

ROMANIA – BETWEEN THE REAL CONVERGENCE AIM AND THE REALITY OF TERRITORIAL CONCENTRATION OF THE ECONOMIC DEVELOPMENT

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Abstract:

In contrast with the nominal convergence, the real convergence in the process of accession to the European Single market is a complex process and still not clarified enough from the methodology point of view.

The convergence process became increasingly important for the EU since Euro was adopted. The single European market and the Economic and Monetary Union generated - in an objective and necessary way - a high interdependence among the national economies, and, in the same time, new qualitative, competitive and economic performing requirements for each and every member state.

Essentially, the real convergence reflects the interdependence among the uniqueness of the European market and the specificity of the national markets, and, as a consequence, with no space left for identifying rules and indicators that could reflect the way the national economies harmonize in order to systemically form another economy – the European economy.

Keywords: regional development, disparity index, real convergence, territorial concentration

JEL Classification: O18, R11, R12

The real convergence – recent developments

One of the essential conditionalities for Euro adoption is the real convergence towards the European economy, so that the candidate country would be able to face competitive pressures from the Single market and should not induce shocks in nominal sector by any macroeconomic imbalances.

Even if the real convergence criterion has no clear and measurable objectives as the nominal convergence, it is not less important. On contrary, the difficulty in establishing some quantitative thresholds for Euro adoption comes from the complexity and the structural specificity of this process. Reaching such an objective assumes both the reduction of the structural gaps among regions and countries and social and territorial cohesion. It is obvious that the synthetic indicator which is assessing the progress towards the economic and social convergence with euro area countries and the European Union as a whole, namely gross domestic product in PPS is still important and relevant, but an adequate response to the real convergence includes also some structural changes assessment indicators. Given this, in the paper there are presented the progresses recorded by Romania and especially the implications on the assessment of the real convergence induced by the new European System of Accounts.

Returning to the difficulty in quantifiable appreciation of the measure in which an economy has an adequate level of the real convergence in order to adopt Euro, it is worth mentioning that a good example is given by the EU experience up until now.

In the latest years Euro was adopted by countries with GDP in PPS values which were quite far from the EU average, but having a positive high convergence trend. Thus, Slovakia which has adopted Euro in 2009 had at that time slightly above 70% (ESA 2010) and 16 percentage points improvement of the real convergence as compared to 2003. Estonia which has adopted Euro in 2011 had a GDP of 64% of the EU average at that time, the convergence gains being 12 percentage points as compared to 2003.

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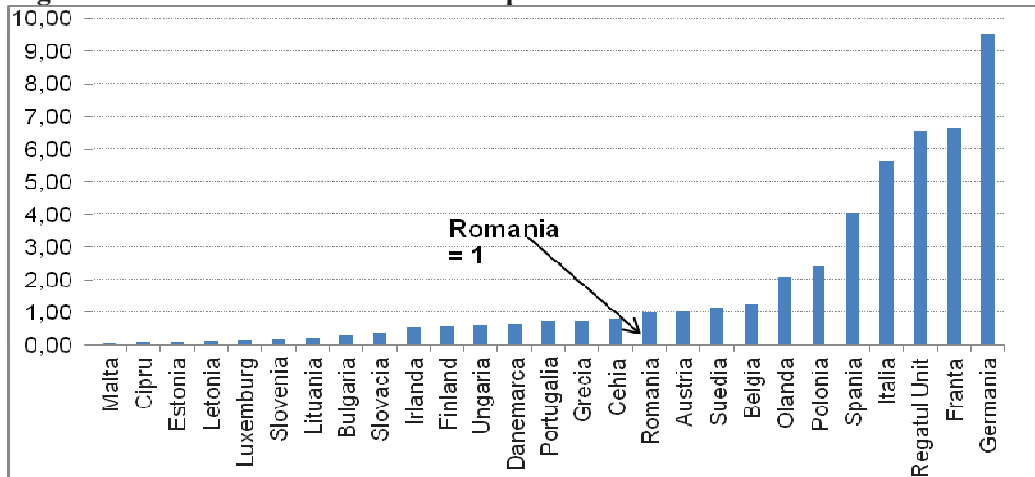
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Romania has presently a convergence gap of 47 percentage points as compared to the EU average. As compared to 2003 the real convergence gain is 22.4 percentage points, representing an annual average progress of over 2 percentage points.

