

# STRUCTURAL CHANGES OF ECONOMIC ACTIVITY. THE STRUCTURAL EVOLUTION OF ROMANIA DURING 1990 - 2008

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## **Abstract:**

*This paper work caught the main changes that have occurred in our country's economy leading to the change of its economic structures. The context in which they operate but also internal factors that determined economy moving in one direction or another are very different from one period to another. Romania went after the Revolution of 1989, through a complex process of restructuring. The transition has been in our country a batch process of "stop and go"; (impetus to economic growth followed by periods of stagnation of it). Among these, were included: lower production, labor wastage, reducing both the internal market and external market and what is worse, these "failures" led to a decrease in living standards. Has reached today a market economy form that is still struggling with serious imbalances in the major markets: the labor market, the capital market, the market of consumer goods, the services market.*

**Key words:** economic structure, macroeconomic indicators, added value, economic branches

**JEL classification:** E25

In this period of almost eighteen years, Romania has passed after the Revolution of 1989, through a **complex process** of restructuring and thus exceeded the economy hampered by: huge centralization, collectivist mentality of the workforce, lack of private initiative, industrial giants, low productivity, technologies used physical and moral, productive branches unproductive, etc. - fruit of forced industrialization, an economy characterized by monopolies and which are almost closed. Has today reached to the level of a market economy, after a long process of transition ; our country is currently struggling to meet the criteria necessary for European Union member country.

The transition start was more difficult in Romania than in other former socialist countries from Central-Europe. The economy was almost entirely to the state; in order to achieve the gross domestic product, *private sector* contribution in 1989 was only 12,8%. The management system was also too centralized and was in quarrel with criteria of rationality, it was completely inert to reality signs. Achieving the production in extra measurements units gave an oversized high stiffness degree.

Its inefficiency was worse in the 80s both by further investment in power intensive industry branches and also by the stopping the inflow of western technology as consequence of forced early repayment of foreign debt.

The low motivation to work, coupled with artificial policy of "full employment", alter more the competitive domestic production. The aggregate effect of these factors was the deterioration of living standards of the population, block Romania in a perimeter of underdevelopment, compromising her chances to be linked to new developments of civilization. There were industrial giants in our country that produced something that no longer asked recently on the international market, less much on internal market, being economic unable to acquire such products. Satellite of the USSR, Romania took over the production of energy-intensive industrial products, but after cessation of trade with this great power which a subordinate for long, continued production of the same principles of order, inconsistent with market demand, creating a

stock that was not desired by anyone, or had not enough money to buy. This phenomenon has continued in the first years after the revolution, the restructuring, the privatization of the industrial system being very slow.

The sudden removing, after December 1989, of the control system resulted as first step to deepening harmful effects of structural imbalances, aggravated by insufficient training of the political class, managers and general population to act in conditions of democracy and market mechanisms.

Unfavorable circumstances in which it started the transition process in Romania explains in a massive extent the obvious failure that they accompanied. But not entirely, because they are charged to the manner it was managed reform. People found themselves before a freedom that did not know what to do, entirely lacking initiative and restructuring the economic system had not even been called into question yet; wanted to change their way of life, liberty, and thus remove the dictatorial system, oppressive laws which leaves no market economy, where the state controlled everything and everyone. Open borders was a very difficult test, a majority of people have immigrated, fleeing the memory of a regime that had destroyed lives and dreams: the dictatorship. Those who remained continued to do for a while all that had until then, the inertia, or perhaps because he was the only thing that had ever taught to do and there was no one to tell them now to be changed or when to stop. Romania opened its borders to Europe, to a world that operate as completely different principles, other economic rules, lived another life before that and realized how necessary are the changes and how much should be made to make this new world, the competition in order to go beyond the shock that was.

The analysis of macroeconomy indicators in the period 1990 - 2008, highlights the important changes that occurred in the economic and social areas, as well as delays in promoting market mechanisms in preparing the premises for ensuring sustainable development of Romanian society.

Essential transformation of the Romanian economy in the period under review, consists in the opening of former socio-economic system to the wider world, in triggering the process of linkage of our country to new developments that are carried on in Europe and worldwide.

This "door" which was opened generated a number of essential changes to the development of our country, changing economic structure, bringing new elements, better, but creating also the imbalances that have been and are still very difficult to control (the unemployment, the inflation) and come precisely from the fact that the population in particular was not prepared, did not know what one looks, how to react, to adjust.

