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FOREWORD

Economic snapshot for the major economies at the end of the first half of 2016 looks a little bit unexpected. Global growth remained tepid in the first half of 2016. An estimate produced by Focus Economics shows that the world's GDP increased 2.4% year-on-year in Q2 2016, which followed a 2.5% rise in Q1. According to the estimate, global economic activity has been slowing uninterruptedly since Q1 2015 and Q2's result marked the weakest rate since Q1 2013.

This deteriorating trend is mainly the result of a deceleration in emerging economies, particularly in China and in commodity-dependent economies in Latin America, the Middle East and North African region, as well as Sub-Saharan Africa. Advanced economies have fared better, although they are now showing signs of fatigue.

As a result, global trade, investment, productivity and wages remained depressed with no signs of immediate improvement in the second half of the year.

*In the first paper entitled **Romania's Main Role in the Current Global Economic Context**, we can easily discover that the purpose of the article is to highlight Romania's role in the current international economic context. The analysis herein refers to the domestic macroeconomic developments of Romania in 2015, which will influence in the future the evolution of the Romanian economy. In this article, the authors tried to cover Romania's current international position, Romania's external position, the developments in the labour market from Romania, as well as the international context in which Romania finds itself also.*

*The second paper, **Romania's Implication in the Global Financial Cycle**, the authors intend to approach the global financial cycle and the international production networks, as well as Romania's international investment position through its main components. The targets relate to: the global financial cycle and the recent experience of emerging economies, describing global production networks, the implications of extending international production networks, as well as the influence of trade integration on economic development. Also, the authors approached the evolution of investments in Romania in 2015, with reference to international reserves, gross external debt and net external debt. Drawn conclusions refer to mitigating the contagion effects generated by the increase of the degree of global financial integration.*



In her work, **Romanian Tourism Marketing Researches**, Viorica Jelev tells us that in sustainable development, tourism plays a vital role, with a high contribution in Romania's economic recovery and relaunching. Raising the touristic product from the established values to those corresponding to the standards and preferences of the foreign tourists involves initiating and promoting actions that include, on one hand, the progress of the processes of education and training of a mentality appropriate to the current type of development, and on the other hand, emphasizing sustainable development in regions of touristic reception. Based on these considerations, this paper aims to determine how the touristic products must be designed, from the point of view of marketing, to comply with the sustainability principles. To this end, we analyzed a research on consumption of touristic services in Romania, realized by INSOMAR, but also an analysis of the Romanian tourism seen by foreigners.

In their scientific paper, entitled **Efficient Bureaucracy in the Public Sector for Safe Environment in Romania**, professors Luminița Ionescu and Kari Robertson discuss about bureaucracy who is an important phenomenon in all European countries, with significant consequences over the public and private systems. After the recent economic crises, European governments made efforts to reduce bureaucracy and to speed up the process of absorbing European funds and to encourage the business environment. The aim of the paper is to present some particular aspects of positive bureaucracy and how efficient bureaucracy is facilitating a healthy business sector, a modern public administration and a safe environment in Romania.

The scientific work, **Public Debt Analysis Based on Sustainability Indicators**, is an analysis of public debt, in terms of sustainability and vulnerability indicators, under a functioning market economy. The problems encountered regarding the high level of public debt or the potential risks of budgetary pressure converge to the idea that sustainability of public finances should be a major challenge for public policy.

Thus, the policy adequate to address public finance sustainability must have as its starting point the overall strategy of the European Union, as well as the economic development of Member States, focusing on the most important performance components, namely, reducing public debt levels, increasing productivity and employment and, last but not the least, reforming social security systems.

In order to achieve sustainable levels of public debt, the European Union Member States are required to establish and accomplish medium term strategic budgetary goals to ensure a downward trend in public debt.

In her article, **The Adaptation of Profit and Loss Account to the Current Requirements Reporting of the Performances**, Liana Gădău presents the financial



performance – a very complex notion and high informational load for users of accounting. Information is reflected best by the financial statements, the profit and loss account and the situation of equity variations. The last situation can be presented as a statement of comprehensive income, including beside the result of profit and loss account, the gains and losses directly recognized in equities without passing through the profit and loss account.

