Investments to restart the real economy – the main way out of crisis in Romania

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Abstract
This paper is based on setting the real sector priority under the influence between the real economy and the financial markets, expressed succinctly by the fact that in the real economy is generated newly created value and the financial market manages this. The actual financial crisis indicate a serious decoupling of the two markets, too many investors prefer the huge and rapid gains from the financial market and ignore the proper functioning of the real economy.
Our research methodology is based on some measures by which the role of the Romanian real economy is already supported by the European Union. But in practice, it is necessary a „step by step" policy for every Romanian firm in order to restart the investment in all sectors of the economy, but particularly in agriculture, industry and construction. In fact, there are many deficiencies in restarting the real economy and the problems are both at the macroeconomic level and the individual one.
The conclusion of article is that the crisis is needed both on a policy of austerity and proper management of all resources, but this austerity must be accompanied by "small steps" policy to restart investment in all fields. At the same time, it should be proven that exist a real economic democracy facing political decisions insufficiently developed.

Keywords: investment, real economy, financial crisis, Romania

JEL Classification: D24, E22, G20, L20, M20, O11, Q14.

Introduction

The correlation between the real economy and the financial markets influenced permanently the economic evolutions. While in some periods it was put in the first place the evolution of the real economy, in other periods it was considered essential the financial market.

In the last decades of the twentieth century the financial investment became privileged. It was accredited the idea that real investment represent a personal decision, being a simpler problem, and essential investment are the financial ones, which are related to institutions that put in connection money, information, skills and a certain position of investors. "Thus the doctor has made a real investment in the apartment house, and the institution had made a financial investment in the doctor", the American authors say (Sharpe et. al, 1998).

Many experts point out the actual financial crisis indicate a serious decoupling of the two markets, too many investors prefer the huge and rapid gains from the financial market and ignore the proper functioning of the real economy.

At the same time, economic theory considered for a long period that the real economy is paramount and it must be very strong, because in the real economy is generated newly created value and the financial market manages it.

The real sector encompasses activities related to the aggregate supply and aggregate demand in an economy, and, normally, there is the correlation between the real economy and the financial markets, but, from time to time, the real sector should be contrasted with the "the paper economy".

Our research methodology is based on some measures by which the role of the real economy is already supported by the European Union (European Commission, 2009).

The crisis of the real economy in European Union and in Romania

From the Financial Crisis to the Real Economy?

Too rapid innovation and growth of financial investments, in disagreement with the evolution of the real economy is considered primarily responsible for the crisis. Specifically, the evolution towards crisis in United States is underlined by the same pre-crisis or "bubble symptoms" as the house price increase and excess credit growth, and the crisis appears as an inevitable adjustment after this bubble (Gros and Alcidi, 2010). It is thus underlined the cause-effect relationship „from the financial crisis to the real economy", but analysis indicate that the crisis had a bigger negative impact on firms more open to trade; financial openness appears to have made limited impact (Stijn et al, 2011).

The evolutions indicate that an economic crisis is more comprehensive than a financial crisis and a correct analysis underlines the fact that the present day crisis is more serious, because it is generated by a combination of economic and financial causes, but also social and political ones.

The roots of current crisis are more complex and deeper under a long evolution cycle, that should be changed at a specific moment and the historical experience shows that the crisis can also catalyze efficiency enhancing public-policy initiatives and it can set the stage for faster and more successful growth (Eichengreen, 2010).

In this context, more and more experts and policymakers believe that overcoming the crisis pass through the restarting on other bases of the real economy. But this process takes time and needs more radical transformations generated by new technical, social, environmental and financial factors.

The difficulty of overcoming the crisis is revealed by the conclusion: "the EU economy: from recession towards a slow recovery" (European Union, 2012).

The "step by step" policy in all areas of the real economy shows that there is progress. For example, Romania was able to counter the economic crisis in 2011 through some growing trends in industry and agriculture.

Romanian economy during transition and EU integration

Romania has undergone radical changes after 1989 in both the real and financial economy. Basically, the real economy of Romania suffered a first shock caused by the transition from a super-centralized economy to a market economy through privatization. Transition was perceived as chaotic dismantling with a lot of losses for the Roman state.
The first stage of transition was based on the doctrine <privatization through liquidation>, with dramatic effects on economic growth, inflation and unemployment. Normally, it should have been an <desinvestment> process of transition from one type of business to another type, with rigorous management for both state firm's assets and work places.

