# MACROECONOMIC STABILITY - IMPORTANT FACTOR OF ECONOMIC COMPETITIVENESS

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***Abstract:***
*After several years of rapid and almost unhampered growth, the global economic landscape is changing. In this context, the paper approaches a topic of present utmost interest: macroeconomic stability and its impact upon economic competitiveness. The authors' aim in this paper is to provide an image of the macroeconomic stability of EU countries and of Romania, especially. Since the status of the economic competitiveness cannot be treated independently from the macroeconomic stability, we have firstly proceeded to reviewing the main theoretical and empirical literature in this respect.*

***Key words****: macroeconomic stability, economic competitiveness, sustainable economy*

***JEL classification:*** E60, O10

## 1. Introduction

From the microeconomic viewpoint, competitiveness may be defined as the capacity of a microeconomic structure to conquer or consolidate a certain market segment. (Voiculescu, 2000)

From the macroeconomic viewpoint, competitiveness can be defined as the ability of a macroeconomic structure to gain or maintain market shares on the exterior and interior. In other words, macroeconomic competitiveness means the capacity of a nation to extend its exports and limit its imports. (Voiculescu, 2000) Moreover, in defining macroeconomic competitiveness, the structure of imports or exports is equally important. A country with large imports, but predominantly of raw materials necessary to obtain products destined to an equally massive export is, no doubt, a competitive country.

The determinants of competitiveness are many and complex. For hundreds of years, economists have tried to understand what determines the wealth of nations. This attempt has ranged from Adam Smith's focus on specialization and the division of labor to neoclassical economists' emphasis on investment in physical capital and infrastructure, and, more recently, to interest in other mechanisms such as education and training, technological progress (whether created within the country or adopted from abroad). Macroeconomic stability, good governance, the rule of law, transparent and well-functioning institutions, firm sophistication, demand conditions, market size are very important for economic competitiveness, too. (The Global Competitiveness Report 2010-2011)

## 2. The Macroeconomic Stability in Romania

In Romania, as in many other similar CEE countries, the transition to market economy has been realised very slow. It meant the development of two processes: the transfer of ownership from state owned enterprises into private hands and the emergence of new private companies as a result of the private and independent initiatives that have developed through changes to State owned enterprises. These two processes have been developed more or less simultaneously, but with different speeds. Both processes had a great impact on the labour market. Whilst the privatization process has lead to a reduction in jobs, contributing to unemployment generation, especially in the long term, the newly emerging private sector has created most of the new jobs. Taking into account that most of the newly established companies are small and medium-sized, it is the small business sector that has contributed to the absorption of the fall-out of the labour force as a consequence of layoffs as well as to the formation of a new generation of employers and employees.

A stable economy is an essential precondition for growth. It allows individuals, businesses and the Government to plan more effectively for the future, increases investment and helps to raise productivity. Generally, countries which maintain relatively stable macroeconomic variables such as inflation, unemployment, interest rates, exchange rates, the balance of payments and fiscal aggregates tend to display higher long-term growth rates**.**

In terms of macroeconomic stability, Romania ranks the 23$^{th}$ place in the European Union (according to Global Competitiveness Report), just ahead of Latvia, Irland, Portugal and Greece, managing to get only 4.5 points from a maximum of 7 points. These scores has been calculated by World Economic Forum using statistical database or opinion Survey. (Table 1) Basic requirements include institutions, infrastructure, macroeconomic stability, health and primary education.

**Table 1**

**The Competitiveness Index: Macroeconomic Stability**

| **Country** | **Macroeconomic Stability** | | **Basic requirements** | |
|---|---|---|---|---|
| | **Rank** | **Score** | **Rank** | **Score** |
| Luxembourg | 1 | 5.67 | 6 | 5.81 |
| Sweden | 2 | 5.61 | 1 | 5.98 |
| Finland | 3 | 5.58 | 2 | 5.97 |
| Denmark | 4 | 5.56 | 4 | 5.86 |
| Estonia | 5 | 5.4 | 11 | 5.38 |
| Germany | 6 | 5.32 | 3 | 5.89 |
| Austria | 7 | 5.3 | 7 | 5.67 |
| Netherlands | 8 | 5.29 | 5 | 5.82 |
| Slovak Republic | 9 | 5.2 | 21 | 4.77 |
| Slovenia | 10 | 5.19 | 13 | 5.18 |
| Bulgaria | 11 | 5 | 26 | 4.43 |
| France | 12 | 4.98 | 8 | 5.67 |
| Czech Republic | 13 | 4.9 | 18 | 4.91 |
| Malta | 14 | 4.82 | 16 | 5.08 |
| United Kingdom | 15 | 4.76 | 9 | 5.58 |
| Poland | 16 | 4.7 | 22 | 4.69 |
| Spain | 17 | 4.6 | 15 | 5.13 |
| Cyprus | 18 | 4.6 | 12 | 5.28 |
| Hungary | 19 | 4.59 | 23 | 4.65 |
| Lithuania | 20 | 4.56 | 20 | 4.77 |
| Belgium | 21 | 4.56 | 10 | 5.45 |
| Italy | 22 | 4.52 | 19 | 4.84 |
| **Romania** | **23** | **4.5** | **27** | **4.36** |
| Latvia | 24 | 4.47 | 24 | 4.6 |
| Irland | 25 | 4.26 | 14 | 5.18 |
| Portugal | 26 | 4.26 | 17 | 5.01 |
| Greece | 27 | 1 3.61 | 25 | 4.49 |