The development of increasingly complex activities emphasizes the utility, the necessity of the profit and loss account in the financial reporting by increasing the interest in the enterprise performance, especially for the dynamic information that this situation can provide.

Meanwhile, there is a declining interest in the historical costs and static information. Although the balance sheet contains information on performance, it does not prevent the achievement of its forecasts.

In this paper the author propose to approach the profit and loss account in view of two representative referential, namely in terms of IAS 1 standard “The preparation and presentation of the financial statements” and the national regulation, the Finance Order no. 1802/2014 regarding the Approval of the Accounting Regulations on the annual individual and consolidated financial statements, aiming to emphasize the advantages, but also the limits provided by this models. This way, will see which of these models of profit and loss account respond best to users’ needs.

*Radu Bucea-Manea-Toniş, in his paper entitled **Angularjs – The Newest Technology in Creating Web Applications** says that the paper is the result of searching and selecting new technologies that help programmer in developing web applications. It also represents a pleading for using it, showing its advantages and disadvantages. Alongside the article there are features regarding binding elements, modules, filters and directives. It is a synthesis and a guide of good practice for innovative programmers. All technical issues presented are supported by a case study.*

*The scientific paper of professor Elitsa PETROVA, **Specific Subjects of License Academic Program – An Important Stage of Professional Development of Future Military Leaders at National Military University, Bulgaria**, is made on the basis of an approved request by the Head of National Military University . This paper is conducting research on motivation in military formations of the example of Vasil Levski National Military University in Veliko Tarnovo, Bulgaria. Subject of the study is motivation for training and military activities of the cadets and the objects of the study are students in professional military direction in “Organization and management of military units at the tactical level,” Land forces faculty at the National Military University of Bulgaria. The article presents results of the study at second item – “Do you agree that the study of specialized topics is an important*

stage of your professional development as future military leader?”. The interviewees were cadets who graduated through the following academic years – 2013/2014, 2014/2015, 2015/2016.

As a conclusion, the paper says that the leadership phenomenon is a form of spiritual, behavioural, and cultural expressions. It should not have to be connected with the “forcing” and “coercion”. It is a consequence of personal development and the acquisition of knowledge, experience, skills – how to manage ourselves and others by giving a personal example. It is an evolution – a step forward, more humanity in relationships. Our leaders are political, military and business figures. The earliest researches of leadership believe that leaders are born. Today more widespread is the belief that leaders can be created.

Young people who enter the universities want to learn how to be leaders. They want to acquire the necessary knowledge and skills. They want recipes that give secrets about how to lead others. They want the inspiring stories of leadership to be brought into action.

Adverse development processes of indifference and dissatisfaction of almost all of others indicators takes into account the preparation and future of trainees and is sufficiently indicative of the fact that young people take their future role of leaders in the military, political, social and economic life of the country, and support learning disciplines that will contribute to their realization.

Finally, I hope you will find interesting this Issue 3/2016 and I strongly invite you to address your comments and suggestions at office_analeserieconomie@spiruharet.ro and of course to submit your own work via online submission system.

Broaden your horizons discovering new interesting topics !

Associate Professor Elena GURGU, Ph.D.

ACADEMIA PAPERS



ROMANIA'S MAIN ROLE IN THE CURRENT GLOBAL ECONOMIC CONTEXT

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Abstract

The purpose of this article is to highlight Romania's role in the current international economic context. The analysis herein refers to the domestic macroeconomic developments of our country in 2015, which will influence in the future the evolution of the Romanian economy. In this article we will cover Romania's current international position, Romania's external position, the developments in the labour market from Romania, as well as the international context in which our country finds itself also.

Keywords: *macroeconomic indicators; inflation rate; deficit; financial sector; banking sector; direct foreign investment; current account; economic growth; internal and external balances.*

JEL Classification: E2, E6, F4

Introduction

This paper covers the issue of Romania's role in the current international economic environment through the domestic macroeconomic developments, as well as through the role played by our country in the international context. This issue is important in order to highlight our



country's place in the international context, as well as the measures that can be taken in the future starting from the current status quo. In this article we, as writers, are trying to analyse the state of the Romanian economy referring to its main macroeconomic indicators and propose ways and measures to revive the economy of our country for the following period. This study is based on statistical information gathered from annual reports of the NBR, as well as on the data extracted from its monthly bulletins on various micro- and macroeconomic issues.

