INTERNATIONAL CONDITIONS WITH IMPACT ON THE ECONOMIC EVOLUTION OF ROMANIA

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Abstract.

The global economy has been through a series of significant shocks over the past three years, the Covid-19 pandemic, supply chain disruptions, the Russia-Ukraine conflict, the rapid increase in the rate of inflation worldwide, a major increase in public debt followed by a significant increase in monetary policy interest rates by central banks. Romania's economy, like all other economies regardless of their degree of development and size, suffers both direct and indirect influences from the occurrence of unknown and unexpected events that determine the evolution of the global economy for certain periods of time. The paper aims to analyze some of the main global economic trends at the level of 2023 that influence the Romanian economy and whose knowledge at the decision-making level can help a better adaptation of the economy and implicitly a better performance.

Keywords: *world economy; global trends; economical growth;*

JEL Classification: *H62, E62, E66;*

Methodology and Data

In order to come to conduct research on the problem of global economic trends, the paper analyzes data using comparative, descriptive method and the use of a set of information sources, collecting financial data in databases, based on annual reports, consolidated statistical data and the scoreboard provided by the International Monetary Fund. The study was completed by formulating conclusions related to this phenomenon.

Introduction

The global perspective

At the level of 2023, geopolitical tensions will continue to exert pressure on trade flows. In addition to the continuation of the war in Ukraine, relations between the United States and China as well as relations in Asia Minor (due to the conflict in the Gaza Strip) have been strained over the past year.

Bottlenecks in global supply chains eased over the previous year and transport costs fell considerably, helping to ease inflationary pressures and improve supply capacity. However,

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global trade is recovering, but it registers lower values than the years before the outbreak of the Covid pandemic.

Global energy, oil and natural gas prices have returned to levels comparable to those before the start of the war in Ukraine, helping to lower inflation this year. Other commodity prices, global prices for raw materials, agricultural products and food also fell. However, inflation remains relatively high in a number of economies, although even in those countries inflation has been falling since the second half of last year.

High inflation worldwide had several factors that contributed to its growth. First of all, during the lockdown period, even if production was greatly reduced, the incomes of employees as well as companies were compensated for a period of time with funds from state budgets. Obviously, incomes without a correspondent in the production of goods and services would later produce inflationary pressures. To these were added the increase in the prices of natural gas and energy at the outbreak of the war in Ukraine, followed by the increase in the price of fertilizers and agricultural products.

In order to be able to stop the increase in the inflation rate, last year most central banks significantly increased their monetary policy interest rates during the year. Although this year the tightening of lending conditions have largely achieved their goal, through a considerable decrease in inflation, many central banks continue to maintain a cautious policy.

Governments have spent large sums to first protect their economies during the pandemic and then to protect households and businesses from higher energy prices. This has caused the public debt of many states and the world-wide debt to reach high levels, with less room for fiscal policies to favor economic recovery.

Rising interest rates have made these higher levels of debt more costly, putting further pressure on government finances, necessitating sustained efforts to reduce government debt and keep it on a sustainable path.

demand for goods and services was on the rise in the previous year, thanks to money saved during the pandemic when spending in particular on certain products and services was greatly reduced.

Global growth will be helped less by the recovery of the Chinese economy, which is performing much less than in previous years, and more by relatively strong growth in some of the emerging markets (notably India), while the European and US economies due to the slowdown economic growth, as well as due to the decrease in the total contribution of these economies will contribute less to global growth in the coming years.

Main global trends

Next, we will analyze the global economic conditions that have an impact on the global economy on the major economies as well as on the Romanian economy.