The political transition was abrupt and relatively easy, but the economic transition was much slower and difficult, because there was not a market economy model. Then it was added that the financial crisis has highlighted many weaknesses even in those economies considered developed and the globalization has contributed to the emergence of the real risk of contagion.

For 20 years, Romania oscillated between questionable actions and correct measures of social and economic policy, but the trend of change was maintained and there were still made progresses.

It should be underlined that the process of improving the legislative and institutional framework in Romania was accelerated before and after EU accession in 2007.

The monetary pillar was the fastest adopted, and the monetary statistics indicate a totally alignment to the terminology and practices of European Monetary Union. But, the fiscal one is still in discussion, and the structural problems are difficult to be changed.

Overall, the real economy was influenced positively by EU integration, thus the Gross Domestic Product (GDP) and inflation (Table 1) show a tendency to get closed to the concerted evolution of the EU 27 area, but in Romania the real economy is affected by inflation.

Table 1: GDP growth rate (previous year = 100) and the annual inflation rate in the EU 27 and Romania -%

	2000	2008	2009	2010
GDP in UE 27	3,9	-4,3	2,0	1,5
-in Romania	2,4	-6,6	-1,6	2,5
Inflation in UE 27	1,9	1,0	2,1	3,1
-in Romania	45,7	5,6	6,1	5,8

Source: National Statistical Institute, INS(2012), Romania in figures, http://www.insro

Growth in 2010 and 2011 was mainly driven by a robust increase in industrial output and an exceptional agricultural harvest. But, on the demand side, the main drivers of growth were gross fixed capital formation and a modest recovery in private consumption. In the second half of the year 2012 economy started to contract again. But actually, this was the trend in EU, too.

European and Romanian crisis on the real investments

Data on this sector shows the most important macroeconomic indicators, like: the gross domestic product (GDP) and structure of this product (consumption, savings, and capital formation), the population and labor force characteristics, the movements of wages and prices at different stages from production to consumption.

Analysis on the period 1992-2013 indicates the correlation GDP-Investment and GDP growth forecasts as well as investment remained cautious, as shown in Table 2. For the year 2012, the forecasted data could not be overcome.

Table 2: Gross domestic product (GDP), volume and Total investment (I), volume in EU and in Romania (percentage change on preceding year, 1992-2013)

Indicators	5-year averages							Spring 2012 forecast		
	1992-1996	1997-2001	2002-2006	2007	2008	2009	2010	2011	2012	2013
GDP: -EU	1,3	3.0	2.1	3.2	0.3	-4.3	2.0	1,5	0,0	1,3
-Romania	1,3	-0.1	6.2	6,3	7,3	-6.6	-1.6	2,5	1,4	2,9
I: -EU	2.4	4.3	2,6	5,9	-0,9	-12,5	-0,2	1,3	-0,9	2,2
-Romania	10,4	1,9	12,7	30,3	15,6	-28,1	-2,1	6,3	4,7	6,4

Source: European Union (2012), European Economic Forecast, Spring 2012

A similar analysis was done for the Investment in construction, and Investment in equipment (Table 3)

Table 3: Investment in construction (Ic), volume and Investment in equipment (Ie), volume in EU and in Romania (percentage change on preceding year, 1992-2013)

Indicators	5-year averages							Spring 2012 forecast		
	1992-1996	1997-2001	2002-2006	2007	2008	2009	2010	2011	2012	2013
Ic: -EU	..	2,1	3,6	7,8	0,8	-11,0	-3,0	0,7	-0,4	1,4
-Romania	15,2	-2,1	11,4	37,3	20,3	-28,7	-1,7	4,9	4,7	5,6
Ie: -EU	..	6,9	4,2	12,5	2,1	-18,5	5,8	4,1	0,2	4,7
-Romania	7,3	5,9	14,9	28,3	10,9	-27,7	6,0	7,0	4,7	7,5

Source: European Union (2012), European Economic Forecast, Spring 2012

Crisis hit EU real investments since 2009, but it can be seen that developed European states have both growth rates and lower discount rates, so there is a certain tendency toward stability.

Romania, as a country with an emerging economy has misleading evolution because in periods of boom can be observed growth rates much higher than the EU, but in times of crisis, these increases are offset by steep declines. For instance, in 2009, percentage change on preceding year for important macroeconomic indicators (GDP, Total Investment, Investment in construction and in equipment) show a reduction even double in Romania from the EU.

