: GDP growth rate (%)

According to Figure 1, the optimistic GDP growth rate forecast will be reached in 2017 the same level as in 2006.

The above evolution was supported by a fluctuant total investment trend during the same period (European Commission, 2016).

The total investment will be able to achieve the level from 2001 in 2017. On the other hand, the total investment in the EU28 will have better evolution than in the Euro area.

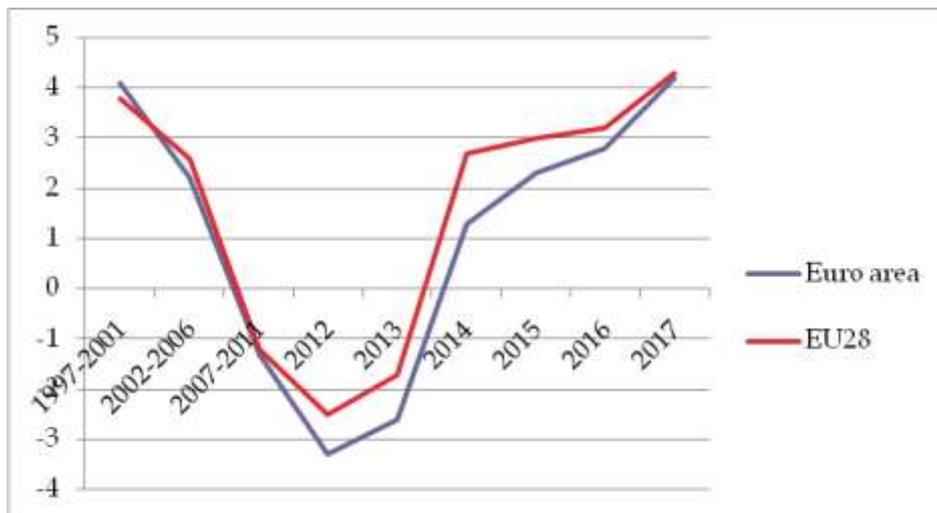


Figure 2: Total investment growth rate (%)

Moreover, the labor productivity will be not able to reach the same growth rates in 2017 as in 2001, for example (European Commission, 2016).

The first intermediate conclusions are that the economic recovery process in EU28 is not finished and the Euro area's economic performance is worse than EU28's economic performance.

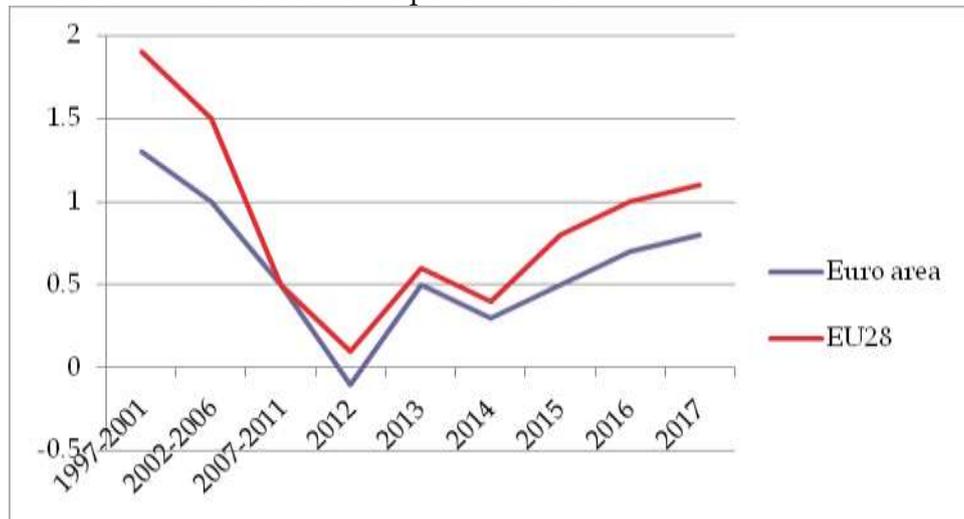
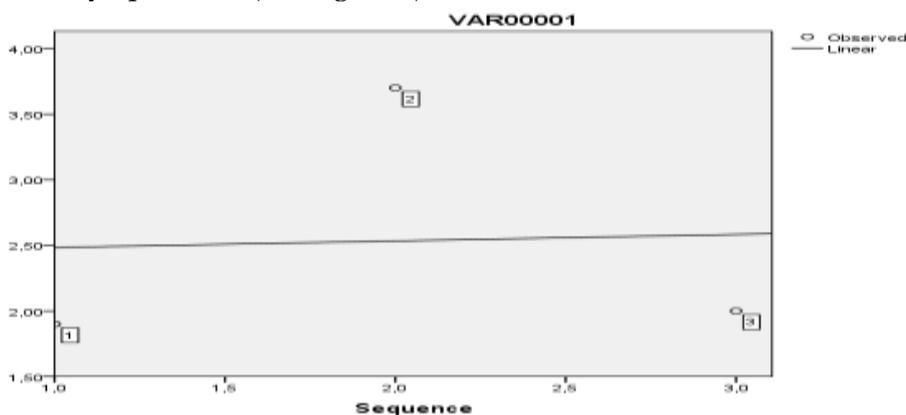