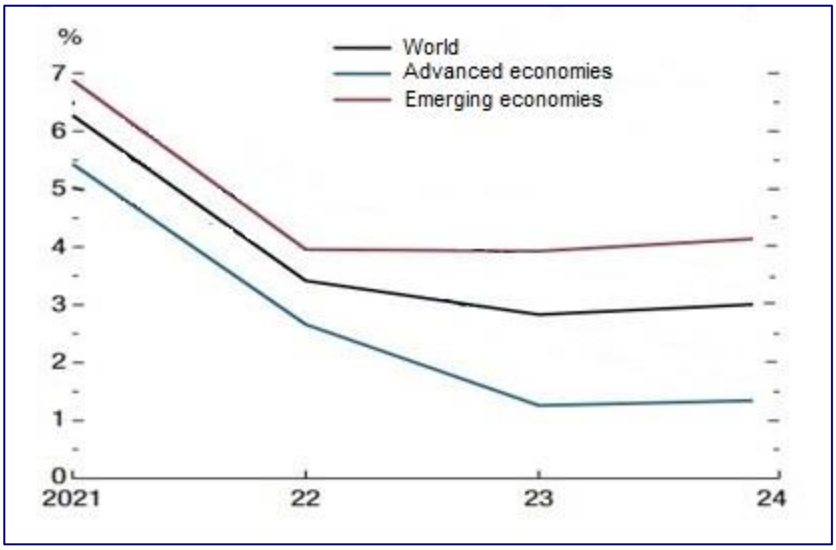

Figure 1. Global GDP evolution
Source: IMF World Economic Outlook

The global economy had a growth of 3.50% in 2022 and in 2023 it will drop to 3%, thanks to fiscal tightening measures taken by central banks around the world to be able to reduce inflation. The increased interest rates affected credit and implicitly the global production of goods and services. The GDP of advanced countries decreased from 5.4% in 2021 to 2.6% in 2022 and will continue on a downward slope to 1.5% in 2023. The GDP of emerging economies has evolved similar, i.e. it decreased from 6.8% in 2021 to 4.1% in 2022 and will have a value of 4% in 2023. We remind you that the increased GDP from 2021 was due to the very weak evolution at the worldwide in 2020 against the background of the Covid pandemic and the lock-down that affected the economies of all countries and the recovery of economic activities to values similar to the pre-pandemic values in 2021.

When there is a global slowdown in economic activity, even the strongest economies are affected by their economic relationships with the rest of the world. Less developed economies are even more influenced by global trends because they do not have a developed internal market that can support economic development. For Romania, which has been registering large current account deficits for many years, an economic development that ensures large exports and a lower need for imports is imperative. A country that is in economic growth can more easily correct its deficits (budget, current account) than a country in economic decline, stagnation or even crisis.

Figure 2. Contribution of different economies to global growth.
Source: IMF World Economic Outlook

When a country has a sustained economic development through the increase of imports necessary for the functioning of the economy as well as through the surplus financial resources it has and can direct them abroad, it generates an economic growth impulse in the countries with which it has economic relations. Over time, it was the great economic powers that started the economic growth. The countries of Western Europe (especially Great Britain, Germany and France), then the United States, and in the last two decades China, through their own development but also through the effect generated in the partner economies and these further to the direct commercial partners, have generated an increase economic at global level. For the last three years, the declining contribution of China can be noted, the country whose rapid evolution in the last decades pushed the growth at the global level, but whose rapid expansion diminished, it was compensated by the good evolution of the economy of the United States. Another country with an important contribution to the dynamics of the global GDP is India, which seems to be in full economic momentum. The contribution of the European Union is quite small, instead an increasingly important contribution is made by emerging and developing economies. Romania's economic relations are mainly oriented towards the countries of the European Union. The fact that Germany, which is the economic engine of Europe and the main commercial partner of Romania, has an inconclusive economic evolution (technical recession in 2023), had the effect of reducing the economic growth of the European Union and Romania. It is necessary for Romania to diversify its commercial relations, turning to other foreign markets, including countries with which there have been traditional relations, countries in Asia (China and India), countries in the Arab world or countries in Latin America

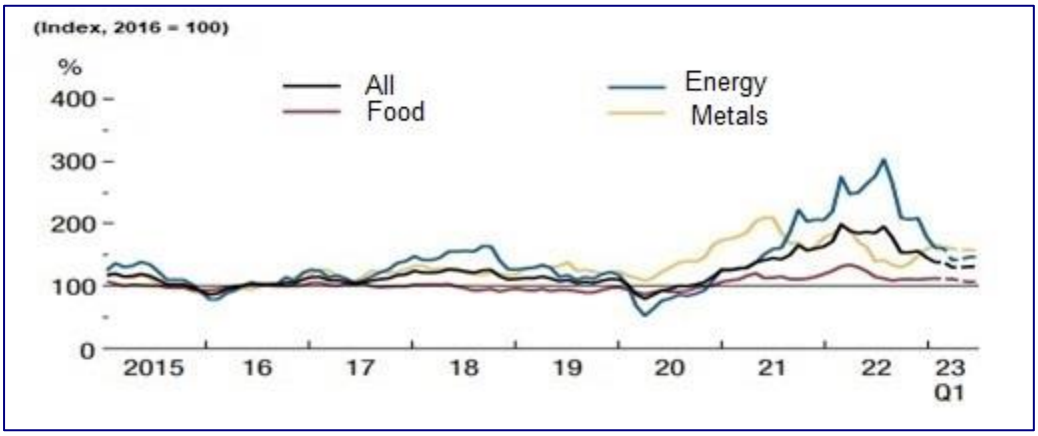

Figure 3. The evolution of the price of raw materials and energy worldwide.
Source: IMF World Economic Outlook

The price indices of raw materials and materials had a big jump at the time of the invasion of Ukraine by Russia due to the imposed restrictions and sanctions as well as the need for a global reconfiguration of economic alliances. Against the background of the difficulties in China's economic recovery following the pandemic wave in 2020, but also the blockage of the real estate sector, the decreasing demand for raw materials, energy, material goods caused their prices on the stock exchanges to drop to levels that are approximately 40 % higher than at the beginning of 2020.

