

DECEMBER 2010, A NEW BEGINNING FOR THE NATIONAL ECONOMY

Prof. Constantin IONETE, PhD
Member of the Romanian Academy

1. After two years of recession, the economic growth supported by funds exports from the euro area, by production growth, by its capacity and by the employers' ability to do export, by the demand for trucks in order to transport labour force and raw materials is in progress. At the end of last week, South African investors and the British investor Robert Neale have bought Floreasca Business Park, a project with an estimated value of 100 million Euros; this transaction appeared after the moment when Auchan and two Belgian investors have paid 30 million for 12 hectares of land at Electroputere Craiova. Blake Horsley, investment department manager of the Company Colliers, who has advised the previous transaction, does not give any details about this business, but says that over the next 12 months we will see many transactions and more quality properties at competitive prices for sellers.

A group of important economic participants believes that the return of the economic growth path acts only by reducing the costs for loans. Bankers believe that the economy will recover in 2011, when the government will implement new measures. Their optimism concerns the companies. On the short list of sectors in which banks are interested in, appear energy, drugs, auto manufacturers, and oil and gas players. Aurelian Dochia underlined the opportunities on mergers and acquisitions market, and the uncertainties related to the political issues. In 2011, we will see if Romania has taken the right decision: recovery or stagnation. Ultimately, what really counts is the

consumer', investors' and entrepreneurs' trust.

If the faith of investors will be stronger, the economy will recover. An important economic factor occurs, caused by internal consumption. Dochia believes that a change of perception is necessary, as long as people are more accustomed with the idea of crisis. "The impact of the crisis has produced very important changes in the consumer behaviour. People refused to buy houses or durable goods. They decided to keep the money. But they need to consume ... Similar changes occur in the behaviour of the investors or the entrepreneurs ... If consumption shows signs of revival, then the entrepreneurs have more reasons to take over investment projects. This trend is likely to become stronger in 2011.

2. Labour productivity growth

Boom years have changed their course, although in the third quarter of 2010 the labour productivity has increased, the salaries went on a downward.

President of the National Institute of Statistics, Voineagu Vergil said: "Labour productivity has returned to a positive trend of 1.6%, in the second quarter of 2010, compared to same period of the last year, and in the third quarter of this year has reached to 1.9%. The president said that labour productivity fluctuated from high levels (eg trim. III in 2008 to 10.7%) up to negative field in the first quarter of 2010. The ratio productivity - salary is a fundamental correlation for an efficient

and competitive economy. From the first quarter of 2009 labour productivity has reached the minimum, in third quarter of 2009, of 6.2%. In principle, real productivity per hour scores the same trends as the real productivity per employee, said President Voineagu.

If we take into consideration the structure of the employed population we will find out that Romania made us first in the European statistics, this fact is based on self employed people in agriculture, but the share of employees from the total employed population, puts Romania on the last place in Europe.

In the second quarter, the rate of employees from the total number of population fell by three percentage points from the first three months at 67.4% according to recent NIS data. Thus, Romania is on the penultimate place in Europe, with 16.5% points below the EU average of 83.9%.

From the late 2009, the employee rate of total employment has decreased steadily from 70.7% in the fourth quarter to 70.5% in the first four months of 2010.

The proportion of non-employee agricultural workers had continuous increases. The rate of non-employee agricultural workers, self and family workers, in the second quarter was 26.8%, the highest in Europe, over the EU average, which was 3,5%.

At the end of the first half of 2010, 5.8% of the total employment was represented by people non-employed with activities outside the agricultural field.

The employment rate, for ages between 15-64 years, was 60.1% during this period. "I want to keep your attention more on this indicator, as for me it is important to note that the situation in Romania, compared with other countries shows us a negative picture and therefore, it is necessary to focus on a political level." NIS Chairman Vergil Voineagu has analyzed the positive contribution of 1.2% of industry and all other contributions to GDP decreasing by category of resources in the first nine months of 2010, compared to same period in 2009. These five categories are services -1.1%, industry 1.2%, constructions -1.1%, -0.3% agriculture, and 0.6% of net taxes.