Figure 3: Labor productivity growth rate (%)

## 2. Romanian economy in the official statistics

Romania succeeded in achieving better economic performances than EU28 and Euro area in the latest years. Moreover, the official forecasts are very optimistic (see Figure 4).



1. Euro area; 2. Romania; 3. EU28.

Figure 4: GDP growth rate's disparities in 2017 (%)

Using the regression analysis, the Romanian economy will achieve greater economic growth rates than Euro area and EU28. Moreover, the economic growth rate in Romania will be higher than in Germany, Netherlands, Austria, Denmark, Sweden and UK during 2016-2017.

The same positive trend has total investment in Romania (see Figure 5).

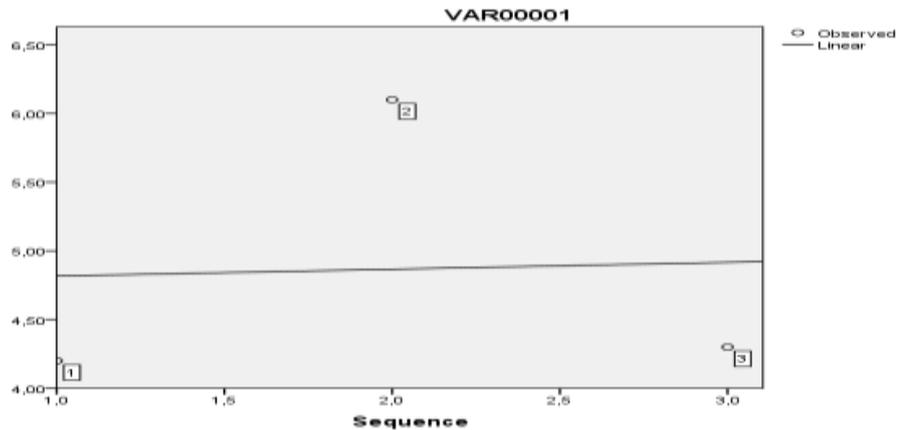


Figure 5: Total investment rate's disparities in 2017 (%)

The total investment growth rate will reach 6.1% in Romania, compared to 4.2% in Euro area and 4.3% in EU28 in the same year.

One of the greatest gaps between Romania and Euro area is that related to the labor productivity. As a result, Romania will achieve a 4.5 times higher labor productivity than in Euro area and 3.3 times higher than in EU28 in 2017 (see Figure 6).