The increase in the prices of raw materials and energy affected Romania's current account in the sense of increasing the deficit. Romania is an importer of raw materials and methane gas, even if compared to other European countries it has multiple sources of energy (hydro, wind, atomic, etc.) and its own resources of methane gas provide about 80% of the annual requirement. Romania could take advantage of this rising price trend through a better exploitation of its natural resources (both mineral resources and unexploited energy resources)

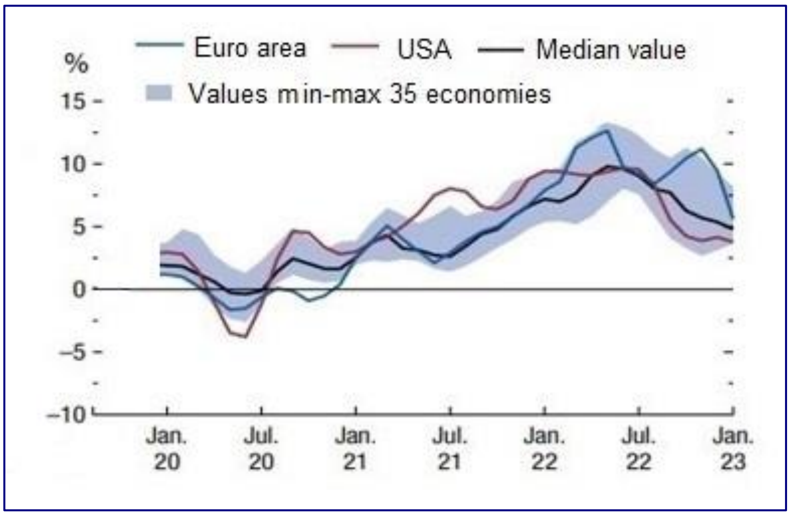

Figure 4. Evolution of consumer goods inflation worldwide
Source: IMF World Economic Outlook

The invasion, in 2021, of Ukraine by Russia caused the price of natural gas, energy, raw materials and food to rise rapidly and generate a global increase in the price of all products and services. The consumer goods price index increased on average for advanced economies from 0.7% in 2020, (when due to the decrease in demand for goods and services the inflation rate was low), to 7.3% in 2022. For the euro area the evolution was from 1.3% average value for 2020 to 8% in 2022 and 4.6% in 2023. For emerging economies there was a similar evolution with values a few percentage points higher as follows: 5.2% in 2020 , 9.8% in 2022 and 8.5% in 2023. In the absence of other shocks or a possible escalation of the war between Russia and Ukraine, a downward trend in the global consumer price index will be maintained.

Certain sectors of the Romanian economy are more affected by the evolution of international prices. Thus, some important industries in Romania (such as the motor vehicle and machinery industry - the main exporter) and the construction sector depend on energy imports and imported raw materials (rubber, steel, iron, timber and phosphorite, an essential production factor in the fertilizer industry and in the chemical industry), being vulnerable to variations in the prices of energy and the necessary raw materials.

And these developments will affect both Romania's exports, in the sense of braking and increasing prices, but also imports in the direction of price increases, with effects in deepening the external deficit.

The more modest economic growth and the higher inflation in the EU affect Romania in the sense of decreasing the export demand of the main trading partner, and therefore of the worsening of the external situation.

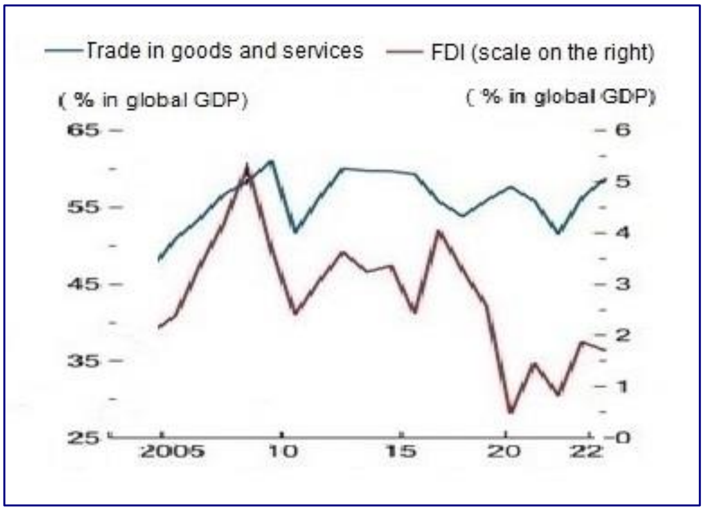

Figure 5. Evolution of trade in goods and services and foreign direct investment worldwide