The fragility of real economy from EU27 can be seen from the statistics in 2012 showing that Investment rate of non-financial corporations has oscillations and then a slight reduction in Third

Quarter of 2012. (Fig.1.). Business investment rate got down to 19.9% in the euro area and to 19.6% in the EU27.

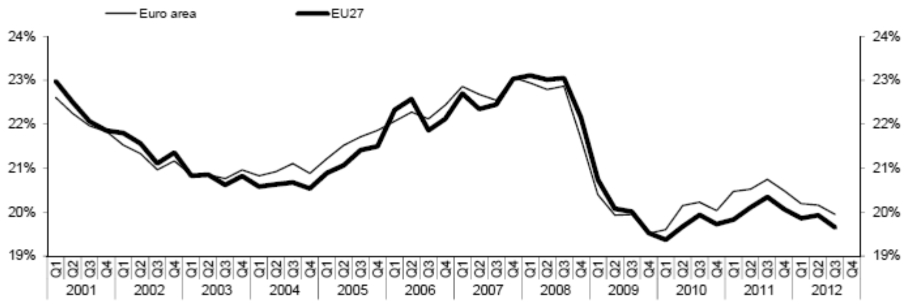

Figure 1: Investment rate of non-financial corporations (seasonally adjusted)
Source: Eurostat-newsrelease euroindicators 16/2013 - 29 January 2013, http://ec.europa.eu/eurostat/euroindicators

Important is that business profit share was almost stable at 38.0% in the euro area and 37.6% respectively in the EU 27, but the economic and financial situation is still fragile (there are even risks to political stability in some European states).

Main indicators of the Romanian real sector

Romania was able to counter the economic crisis in 2011 through some growing trends in industry by car production at Dacia Company and good agricultural production.

The car production was generated by foreign investments (Renault), but agricultural production depended on the Romanian capital (and on the nature, because it was a good agricultural year).

Table 4: Indices of industrial production and of construction works -% 2005 = 100

	2008	**2009**	**2010**	**2011**
Industrial production indices	123,8	116,9	123,4	130,3
- *Manufacture of motor vehicles, trailers and semi-trailers*	142,7	158,0	204,2	222,9
Indices of construction works	289,1	166,02	144,13	148,13

Source: National Statistical Institute, INS(2012), Romania in figures, http://www.insro

The Romanian country's agricultural area is 14.7 million hectares (61.7% of the total area of Romania) and 9.38 million ha is arable land (63.8% of the agricultural area). Romania is located on the 6th place in Europe as an agricultural area used (after France, Spain, Germany, Britain and Poland) and on the 5th place as arable land (after France, Spain, Germany and Poland). From another point of view, each inhabitant incumbent about 0.41 ha of arable land, a higher value of many European Union countries (the EU27 average is 0.212 ha per capita).

Table 5: Indices of agricultural production -% 2004-2006=100

	2000	2008	2009	2010
Romania	72,34	96,51	94,41	95,35
Netherlands	104,95	104,53	108,33	109,69
Poland	102,03	102,90	105,77	100,37

Source: National Statistical Institute, INS(2012), Romania in figures, http://www.insro

Romanian rural areas have a great potential and preserve the social and traditional way of life. But, majority of the Romanian rural communities make a small contribution to economic growth before and during the financial crisis period.

In 2012, the car production still survived the crisis, but agricultural production has collapsed under the impact of drought.

Measures to support real economy

European Economic Recovery Plan and EU funds for Romania

To face the crisis, government adopted various policies, following the quick results, such as:

- some measures put in discussion the priorities of supporting the real economy, concomitant with regulating financial markets, especially in banking field;
- other measures aimed strictly real sector, some of which are considered for austerity with pressure on budgetary expenditures, while others were considered for recovery in consumption or investment.

All these measures failed to stop the crisis, because there was not a pattern, so, restart investment in the real economy is not significant and widespread. For Romania, the EU measures are very important. The EU measures to support the real economy are included in the European Economic Recovery Plan, summary of these measures is given in Table 6.

Table 6: Overview of policy responses to the economic crisis in EU Member States - areas and measures

A. Real economy	B. Fiscal policy	C. Financial sector
Labor Market: -Encouraging flexible working time -Supporting employment by cutting labor costs -Retraining and activation -Supporting households purchasing power *Investment:* -Energy Efficiency -Infrastructure -R&D & innovation *Business support:* - Sectoral support for automotive, tourism, construction - Easing access to finance	*Change in fiscal Discretionary stimulus:* -overall -measures aimed at households -increased spending on labor market -measures aimed at businesses -increased Investment	*Guarantees* *Recapitalisation*

Source: European Commission (2009), The EU's response to support the real economy during the economic crisis: An overview of Member States' recovery measures European Economy Occasional Papers No 51/2009, p.16

The most important investment for UE is directed toward Energy, Efficiency, Infrastructure, and Research, development and innovation (RDI).