Source: Adapted from World Economic Forum, *The Global Competitiveness Report, 2010 – 2011*, p. 16-17.

Romania's position can be explained by increasing the current account deficit, fiscal policy ineffective and lack of investment in certain important areas such as infrastructure.

In 2008, the current account deficit of Romania was 23713 million USD, higher than the current account deficit of many EU countries such as Malta (444 million USD), Estonia (2246 million), Slovenia (3329 million USD), Cyprus (4349 million USD), Latvia (4492 million USD), Lithuania (5703 million), Czech Republic (6631 million), Belgium (12101 million USD), Bulgaria (12575 million USD), Hungary (13448 million USD), Ireland (14222 million).

With the exception of Latvia and Ireland, the countries positioned after Romania in the hierarchy of macroeconomic stability record current account deficits larger than our country: Portugal (USD 29599 million), Greece (U.S. $ 51313 million).

Note that Poland, United Kingdom, France, Italy and Spain (better situated than Romania in the hierarchy of macroeconomic stability) have the largest current account deficits in the EU (28921 million USD, 45670 million USD, 64230 million USD, 78030 million USD, and 154129 million USD).

Although the Gross Domestic Product per capita in our country has increased these past few years, it still remains very low compared to the EU’s member states. Thus, in 2005 the GDP per capita was of 8100 PPS, representing 31.88% of the EU’s average, compared to 22.62% in 2000, when the GDP per capita in Romania was of 5,000 PPS.

Consequently, one may affirm that regarding economic growth, Romania is at present in its seventh year of positive evolution, the annual rates of around 5.7%, beginning with 2001, assuring the gradual reduction of the gap separating it from the European Union countries. Nevertheless, at present the GDP per capita calculated at the standards of the purchasing power in Romania is around 3 times lower than the EU average.

The latest review made by the European Commission related to the status of the market economy in Romania, states that although the country has made significant progress towards the accomplishment of the strategic objective of accessing the EU, the country does not yet meet the entire set of criteria. If the structural reforms continue with the same speed and determination the required criteria of a fully functioning market economy will certainly be met.

The increase of the competitiveness of Romanian products after 2004 is reflected in the change of the structure of industrial products export. In the period 2000-2004, it had a positive evolution, but it was constituted mainly by products with lower value added: products of the textile and ready-made industry created in the lohn system, products of metallurgic industry, especially inferior steels and less special steels.

The export of low technology products and the export of resources decreased, while the export of medium-technology products increased visibly. In the case of imports, the share of high and medium technology products is approximately equal to that of low-technology products. This situation shows that in Romania technology is largely imported. The technology created internally has a reduced percentage of total technology used in this country and, when available, is difficult to promote and transfer to productive companies.

In sum, understanding the basic economic structure should be a basic building block of an economic analysis, complemented by more detailed information about the macroeconomic policies in the country. Balance of payments, structure of imports and exports, GDP growth rates, interest rates and government budgets are important sources of information in analysing the status of the economy and the possibilities it has in terms of pro-poor growth.

## 3. Conclusions

A stable and sustainable economy depend to a large extent on macroeconomic conditions in the country.

The stability of the macroeconomic environment is important for business and, therefore, is important for the overall competitiveness of a country. Although it is certainly true that macroeconomic stability alone cannot increase the productivity of a nation, it is also recognized that macroeconomic disarray harms the economy. Firms cannot make informed decisions when inflation is raging out of control. The government cannot provide services efficiently if it has to make high-interest payments on its past debts. In sum, the economy cannot grow unless the macro environment is stable.

Under these circumstances, the issue of increasing firms' competitiveness has become essential for Romania's economy. Nevertheless, this also requires the elaboration and application of clear strategies, both at the level of companies and at the level of the government, with specific goals and actions.

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