The second aspect that has to be highlighted is that of the “relativity” of the measurement of real convergence, seen both from the methodology point of view, namely the fact that the assessment results form a comparison of hypothetical conditions (GDP assessed at standard purchasing power) and from the point of view of the question quality of the statistical data regarding GDP and resident population.

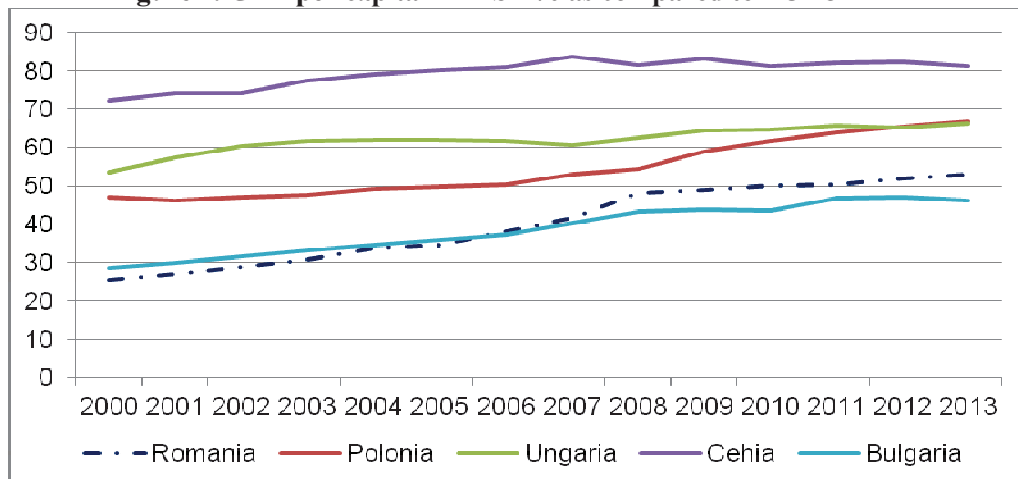
Figure 1. GDP in PPS - Romania as compared to other EU member states – in 2013



The acceleration of the development and implicitly of the real convergence rhythm, such as the Romanian economy be prepared for Euro adoption by the end of the budgetary cycle is possible if there is taken into account the following:

- During crisis Romania was among the fewest countries which have improved the real convergence as compared to the European average;
- If we refer to the synthetic indicator which expresses the real convergence, namely GDP in PPS, it reached 50% in 2011 and 53% in 2013 (ESA 2010) as compared to 48% of the EU average in 2008.
- For comparison Hungary and Bulgaria have improved their convergence by 3 pp and Czech Republic has kept its convergence degree.

Figure 2. GDP per capita in PPS - % as compared to EU 28



Territorial concentration of the economic development in Romania

The general objective of real convergence overlaps and requires in the same time territorial convergence. The sustainability of economic growth and of the convergence among the EU countries involves both structural reforms and especially a balanced contribution of regions and sub-regions according to their potential to national development.

Moreover, the reform of the cohesion policy, described in the previous chapters, aims to ensure maximization of regional contribution to economic growth by adapting Community assistance to the development level of each region and channeling resources to key growth sectors.

Unfortunately financial support for territorial convergence and implicitly real convergence have - within the reform which is implemented through the 2013-2020 Community budgetary framework - also other requirements which contrasts to the overall extremely generous objectives. Two of them worth to be mention: (i) command "efficiency" in the allocation of investments that can redirect cohesion support to the developed areas with high potential for capitalization and (ii) raising urban policies. In the latter case not only regions with strong rural character, such as Romania, may be disadvantaged, but the conception of the role of regional economic growth propagation by "urban growth poles" has not been fully verified in practice. As we will see, such a policy has favored the territorial concentration of economic growth and not convergence.