Source: IMF World Economic Outlook

International trade in goods and services (left axis) had an upward trend from the mid-1980s until the onset of the economic crisis in 2008 when it had a sharp drop of about 10 pp from 65% of global GDP to 55 %. The following years had an oscillating evolution, never reaching the pre-crisis value. Foreign direct investment (right axis) which peaked at over 5% of global

GDP before the economic crisis of 2008 reached a low of only 0.5% of GDP in early 2020. The Trump administration's policy has dramatically reduced American investments abroad, especially in China, as well as the acquisitions of some American companies by Chinese investors. From 2020 to 2022, there is an increase in the value of foreign investments worldwide, reaching 1.7% of global GDP.

Trade flows were disrupted by the war in Ukraine, fortunately Romania's direct trade flows with Ukraine and Russia have only an insignificant weight in Romania's total trade.

The decrease in FDI at the global level has a major impact on Romania's economy. Romania needs massive capital investments in many fields, especially in industry, to increase the quality of products, added value, incorporated technology, the production of *tradable products* . In this way, imports can decrease and exports increase, leading to a decrease in the current account deficit and even entering a positive trend with a current account surplus. However, even if on a global level foreign investments have registered a setback, Romania manages to attract investments due to the fact that it is a safe country, being part of NATO and the European Union.

In addition, foreign direct investments are necessary as a source of financing the current account deficit, their decrease means that Romania is in a position to cover the external deficit through debt generating sources (portfolio investments and/or external loans) which are more burdensome for economy in terms of costs.

Conclusion

At the global level, the period under review is characterized by not very high global economic growth, the growing importance of Asian countries, especially China and India, the increase in world trade in goods and services, general inflation, and raw material and energy prices, which rose significantly in 2022 but will rise further. The recovery puts European countries at a disadvantage, among other factors, due to their increasingly smaller share of global GDP.

Romania recorded economic growth in the period under review, negatively affected by uncertainties related to energy and raw material costs, global inflation and decisive developments in its main trading partners.

Although inflation remained high in 2023, there were signs of stabilization globally and a reduction in the pace of price increases. This change reflects the Central Bank's stance and the measures taken to contain inflation. High inflation in consumer goods has had a significant impact on the Romanian economy. High inflation led to a decline in purchasing power, while high prices for food, energy and consumer goods led to lower consumption as households' disposable incomes fell, and lower consumption affected businesses' sales and profitability.

Overall, commodity price indices have fluctuated over the period under review, showing a general upward trend, but also corrections. These fluctuations exerted significant economic pressure on consumers and businesses. Price trends of raw materials and supplies have had a significant impact on the Romanian economy. Rising energy prices, especially gas and electricity prices, have increased costs for many industries and led to higher consumer tariffs.

Governments have had to implement support measures to mitigate the impact on households and businesses, affecting national budgets, increasing debt and state debt. Rising fertilizer and energy costs pushed up food prices, affecting both farmers and consumers. High production costs affected investor confidence and reduced investment. Rising prices led the government to prioritize energy and environmental policies and focus on renewable energy and energy efficiency. Trade in goods and services continued to recover from the pandemic in 2022, but was affected by inflation and supply chain disruptions. In terms of foreign direct investment, 2022 was a positive year, but 2023 was inconclusive, affected by global factors such as economic uncertainty and sustainability trends.

Challenges in the global supply chain led to delays and higher costs, affecting several sectors, such as Romania's automotive and construction sectors; in terms of FDI, Romania remains attractive for foreign investors, especially due to the transition to a green economy and digitalization. However, global economic uncertainty and market volatility adversely affected investment and export decisions and slowed the pace of economic growth. The continued, albeit moderate, growth of the global economy is essential for Romania, which has an open economy where exports play an important role in income and job creation. In order to mitigate the negative effects of global uncertainty, the Romanian Government has had to take measures to support consumption and stimulate domestic investment. Romania should diversify its trade relations by increasing exports, especially in sectors such as IT, renewable energy and agricultural products. It is crucial to attract customers from emerging markets such as India and maintain relations with economic powers such as the US and Germany.

Encouraging FDI from these countries through tax incentives and a more favorable business environment is important to increase the infrastructure capacity of the regional economy and promote technologization. Romania should seek partnerships with US and Chinese companies to benefit from innovation and expertise, especially in technology and energy.

Romania's economic stability is affected by developments in the European economy. Close cooperation with other European economies can help mitigate the negative impact of regional problems. The contribution of large economies to global GDP growth is vital for Romania's economic future. By strengthening trade and investment relations with these countries, Romania can benefit from global growth and adapt to the global economic environment.

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