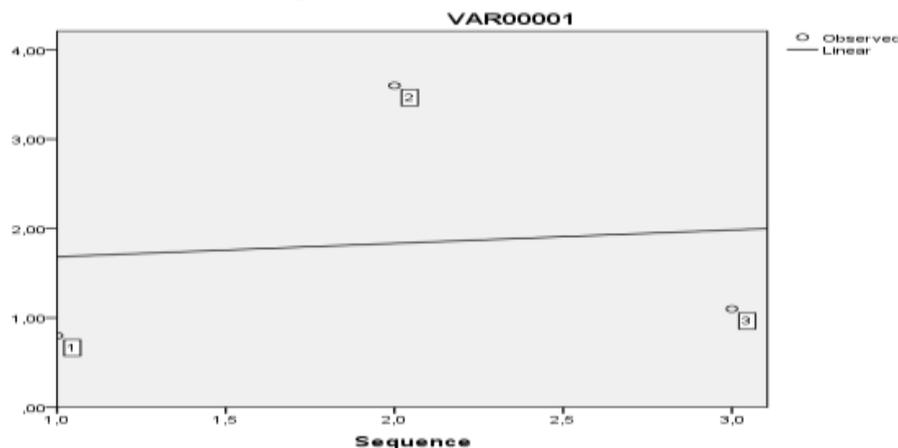


Figure 6: Labor productivity disparities in 2017 (%)

Other representative economic indicators talk about high economic performances in Romania. Romania will achieve the 8<sup>th</sup> lowest gross debt as percentage of GDP from EU28 in 2017 (42.6% of GDP).

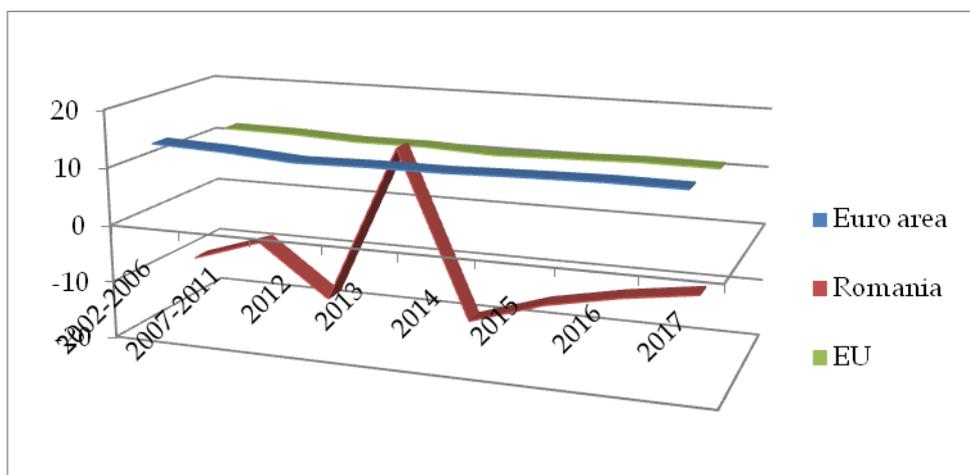


Figure 7: Saving rate of households (%)

All these positive economic trends would have good impact on the Romanian inhabitants' welfare.

The first contradiction is that the economic growth in Romania is not followed by an increase in households' saving. Romania faced to negative saving rates of households from 1996, excepting 2013 (see Figure 7).

Even the relative general government gross debt in Romania can be put in another image because it increased 2.14 times during the last 6 years (see Figure 8).