The European Union has created a budget which provides some EU funds which support less developed economies of the Member States. About 90% of the total EU budget is dedicated to investment for areas considered of great importance.

The funds allocated to Romania in 2007-2013 under the main post-accession funds amount to 34,603 million Euros (table 7).

Table 7: 2007-2013 EU Allocations - million Euros

Instrument	Total
Structural and Cohesion Funds	19,668
European Agricultural Fund for Rural Development	8,124
European Fishery Fund	231
European Fund for Guarantee in Agriculture	6,580
Total	34,603

Source: Ministry of Public Finance

The amount to be reimbursed by the European Commission in 2012-2013 under the main post-accession funds amounts to 14,068.64 million Euros.

Recently, 2014-2020 EU Allocations for Romania are among 39,887 million Euros, by following main areas:

- Cohesion Policy -21,825 million Euros
- Common Agricultural Policy -17,516 million Euros.

A high absorption of EU funds in 2011-2013 is among Romania's strategic objectives, but the absorption level at the end of 2012 is considered too low. In the first five years of EU membership (2007-2012), Romania received with 5.7 billion more than its contribution to Brussels.

Many practitioners consider that the simplification of complicated procedures for public procurements and for better institutional cooperation in this domain is considered as an important factor for improving the favorable premises in the field (Zaman and Cristea, 2011).

In fact, for Romania, the abortion capacity was determined by following main factors:

- unclear macroeconomic planning (multiannual planning under the political implication);
- weak financial capacity (co-financing at micro and macro level);
- trouble on the administrative capacity (local communities and government).

The main task of policies in Romania and in EU is to boost the supply of labor and capital and to create a level playing field for employees and firms (Darvas and Pisani-Ferry, 2011).

Romanian economy between the public investment and foreign direct investment

It should be pointed out that the EERP has recognized the need for public intervention to support of businesses during the crisis for several reasons (European Commission, 2009). For example, government may have a role in starting of investment activities through the public investment.

Public investment has been affected by the crisis across the EU.

Table 8: Public investment in EU and in Romania (as a percentage of GDP, 1997-2013)

Public investment	5-year averages						Spring 2012 *forecast*		
	1997-01	2002-06	2007	2008	2009	2010	2011	2012	2013
EU	2,4	2,4	2,6	2,7	2,9	2,7	2,5	2,4	2,3
Romania	2,5	3,8	6,2	6,6	5,9	5,7	5,2	5,5	5,2

Source: European Union (2012), European Economic Forecast, Spring 2012

The crisis has stopped many public works, and this is a great risk for Romanian economy.

Public investment in Romania refers to infrastructure, because Romania has recovered a huge gap starting from the road and railway networks, continuing with equipment problems in rural and urban areas and ending with ecology issues.

Reduction of public investment was combined with the reduction of GDP, but there are other more sensitive issues, such as:

- there is a problem about the merger of the interest specific the public sector with the private sector one, subordinated finally to the interest of civil society;
- there was not a public private partnership and it was not rigorous included in the development plans;
- EU fund and foreign direct investment (FDI) were considered essential, but their degree of attraction was affected by the crisis and the problems from Romania.

The correlation Real economy-FDI is strong in every economy. FDI and foreign enterprises directly increase the capital stock and create employment, and they may bring new technologies, skills and human capital that can spill over to domestic firms and workers.

After growth following the EU accession, the flow of foreign investments in Romania was visibly affected by the crisis, noting reductions since 2009, and the stock of FDI increased very slowly during 2009-2011 (table 9).

The highest percentage (31.5%) of the total FDI balance was in manufacturing industry, but there are percentages of 7-10% in construction, energy, IT, mining industry, while the balance of FDI in agriculture is only 2.4 % from total.