NIS President Vergil Voineagu examined the following: number of employees decreased by 645,000 people in 2009 and three-quarters of them were from the private system and the adjustment in public sector occurred only in 2010. In 70% of the counties, the number of retired persons is greater than the number of employees and those with 1,000 lei pensions exceed one million.

Table no.1 - The evolution of labour compared with the same quarter from the previous year

	2009Q1	2009Q2	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3
Real Productivity	-3,2	-6,1	-6,2	-3,4	-1,0	1,6	1,9
Employed persons	-1,4	-6,2	-7,2	-5,1	-1,0	1,4	1,8

3. Surprising decline of agriculture

According to C. Medrega analysis, the sudden decline of agriculture, combined with the decrease of construction and trade fields, dragged down the third quarter, which brought to a decline of 2.5%, compared with the same period from 2009. The National Institute of Statistics in the third quarter

registered a decline of activity (7.6%), which surprised the agricultural market. The analyst Aurelian Dochia noted: "There are no explanations for the development of agriculture. Expectations were for a positive or neutral impact of GDP on agriculture ... "The Ministry of Agriculture gave some clarifications, such as the late crop development.

For some time, Interagro Group owner, Ioan Nicolae is involved in laborious activities regarding the food industry. In 2010, he registered five companies to Romanian Trade Register, for the following domains: production of grain, chemical fertilizer, livestock and tourism. The companies established in 2010 are closing the circle. New companies have joined the older ones owned by the same individual, such as the ones which process fish meat, make cheese, dairy, bakery and wine production.

According to the information from MEMRB, a market research company, consumer goods market is estimated at 20 billion Euros, while sales in the first eight months decreased by 7%, compared with the same period from 2009. Fields like food and beverages are donated to foreign companies (beer, milk, sweets, oils, margarine, soft drinks). Markets, such as meat market, mineral

water or wine, are still the responsibility of the Romanian entrepreneurs.

In the middle of last year I. Nicolae has stated: "with no industrial agriculture ... our state will remain underdeveloped".

I. Nicolae brought new business on the market, which tends to develop fields like agriculture, farms and lakes. This year he founded the following companies: Inter Fish Donau and Inter Dairy, the first one deals with fish processing and conservation of fish production. He developed a dairy farm of 500 cattles and established a new one of 400 cattles in 2009. The total cost of the two farms is 5 million euro.

4. The changes of GDP on resources and facilities in the first three quarters of this year compared with the same period in 2009, are evaluating the whole economic structure.

Table no. 2 – The GDP component

	Q1'10 / Q1'09	Q2'10 / Q2'09	Q3'10 / Q3'09
Agriculture	-0,9	+0,7	-7,6
Industry	+4,2	+5,9	+4,2
Construction	+17,3	-8,3	-14,9
Trade	-2,4	-4,2	-6,5
Financial	-1,5	+0,8	+2,6
Public consumption	-4,8	-0,4	-1,0
Government consumption	-0,6	-2,5	-2,2
Gross fixed capital formation (Investment)	-2,9	-9,5	-13,7
Exports	+19,5	+21,4	+14,6
Total GDP	-2,6	-0,5	-2,5

Exports and industry, related to results, brought important achievements in all three quarters. The dominant structure was determined by the lower results with negative signals from: constructions, trade, consumption, government consumption and gross fixed capital formation (Investment). These difficulties require a careful preparation for overcoming the crisis.

There are also structures with combined characteristics as follows: the agricultural production declines for all three quarters -0.9%, -0.7% and a greater decrease of -7.6%, followed by the structural component of financial activities: -1.5%, +0.8% and +2.6%.

Total GDP includes the following three structural evaluations: -2.6%, +0.5%, -2.5%.