Moreover, global financial and economic crisis has disrupted the translation mechanisms of growth, differentially affecting countries and regions, depending on their ability to response

Territorial disparities of economic growth

The differentiated economic evolution during the crisis period, especially in the years of losses recovery was also a feature of territorial economic development as well. In Romania, where regional disparities are more pronounced, effects of the crisis were even more significant. The phenomenon is more visible within the regions, potential and economic structure of the more developed counties allowing a faster exit from crisis.

In Romania, during 2007-2011, regional disparity indices were significantly reduced only in the North East, North West and Central regions. In South Muntenia and Bucharest Ilfov, convergence to the national average improves, and in the others remains relatively the same.

Table 1. Regional disparity index

	2007	2008	2009	2010	2011
TOTAL ECONOMY	100	100	100	100	100
North - East Region	63.0	61.8	62.8	61.4	59.2
South - East Region	81.6	79.8	80.3	82.2	81.4
South Muntenia Region	81.6	82.1	85.3	83.0	82.6
South- West Oltenia Region	76.8	74.5	76.1	76.7	76.5
West Region	110.9	109.4	109.7	113.1	110.9
North- West Region	95.7	90.0	91.2	89.3	86.3
Central Region	100.0	94.9	96.9	95.9	93.5
Bucharest Ilfov Region	231.3	249.3	236.0	237.9	251.9

Source: NIS (National Institute of Statistics)

Note: GDP (ESA 95) per capita (population previous to the adjustment according to the census)

In this background, we should highlight that the improvement signalled for the South Muntenia Region, is not sustainable. The plus in this region comes from the conjectural evolutions in agriculture and from the economic growth in Arges County, based almost exclusively on the production of Dacia cars.

The data presented above show that the real convergence improvement derives almost exclusively from the economic evolution of the Bucharest- Ilfov region and of a few territorial growth poles.

Table 2. Evolution of the county disparity*

	2007	2008	2009	2010	2011
A. The first 5 counties					
Ilfov	176.3	180.6	177.1	164.0	164.9
Timis	138.9	145.6	143.5	152.8	151.6
Cluj	133.0	123.2	126.2	125.3	125.4
Constanta	119.8	111.6	116.0	119.8	117.5
Brasov	119.3	112.1	117.9	121.3	115.6
B. The last 5 counties					
Teleorman	57.8	59.4	60.3	57.4	56.9
Calarasi	52.2	62.0	58.3	70.6	67.9
Botosani	52.1	51.5	52.8	50.0	49.9
Giurgiu	49.0	53.8	59.5	77.1	74.1
Vaslui	41.9	46.7	45.8	43.7	42.6

Source: NIS (National Institute of Statistics)

*) According to the 2007 ranking; compared to the national average (GDP per capita)

After 2008, the actual evolution of the 8 regions may be briefly characterized as follows:

Between 2009 and 2011, the economy of the **North- East Region** contracted by 9.5%, getting out of the recession only in 2012 when the GDP was 1.1% higher; although in 2013, the GDP increased by 2.5%, these growths did not annihilate the reductions during the crisis years. On the whole, between 2009 - 2013 the GDP in the region dropped at an annual average pace of 1.3%. The decrease was determined by the reduction of the agricultural activity (-1.1%), the reductions in constructions (-5.9%) and services (-1.3%), while industry had a positive contribution of 1.5%. The region provides approximately 10% of the total economy GDP. The agriculture of the region has an important contribution to the regional GDP, its share surpassing the national level and reaching even over 10% of the GDP in the good agricultural years.

In the **South- East Region**, after the GDP dropped by 6.1% in 2009, the economy got out of recession and for two years, economic growths were registered (1.1% and 1.4%). In 2012 though, due to a significant reduction, of over 30%, in agriculture (which has an important share in the GDP), the economy of the region registered a new negative evolution, going back to growth in 2013. Generally speaking, between 2009- 2013, the annual average growth pace was negative (-0.7%), as a consequence of reducing the volume of the agricultural activity (-1.4%), constructions (-5.5%) and services (-1.1%), while the surplus registered by industry (1.4%) could not cover for the reductions in the other sectors. The region's contribution to the national GDP is slightly above 10%. The economy of the region presents certain particularities, due to the economic activities specific to the area: maritime transport, shipyard, nuclear power station, delta, seaside, etc.