Romania's internal economic position

From **macroeconomic perspective**, 2015 was a favourable year for Romania. *Internal and external balances* of the economy have been strengthened, while *the economic growth* has registered a rapid rate of 3.8%, compared with the European average. Production losses from the recession period have been recovered in full from the first quarter of 2015. *The current account deficit* stood at a low level of 1.1% of the GDP and the consolidated general budget deficit has recorded even a restriction from the previous year, reaching 0.7% of the GDP according to the ESA 2010 methodology.

Regarding *the annual inflation rate*, this ended 2015 on a negative territory, with -0.93%, but the evolution has been determined almost exclusively by the expansion in June 2015 of the reduced VAT rate of 9% in all foods, soft drinks and catering services. The exceptional nature of the negative values of the inflation rate in Romania, significantly lower than those recorded at European level, is revealed as well by the assessments of the European Commission and the European Central Bank, which have decided that in the Convergence Reports published in 2016 to exclude Romania from the calculation of the reference value of the Maastricht criterion on price stability.

In the absence of the above-mentioned tax measure, the indicator would have been found inside the variation band of ± 1 percentage point associated to the stationary inflation target of 2.5%. Also in 2015 it has basically concluded *the repayment of the loan taken from the IMF* in 2009, under the multilateral funding agreement signed by the Romanian state with the international financial institutions, the final payment ending in January



2016. The entire process of repayment has conducted without repercussions on the dynamics of the currency market and without the erosion of the international reserves adequacy indicators. Moreover, the level of the international reserves reached the end of 2015 has exceeded by over 7 billion Euros the one from 2008, the year before the loan has been contracted. The gains in the macroeconomic plan – result of an sustained adjustment effort – however, are not irreversible and the accumulation of risks cannot be ignored, especially as the measures already adopted – some effective, others to be implemented – are likely to put to the test the sustainability of the economic growth. Thus, *the tax cuts* planned for 2016 and 2017 and the permanent expenses increases, mainly salaries, enacted to the end of 2015 and the first half of 2016 will position the budget deficit close to the ceiling of 3% of the GDP and will re-enter the share of the public debt in the GDP on an upward trend. *The sustainable character of the economic growth* is conditioned by the regaining of the coherence of the economic policy mix, i.e. each component's orientation towards preserving or restoring the macroeconomic balances.

Similar to the developments in the plan of the macroeconomic stability, those from **the field of the financial stability** have indicated as well its notable strengthening in 2015, accompanied, however, especially towards the end of the year – but also in the first part of 2016 – by the amplified concern of the risks that is confronted with. *The banking sector* in Romania has kept its solidity, the main aggregated indicators remaining at an adequate level (solvency, liquidity) or knowing remarkable improvements (asset quality, profitability). Thus, *increased solvency* – reflected by the high rates of the own funds, which have exceeded the double of the regulated thresholds at EU level – has been supported including through new capital contributions from the shareholders. It is worth noting that the Romanian banking sector is among the best capitalized from the European Union and in the context of a domestic and international macroeconomic framework, characterized by very low interest rates and marked by uncertainties, the higher capacity of covering the losses is essential. After recording a negative financial result in 2014 – amid the massive provisioning effort in the endeavour to heal the balances – the banking sector has re-become profitable in 2015.