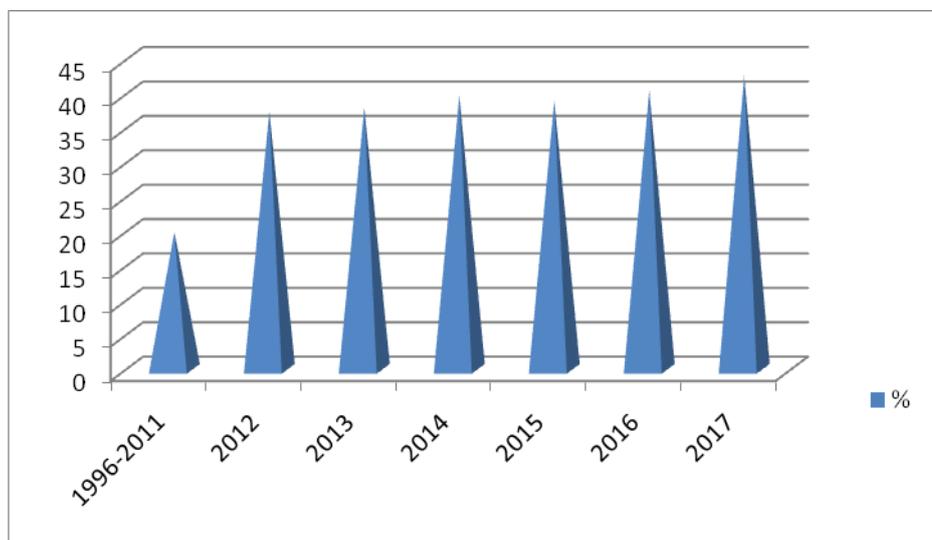


Figure 8: General government gross debt (% of GDP)

Moreover, the government gross debt's trend in Romania is different than the EU and Euro area's trends, because both regional entities succeeded in achieving decrease of this indicator from 2014.

But maybe the greatest contradiction between official statistic data and economic reality in Romania is that related to population at risk of poverty or social exclusion.

### 3. Risk of poverty or social exclusion in Romania

Despite the political enthusiasm in Romania, Eurostat published its latest official analysis on risk of poverty or social exclusion (Eurostat, 2014).

According to this analysis, Romania faced a rate of 40.4% for its population at risk of poverty or social exclusion. Only Bulgaria had a greater rate than Romania. The lowest shares of population at risk of poverty or social exclusion was in the Czech Republic (14.6%) (see Figure 9).

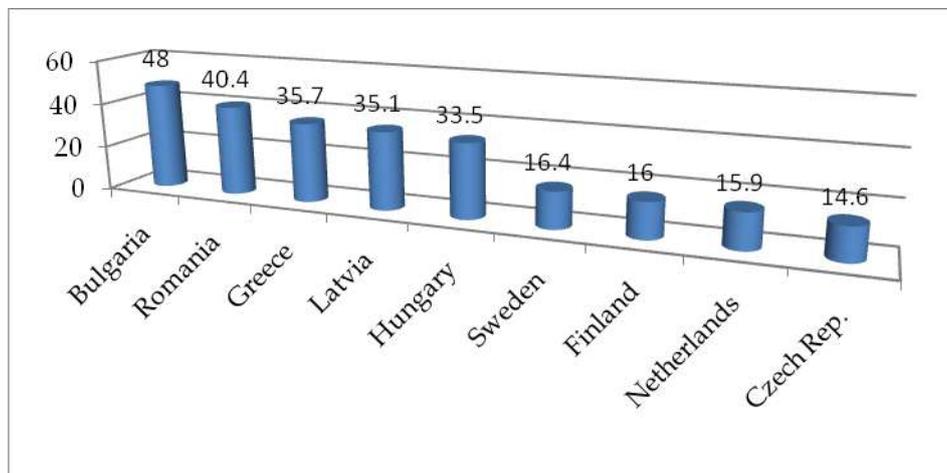


Figure 9: Population at risk of poverty or social exclusion (% of total population)

Unfortunately, Romania achieved 2<sup>nd</sup> rank in the EU regarding population at risk of income poverty (22.4%) and population severely materially deprived (28.5%).

The situation has not improved even after the social transfers. Moreover, according to this last indicator Romania faces the worst rank across the EU28 (Eurostat, 2016).

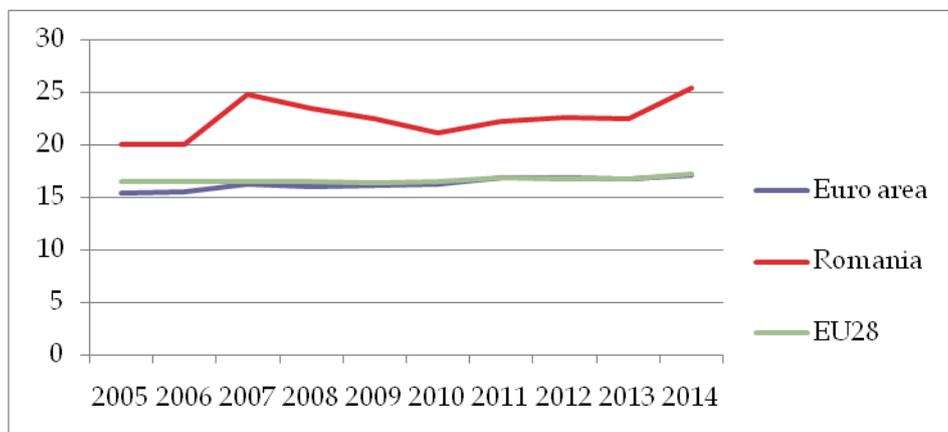


Figure 10: Population at risk of poverty after social transfers (% of total population)