In the **South Muntenia Region**, the economic evolution was oscillating. After two recession years, the economy seemed to have recovered in 2011, achieving an economic growth, but this was a false signal, since the following year registered a negative evolution again, followed as well by a recovery in 2013. Overall, during 2009- 2013, the average annual growth pace was a negative one: -0.5%. The industrial sector (0.5%) and the agriculture (0.9%) contributed positively to the economic growth of the region, but these growths were cancelled by the negative evolutions in constructions (-5.5%) and services (-1.9%). The region has an important contribution to the achievement of the national gross domestic product, with a share of approximately 12.5%. The region plays an important role in the region's economy, with a share of approximately 35%, (superior to the national average), determined mainly by Arges and Prahova counties, which have industry shares of over 40%.

In the **South-West Oltenia Region**, the economy has recovered after two years of crisis. Therefore, the economic growth for 2009-2013 was a positive one overall (3.9%), the annual average pace being 0.8%. This growth was mainly determined by the evolutions in 2013 when the economy of the region grew by 6.7% due to an excellent agricultural year and to the successful relaunch of Ford Romania's activity (which caused the industrial production of Dolj County to increase by over 110% in 2013). According to sectors, the industry had a positive contribution, with an annual average pace of 5.8%, while the other sectors had negative contributions: agriculture (-1.6%), constructions (-5.1%) and services (-1.6%). The South-West Oltenia Region has the lowest participation in the achievement of the national gross domestic product, oscillating around 8%. In the structure, the industry plays an important role with a share of over 30% and various industrial units (Alro, Ford Romania, Pirelli, etc.) influence the economic growth of the region.

The **West Region** recovered rapidly from the recession, after only one year of decrease in 2009, the reduction being nonetheless serious (-5.3%). Starting 2010, the economy of the region registered annual growths, with different amplitudes. Overall, between 2009- 2013, the economic growth was 2.8%, which meant an annual average pace of 0.6%. This growth was supported by industry (4.1%) and agriculture (2.3%), while constructions (-9.4%) and services (-0.9%) had negative contributions. The West Region provides approximately 10% of the national gross domestic product. In structure, the economy of the region is characterized by an important share of the industry, which generates over 35% of the regional gross domestic product.

The economic evolution of the **North-West Region** was a less favourable one, as it was in recession for 4 consecutive years, the first ones due to the economic crisis background, then due to the decline of the Cluj county (county with a share of over 35% in the regional GDP and with an industry generating over 30% of the industrial value added of the region) after the activity at Nokia ceased, as well as due to the serious reduction of the activity volume in constructions (2011) or agriculture (2012). We should mention that in 2012, the industrial production index in Cluj County was almost half of what it had been the previous year. Therefore, for the 2009-2013 period, the regional gross domestic product registered an annual average growth pace of -1.7%, all the activity sectors contributing negatively: industry (-1.6%), agriculture (-3%), constructions (-7.6%) and services (-0.7%). The North-West Region participates with approximately 11% in the national GDP, with a slight decrease tendency due to the economic decline.

After two years of recession, the **Central Region** maintained itself to the level of the previous year in 2011, starting an increase trend in 2012. The growths in 2012 and 2013 did not totally cancel the decrease in 2009 and 2010, therefore, between 2009 and 2013 the annual average pace was slightly negative overall (-0.1%). Industry had a positive contribution (1.9%), while the other activity sectors participated negatively: agriculture (-1.4%), constructions (-6.1%) and services (-0.9%). The Center Region provides over 11% of the national gross domestic product. The economy of the region is characterized by an important share of over 35% of the industrial sector.