To the followings charts (Table 1 and Table 2) are presented the absolute values of main macroeconomy indicators during the study period 1990-2008 and the percentage contribution of the industries to GDP, the most synthetic economic indicator of Romania's economic welfare

*Table no.1 Dynamics and structure of main macro-economy indicators during the period 1991-2008*

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	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Gross domestic product (GDP) consisting of:</b>																		
• <i>Gross added value:</i>	220,4	602,9	2003,6	4977,3	7213,5	10891,9	25292,6	37379,8	54573,1	80377,3	116768,7	151475,1	197564,8	246468,8	288176,1	344535,5	404708,8	503958,7
- industry	83,5	231,1	678,1	1801,8	2371,1	3618,2	7809,4	9821,3	13534,4	21948,0	32304,7	42609,8	49489,7	60794,9	71009,8	83612,3	94970,3	115192,2
- agriculture, forestry, fishery, forestry	41,6	114,7	420,5	989,7	1426,8	2094,9	4553,2	5377,2	7280,5	8901,5	15617,9	17307,6	22849,2	31043,9	24291,7	26904,0	26865,0	32566,4
- constructions	9,6	29,1	104,0	325,1	475,5	706,7	1323,0	1902,9	2737,6	3928,7	6233,4	8788,9	11483,1	14648,7	18468,4	25607,1	36876,0	52893,9
- services	71,9	216,6	655,3	1478,8	2386,4	3765,6	9596,1	16053,3	24495	36354,3	50127,7	66912,9	91579,8	113488,4	140732,9	168031,3	200889,9	249216,4
• <i>Net taxes on product</i>	13,8	11,4	145,7	381,9	553,7	706,5	2010,9	4225,1	6525,6	9244,8	12485	15855,9	22163	26492,9	33673,3	40380,8	45107,6	54089,8
<b>Final consumption</b>	<b>167,3</b>	<b>464,3</b>	<b>1523,6</b>	<b>3845,2</b>	<b>5866,2</b>	<b>8993,9</b>	<b>21861,9</b>	<b>33746,8</b>	<b>48436,2</b>	<b>69253,3</b>	<b>99473,7</b>	<b>127269,2</b>	<b>169233,4</b>	<b>210155,2</b>	<b>252282,4</b>	<b>294752,7</b>	<b>342785,5</b>	<b>409226,7</b>
<b>Gross capital made</b>																		
	61,8	189,3	579,6	1234,8	1751	2815,9	5217,3	6633,4	8774,1	15649,1	26344,9	32839,7	43166,8	58643,1	65263,8	91285,6	119753,4	158281,2
<b>Net export (Export-Import)</b>	<b>-8,7</b>	<b>-50,7</b>	<b>-99,6</b>	<b>-102,7</b>	<b>-403,7</b>	<b>-917,9</b>	<b>-1786,6</b>	<b>-3000,4</b>	<b>-2637,2</b>	<b>-4525,1</b>	<b>-9049,9</b>	<b>-8633,8</b>	<b>-14835,4</b>	<b>-22329,5</b>	<b>-29370,1</b>	<b>-41502,8</b>	<b>-57830,1</b>	<b>-63549,2</b>
<b>GDP/capita</b>	<b>9,5</b>	<b>26,4</b>	<b>88,0</b>	<b>218,9</b>	<b>318,0</b>	<b>481,7</b>	<b>1121,8</b>	<b>1661,1</b>	<b>2430,0</b>	<b>3582,6</b>	<b>5210,9</b>	<b>6950,1</b>	<b>9090,3</b>	<b>11372,0</b>	<b>13326,8</b>	<b>15962,3</b>	<b>16.920,0</b>	<b>18121,3</b>
<b>Gross national income</b>	-	-	-	-	-	-	-	36979,5	53935,7	79784,6	115953,5	149958,2	193067,6	236194,2	279685,3	333097,0	390079,6	483601,1

Source: National Institute of Statistics, there are not data for the indicator of gross national income in the period 1991-1997