This unwished trend in Romania is supported by the early leavers from education and training. This phenomenon faced to higher rates than

EU average from 2000. Moreover, only Malta faced higher early leavers from education and training rate than Romania in 2014 (Eurostat, 2016b).

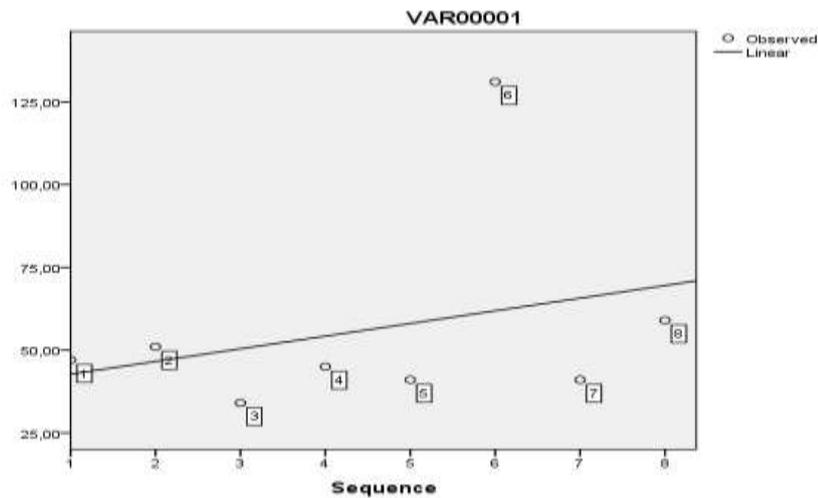


Figure 11: Early leavers from education and training (% of total)

The risk of poverty, social exclusion and early leaving from education and training in Romania are supported by the greatest regional economic disparities. According to the latest official data, 5 Romanian regions (Nord-Est - 34% of the EU average, Sud-Vest- 41%, Sud-41%, Sud-Est-45% and Nord-Vest-47%) are ranked among the fifteen lowest according to the regional GDP per capita (Eurostat, 2015).

The regression analysis points out the great disparities between the GDP per capita in the Romanian regions and EU28 average (see Figure 12).

According to this figure, the Romanian NUTS2 regions (excepting Bucuresti-Ilfov) have to start a very seriously economic catching up process which could bring them close to the EU28 average.



1. Nord-Vest; 2. Centru; 3. Nord-Est; 4. Sud-Est; 5. Sud; 6. Bucure;ti-Ilfov; 7. Sud-Vest; 8. Vest

Figure 12: Regional GDP per capita disparities in Romania (EU=100)

A successful regional economic catching up will decrease the population at the risk of poverty or social exclusion and will stop early leavers from education and training in Romania.

#### 4. Conclusions

EU28 was not able to solve the regional disparities related to economic development. The Cohesion Policy is nearly to become just a simple concept in the absence of positive results. The Greek crisis, the immigrants' crisis and the latest Brexit crisis are just the most visible elements able to destroy the concept of unified Europe. As a result, the Europe 2020 Strategy's goals are far away of achieving.

According to Romania's official statistic data, the economic growth rates were higher than EU average during the last 5 years. This trend will continue during 2016-2017, as well. The problem is that such economic growth is not followed by an improvement in the population's welfare.

Moreover, there are great economic, social and educational disparities between the Romanian NUTS2 regions. And these disparities didn't decrease.

Is the economics approach different in Romania? Is the economic growth in Romania just a theoretical concept as Madame de Stael's "art for art"? Unfortunately, the answer is not available now.

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