The **Bucharest- Ilfov Region** registered a strong economic contraction of over 10% in 2009, after which it recovered and achieved different intensity growths. Thus, during 2009 – 2013 period an annual average pace, slightly positive, registered (0.1%), as a result of a favourable contribution of industry (2.4%), agriculture (7.4%) and services (1.4%). However, construction had a negative annual average pace (-6.6%) as a result of the significant contraction in the first year of crisis, as well as other reductions which followed subsequently. The economy of Bucharest Ilfov region has a completely different structure than the other regions with low levels of agriculture (only 0.3%), with an industry also lower than in the other regions (under 20%), but with the services sector which tends to 60%. This is also the region with the highest contribution to the gross domestic product, of over 25%.

Contribution of regions and counties to economic growth

The general trend to centrifugal dissemination of the global crisis (more extensive in countries and regions less developed) are noticed in the case of Romania's counties as well. Among the first 5 developed counties, which are placed above the GDP national average per capita, only in Ilfov County there was a more pronounced increase of the gap against the average. Timis, Cluj, Constanta and Brasov Counties increasingly took distance from the average in 2011 as against 2008. Out of the last 5 counties, only Giurgiu has a trend of clear reduction of gap against the average.

An image of territorial concentration of economic growth is provided by the **gaps within the regions**, gaps which have deepened, including the developed regions (West region or Bucharest-Ilfov region).

This trend puts into question the effectiveness of policies that support certain "growth poles" or towns which have spillover effects of economic growth. In less developed countries (Romania, Bulgaria) the infrastructure state make difficult the mobility of production factors and related businesses that serve "growth poles" accordingly.

Table 3. Intra-regional gaps*)

	2008	2009	2010	2011	2012	2013
North - East region	3.0	3.1	3.4	3.3	3.4	3.5
South - East region	4.7	5.0	4.8	4.3	4.6	4.6
South Muntenia region	5.4	5.1	3.8	3.8	3.9	3.9
South - West Oltenia region	3.1	3.1	3.1	3.2	3.4	3.7
West region	3.8	3.5	3.8	4.2	4.2	4.2
North - West region	4.6	4.6	4.7	4.9	4.6	4.6
Central region	4.0	4.1	4.6	4.2	4.4	4.5
Bucharest Ilfov region	9.2	8.6	9.2	9.3	9.6	9.5

Source: NIS, NCP

*) between the first and the last county, by the level of GDP

Contribution of regions to economic growth shows how the crisis affected regions and implicitly the process of territorial cohesion. N-W region stands out among regions, where the crisis began to unfold since 2008, year which had a negative contribution to growth. Besides, this is the only region in which the decline continued until 2012. A second affected region was South Muntenia Region, with 3 years of negative contribution to growth. The West and Bucharest Ilfov regions were the only regions where negative contribution recorded only in 2009.

Table 4. Contribution of regions to economic growth

	2008	2009	2010	2011	2012	2013
North - East region	0.4	-0.5	-0.3	-0.1	0.1	0.2
South - East region	1.0	-0.6	0.1	0.1	-0.3	0.3
South Muntenia region	1.1	-0.4	-0.5	0.2	-0.2	0.6
South - West Oltenia region	0.5	-0.4	-0.1	0.1	0.1	0.5
West region	0.1	-0.6	0.2	0.0	0.2	0.5
North - West region	-0.1	-0.6	-0.4	-0.1	-0.3	0.4
Central region	0.1	-0.5	-0.2	0.0	0.1	0.5
Bucharest Ilfov region	4.2	-2.9	0.0	2.1	0.8	0.4

Source: NIS, NCP

The different impact of the economic crisis has reduced the concentration of economic growth in the years with direct manifestation (decline), 2009 and 2010 respectively, but during the revival concentration has increased (2011-2012).

Potential and economic structure of more developed counties allowed a faster exit from crisis.

Table 5. Concentration of the economic growth process*)

-%-

	2008	2009	2010	2011	2012	2013
Contribution of the first 5 counties	39.6	38.7	39.1	40.6	40.9	40.5
Contribution of the first 10 counties	54.1	53.7	53.8	54.9	55.4	55.4
Contribution of the last 10 counties	9.0	9.0	9.2	9.2	9.0	8.9
Contribution of the last 5 counties	4.0	4.1	4.2	4.2	4.1	4.1

Source: NIS, NCP

*) by the share of the county's GDP in national GDP

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