**Table no.2. Main issues contribution to GDP making at Romania level during the period 1991-2008**

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	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Gross domestic product</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
• <i>Gross added value:</i>	93,74	98,11	92,73	92,33	92,32	93,51	92,05	88,70	88,04	88,50	89,31	89,53	88,78	89,25	88,32	88,28	88,85	89,27
- industry	40,42	39,07	36,50	39,21	35,60	35,52	33,54	29,62	28,17	30,86	30,98	31,42	28,22	27,64	27,90	27,49	26,41	25,61
- agriculture, forestry, fishery, forestry	20,14	19,39	22,63	21,54	21,42	20,57	19,56	16,22	15,15	12,51	14,98	12,76	13,03	14,11	9,54	8,85	7,47	7,24
- constructions	4,65	4,92	5,60	7,07	7,14	6,94	5,68	5,74	5,70	5,52	5,98	6,48	6,55	6,66	7,26	8,42	10,25	11,76
- services	34,80	36,62	35,27	32,18	35,83	36,97	41,22	48,42	50,98	51,11	48,07	49,34	52,21	51,59	55,30	55,25	55,86	55,40
• <i>Net taxes on product</i>	6,26	1,89	7,27	7,67	7,68	6,49	7,95	11,30	11,96	11,50	10,69	10,47	11,22	10,75	11,68	11,72	11,15	10,73
<b>Final consumption</b>	75,91	77,01	76,04	77,25	81,32	82,57	86,44	90,28	88,75	86,16	85,19	84,02	85,66	85,27	87,54	85,55	84,70	81,20
<b>Gross capital made</b>	28,04	31,40	28,93	24,81	24,27	25,85	20,63	17,75	16,08	19,47	22,56	21,68	21,85	23,79	22,65	26,50	29,59	31,41
<b>Net export (Export-Import)</b>	-3,95	-8,41	-4,97	-2,06	-5,60	-8,43	-7,06	-8,03	-4,83	-5,63	-7,75	-5,70	-7,51	-9,06	10,19	12,05	14,29	-12,61

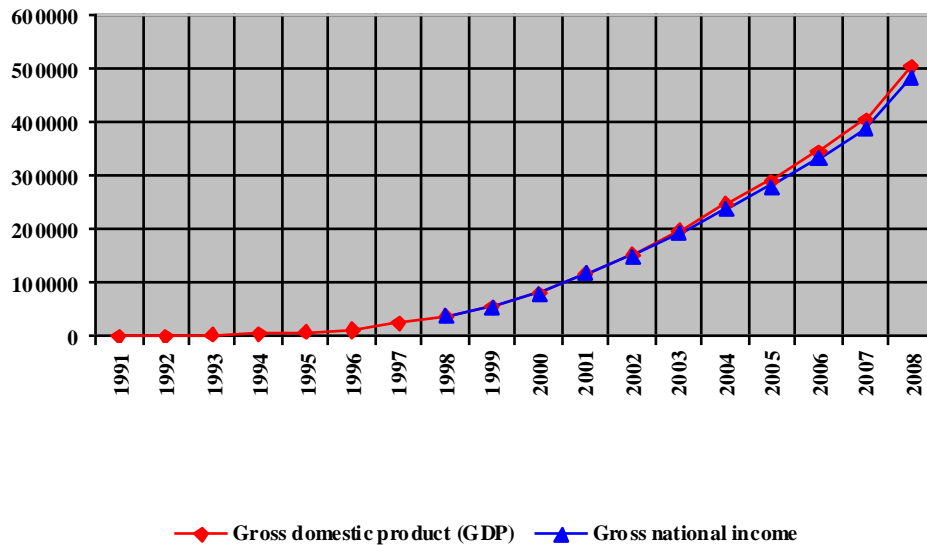
Source: computations based on data gathered from the National Institute of Statistics

In the diagram/graph no.1 is present the evolution of GDP and national income during study period.

**Romania has a negative balance of use the production factors/inputs**, the incomes for inputs of other nationalities (especially foreign capital) which reduce the gross domestic product are growing.

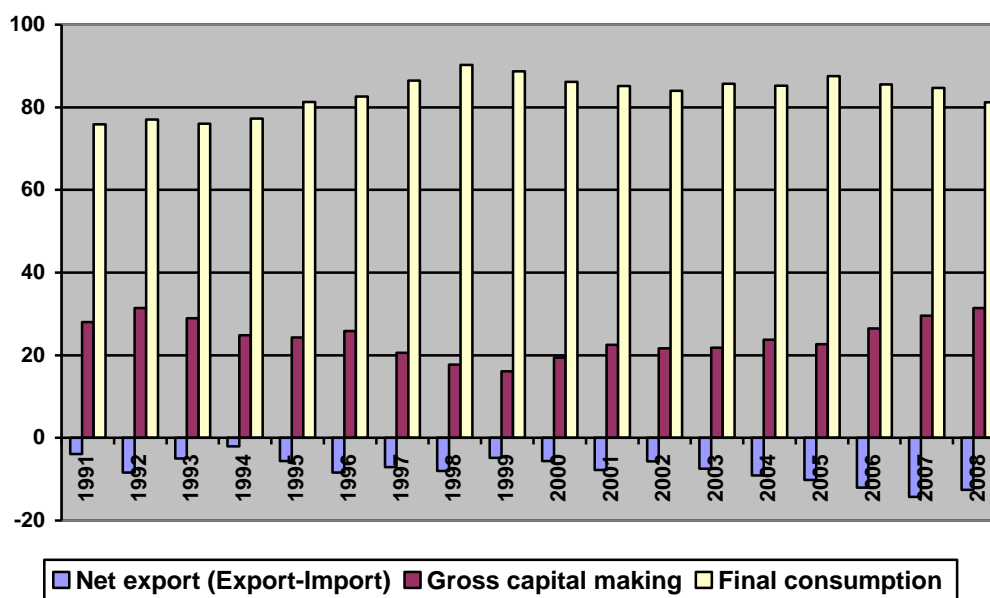
Romanian economy has benefited from considerable foreign investment during this period, which makes the difference between GNI and GDP negative. In recent years, from about the year 2003, this negative balance was increased and grew increasingly more large, given that foreign direct investments in 2004-2006 were about 20 billion euros double between the period 1990-2003 when they had a level of 10 billion Euro.