Foreign direct investment in Romania continue to decline in 2012, up to 1600 million Euros, high administrative costs and an uncertain fiscal climate are making Romania less attractive

Table.9: FDI flows and FDI balance during 2003-2011 in Romania

Indicators		2007	2008	2009	2010	2011
FDI Flows - total	Million Euros	7 250	9 496	3 488	2 220	1 815
Percentage change from previous year	%	-20,0	31,0	-63,3	-36,4	-18,2
FDI balance - total	Million Euros	42 770	48 798	49 984	52 585	55 139
Percentage change from previous year	%	23,9	14,1	2,4	5,2	4,9

Source: National Bank of Romania (2012), FDI in Romania in 2011, http://www.bnr.ro

Small business and green business vs. crisis

The small and medium enterprises (SMEs) are one of European Union priorities, since these are the main drivers for growth, innovation and creating new jobs. The European Union recognizes the importance and benefits of entrepreneurship and innovation generated by SMEs and have undertaken several initiatives to support SMEs financing. States with viable SMEs sector were able to face the crisis much better.

Romania got to the development of the SMEs sector only after the 1990 revolution, having another serious time lag if compared to Europe and even to other former socialist countries. However, the Romanians were involved in small businesses, passing over many difficulties.

Over 3 million people are employed by SMEs, and this number could be even higher in terms of encouraging business environment.

In Romania there are about 520,000 SMEs. In 2011, the SME sector in Romania contributed 65% to the Gross Domestic Product (GDP) in Romania, and the labor share was up to 67% of the total. To these are added the more than 320,000 individual agricultural holdings (without legal status and with a little surface-3 ha average) and about 300,000 private entrepreneurs.

The sectorial distribution in Romania shows the concentration of SMEs is highest in wholesale and retail trade (44 %), followed by service sectors such as hotels and catering, transport, real estate and business services (29 %), construction (18 %) and manufacturing (11 %) (European Commission, 2011).

Accordingly with "Survey on the access to finance of SMEs in the Euro area", April 2012 (ECB, 2012) – the three main difficulties reported by the SMEs in EU and in Romania are related to finding customers, problems on the competition and the access to financing.

Expanding SME is seriously supported by European funding, but there are many inabilities from the part of the Romanians responsibles. There is also a lack of involvement from the population, especially people fired from the state firms. They prefer unemployment or other social assistance.

Green business is the latest necessity imposed by climate change. Each EU country has established even a guide on adapting to climate change.

Solving the environmental problems requires a wide range of activities. An analysis from another point of view refers to investments for environment protection by environmental field (Prevention and control of pollution, Natural resources protection and biodiversity preservation, Other fields). In Romania, there is a negative situation in the following fields: water/wastewater, wastes, soil pollution, air pollution, biodiversity and nature protection, floods, coastal erosion.

Latest research attracts attention on another type of decoupling, this time within the real economy under pressure from environmental problems. The Organisation for Economic Co-operation and Development (OECD) defines the term as follows: the term "decoupling" refers to breaking the link between "environmental bads" and "economic goods." An economy that is able to sustain GDP growth without having a negative impact on environmental conditions is said to be positive decoupled (OECD, 2009).

Conclusion

The conclusion of this article is that the role of the real economy is huge. The real economy is already sustained by the European Union, but in practice it is necessary a „step by step" for every Romanian firm in order to restart the investment in all sectors of the economy, particularly in agriculture, in some fields of industry, and construction. In Romania there is a great potential for these three fields, and can be added others fields such as: tourism, environment, infrastructure, health, administration.

Still, restart investment in the real economy is not significant and widespread, and there are many deficiencies in restarting the real economy. The problems are both at the macroeconomic level and at the individual level.

The crisis is needed both on a policy of austerity and proper management of all resources, but this austerity must be accompanied by small steps policy to restart investment in all fields, because people must be given hope and they have to engage in crisis' overcoming. At the same time, it should decisions insufficiently developed.
Besides these aspects, it is necessary to analyze the fiscal issues, the financial and legal stability, the important policy decisions, advances in the institutional set-up, additional structural reforms, and unconventional monetary support.

Also the support of the small and medium enterprises (SME) sector and green business is in the front of the political decision.

At the individual level, the citizens' involvement in small businesses is affected by austerity, and by the perception that there is a relationship corruption-bureaucracy. So, there is both insufficient support in investment at the microeconomic level, and low entrepreneurship training. At the same time, it should be proven that exist a real economic democracy in front of the political decisions insufficiently developed.

The difficulty most invoked is funding, followed by problems of demand disturbance on the national and international markets.
Globalization and foreign relations still help overcome crises due to economic disparities, but in the end they determine the "step by step" reforms and essential adaptations in all economies.

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