However, indicators related to banking asset quality have improved, the nonperforming loans ratio having a pronounced downward trend, from 20.7% at the end of 2014 to 13.5% in December 2015, while the coverage degree with provisions of the non-performing loans has continued to be



above the European average. Another positive development has been recorded *in terms of liquidity*, which has kept its comfortable size on the account of strengthening the domestic deposit base. This has compensated the downward, but orderly, trend of the financing from the mother banks, with the effect of reducing the risk of contagion, a more welcomed evolution in a volatile regional context. *To the resumption of the lending activity of the private sector*, the process of cleaning the banking balance sheets of a significant part of bad loans, started in 2014, the appropriate level of the capital position and the revival of the credits demand have contributed. After nearly three years, *the annual real dynamic of the loans* has re-became positive, reaching 3.9% at the end of 2015. The crediting redressing has been due solely to the lei component, the banks turning to granting loans in the national currency under the combined effect of the macro-prudential measures associated with foreign currency crediting, of the decrease of the interest rates for the loan products in lei and the continuance of the “First Home” programme, exclusively in lei. *Loans in national currency* have regained thus their major position in the banks’ portfolio, this having, in its turn, a series of positive consequences: currency risk decrease, improving the structure on currencies of the banks’ balance sheets, improving the transmission mechanism of the monetary policy interest rate. Emphasising the risks to financial stability has aimed both their number and intensity. The most important systemic risk, which increased in intensity in the second half of 2015, but also thereafter, was that of *an uncertain and unpredictable legal framework*. Other significant systemic risks are generated by: the return on the internal level to the pro-cyclical fiscal policies (and the reversal of the fiscal consolidation tendency), the uncertainties regarding the global economic growth, the state of the international financial system, monetary policy decisions of the major central banks, as well as Britain’s exit from the European Union (BREXIT) – the latter one having the ability of affecting Romania through weakening the European project, which is an anchor for Romania’s development. Very important for the proper management of the threats to the financial stability is the appropriate configuration of the macro-prudential policy.



Romania's external economic position

In 2015, the external position of the Romanian economy has remained sustainable, given that the current account deficit has continued to be placed at a low level, although superior to the previous year (1.1% of the GDP), the external debt has remained on downward trend and the international reserves have kept their proper level.

This year as well, the negative balance of the trade transactions has been compensated, to a large extent, by the proceeds obtained from the provision of services (Figure no. 1).

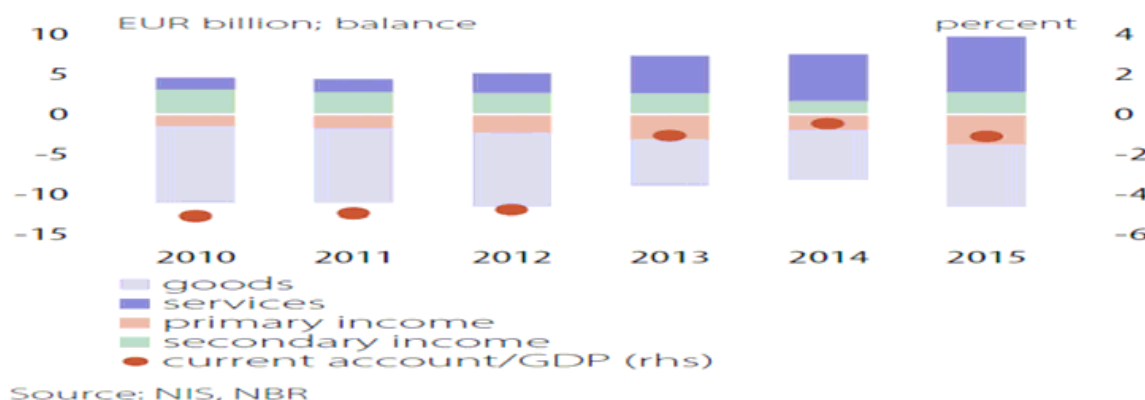


Figure no. 1. Current account

Source: Annual Report of Romanian National Bank, 2015

Thus, the increasing trajectory on which the exports of goods were placed in recent years has led to the expansion of the international transport of goods, specialized companies realizing large investment projects aimed at renewing the fleet, developing the storage capacities, while increasing the customers' portfolio. Consequently, Romania has consolidated its position as international logistic hub, but the interest of the big developers from this area remains high, given the saturation of some markets in the region, such as the Czech Republic, Hungary, Slovakia as well as the advantage offered by the more stable local environment in a regional context characterized by volatility.