The economic growth and hence the real convergence processes are evaluated based on GDP changes. The gross national income is used - as outlined above - to the projection of the Community budget and the analysis of living standard. Even the standard of living (purchasing power) can be judged in terms of GDP, still prevail using Gross National Income.



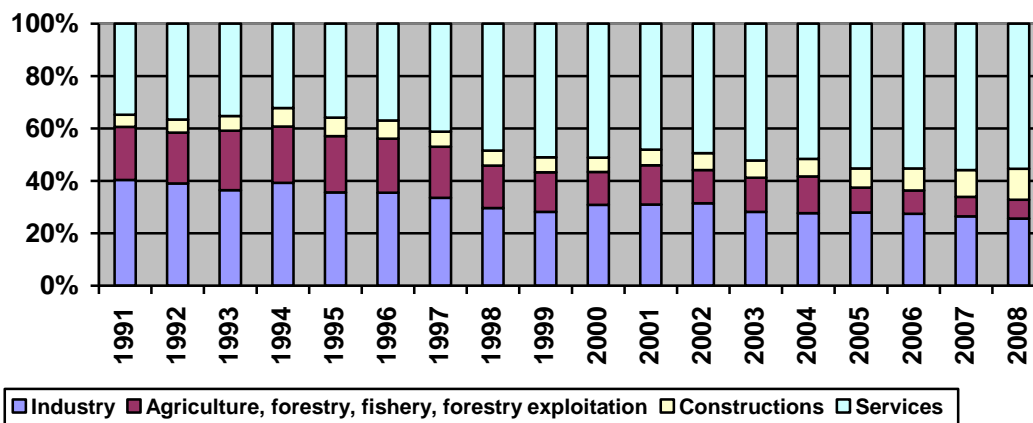
*Diagram no.1 Evolution of main macro-economy indicators*

If we look at gross domestic product by main categories of users (Diagram no.2) is observed an economic increase during the analysis period, the share of the most notable development was the final consumption and to a lesser extent the capital formation. With regard to net exports (exports - imports) it is observed the negative influence of them to GDP, because gradually our country, the volume of exports fell sharply in comparison with imports.



*Diagram no.2 GDP increasing elements on user categories*

Romanian economy's evolution in the period under review is expressed in the dynamics and structure of **Gross Domestic Product**. Economic indicator most synthetic of Romania economic prosperity, GDP ranged reaching to 76% of the registered owner in 1989, before the transition process that began with 1990, ten years later and then in the years preceding EU accession period observe structural economic changes, changes in legislation and administrative framework, but more importantly change the mentality of the population. Structure of gross domestic product is different from that which characterized the economy in the past (Diagram no.3): share of agricultural sector in gross value added formation decreased from 20,14% in the early 90s to 15,15% in 1999, following the whole process a decrease reached in 2007 at a value of 7,47% and in 2008 at a value of 7,24% share of industry has fallen below the threshold of 31% in 2002 had a comeback when he recorded a value of 31,42%, and at its next period to fall back just below the value of bringing in some 30% in 2007 to a value of 26,41% and in 2008 at a value even lower, namely 25,61%, while services and construction sector contributed in 1999 to 56,68% of gross value added (compared with about 70% in the EU) with 15 points more than the beginning decade, and in the coming years these sectors have an increasing share of high reached in 2007 at a value of 66,11% and 67,16% in 2008. The significance of this process should not be exaggerated, he accomplished in conditions of delay the restructuring process and a pronounced economic decline in Romania.



**Diagram no.3** The percentage share of branches to GDP making/consitute

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