Outstanding export performances have also recorded the IT & C companies. The expansion of this economic sector has been favoured by the investments made by a number of multinational companies, attracted by the



increase of competitiveness offered by this segment of the labour force, which consisted of complex skills and high degree of adaptability to comparatively reduced costs. As a consequence, the increase of the VAB related to the IT&C services exceeded in 2015 as well the threshold of 10%, and the outlook remains optimistic, the recent developments indicating a maturing tendency of the market, through the more pronounced orientation of the profile companies towards providing products and services with highly added value.

The current account deficit of the balance of payments has been further covered entirely on the account of the non-debt generating capital flows (Figure no. 2).

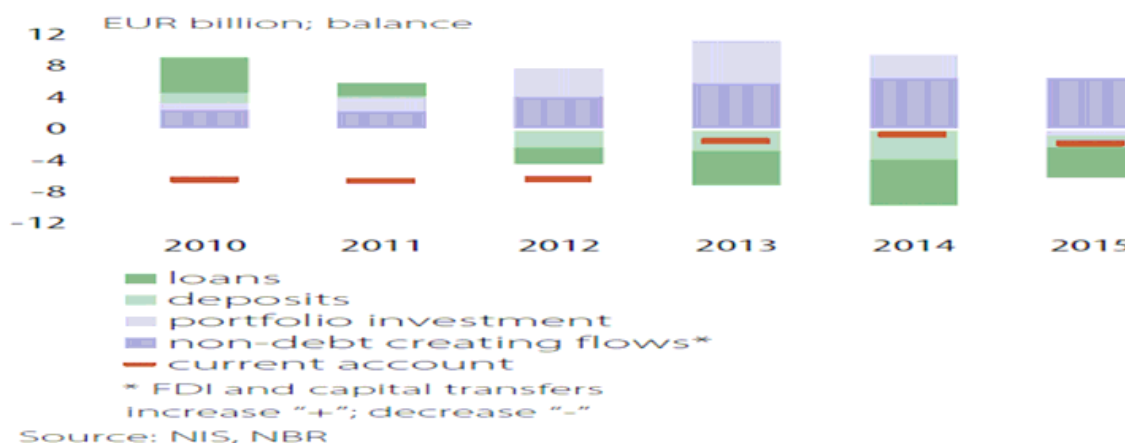
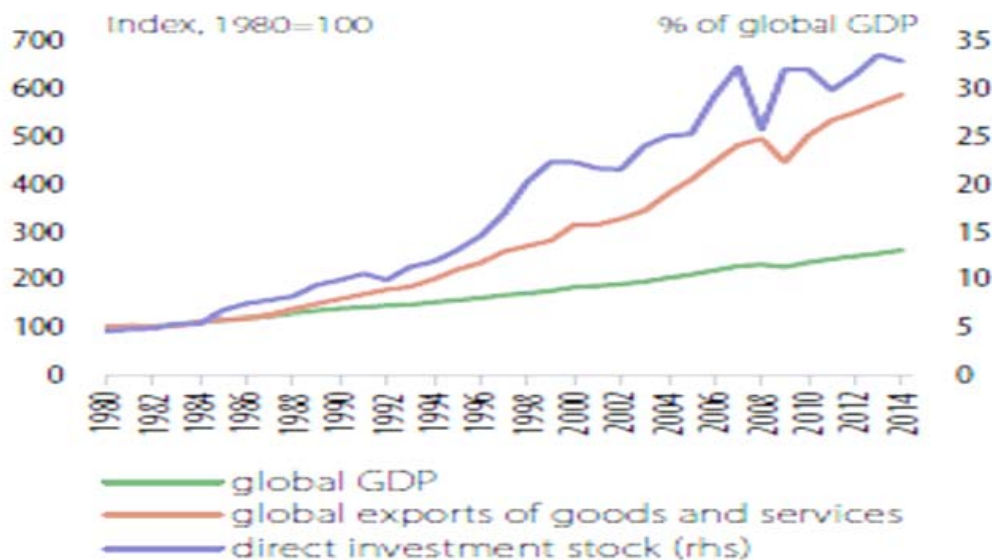


Figure no. 2. Current account deficit financing

Source: Annual Report of Romanian National Bank, 2015

Their volume reached 6.5 billion Euros, consisting of new entries in the form of direct foreign investment and capital transfers, dominated by the absorption of non-refundable European funds. From a broader perspective, *the infusion of direct foreign investments* recorded in the last years has demonstrated its beneficial effects on the economy, companies with foreign capital concentrating about half of the gross added national value and over 75% of the total volume of the foreign trade operations (Figure no. 3, 4 and 5).



Source: IMF, UNCTAD

Figure no. 3. GDP, international trade and direct investment stock at global level

Source: Annual Report of Romanian National Bank, 2015

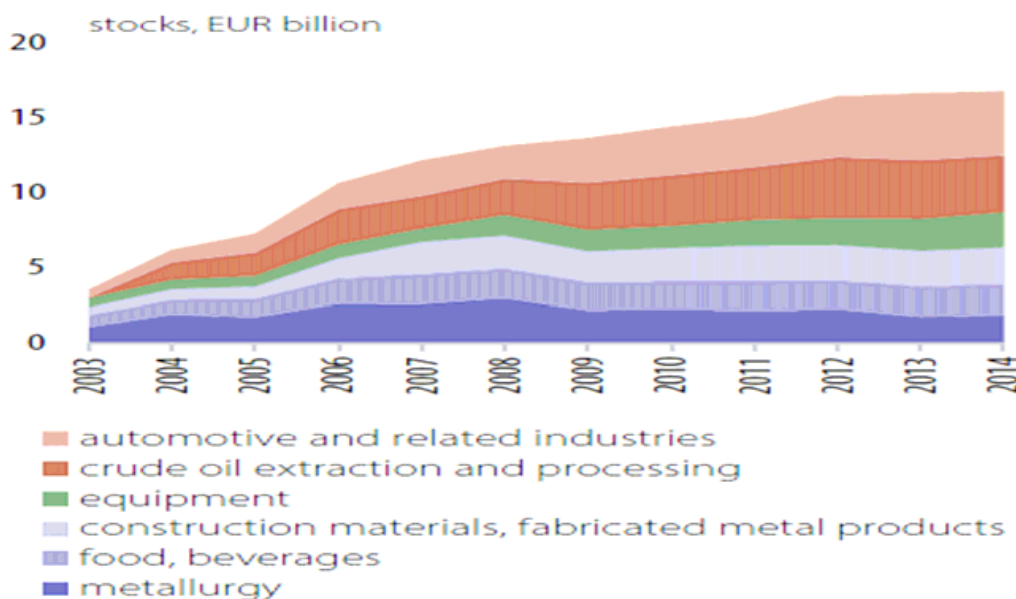


Figure no. 4. Direct investment in main industrial activities

Source: Annual Report of Romanian National Bank, 2015

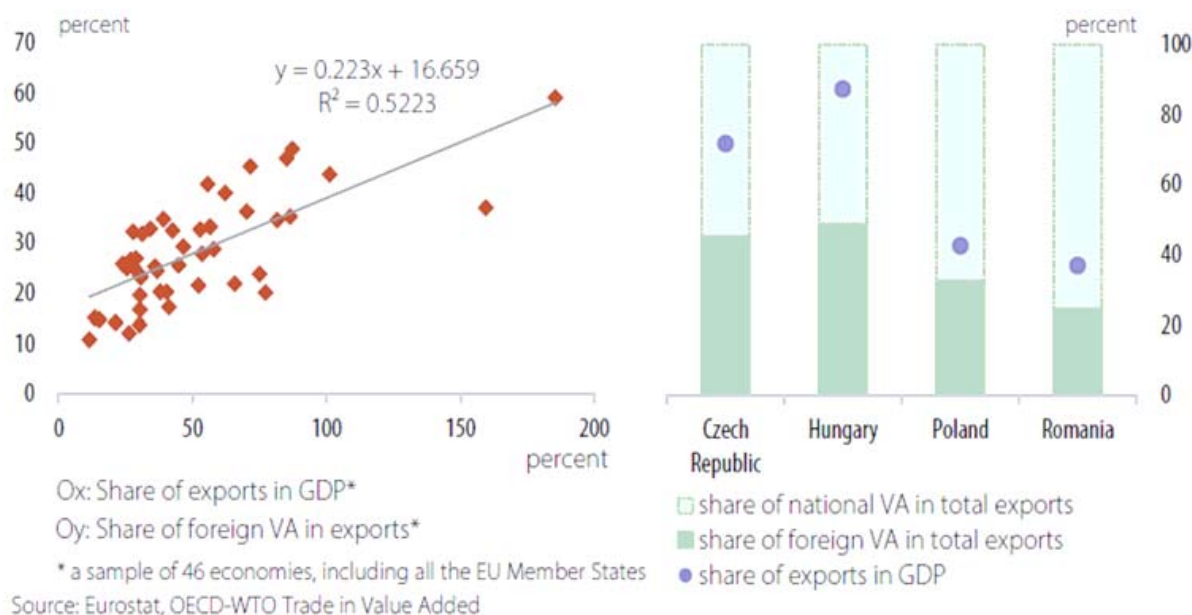


Figure no. 5. Export performance and share of foreign value added in exports (2011)

Source: Annual Report of Romanian National Bank, 2015

A satisfactory evolution has been noticed as well in regard to *the categories of capital with high volatility*, the recent trend outlined on the international financial markets – of reorienting the investors from emerging economies to the advanced ones – marginally affecting the financial account of the our country's balance of payments. Thus, the net outflow of capital in the form of deposits have eased noticeably in comparison with the previous years, compared to 2014, these flows have been reduced by 60%, and those associated with the investment portfolio have been of small amplitude, below 0.8 billion Euros. In addition, *external liquidity* has kept its comfortable level, consistent *international reserves* ensuring the coverage of about six months of prospective imports of goods and services, as well as of the short-term external debt at residual maturity date, in a ratio of about 110%.

The favourable picture of the evolution of the financial flows at the level of 2015 is complemented by the accelerated reduction of the total external debt stock – it reached the lowest level in the post-crisis period, namely 56.1% of the GDP, including as a result of the almost integral repayment of the loan contracted by Romania in 2009 under the stand-by



Arrangement with the IMF, the final payment in January 2016 being limited to about 100 million DST. The whole process of paying the loan went smoothly, without repercussions on the dynamics of the currency market and without eroding the international reserves adequacy indicators (**Figure no. 6**).

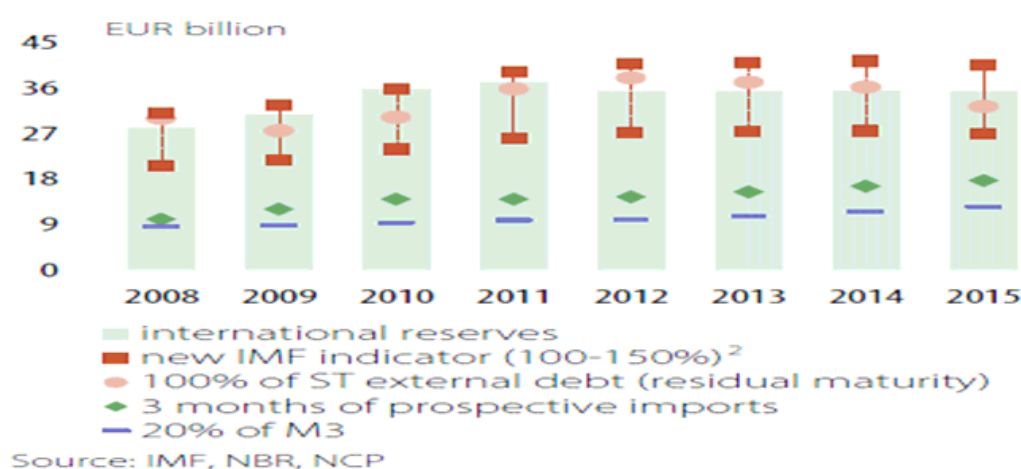


Figure no. 6. Reserve adequacy indicators

Source: Annual Report of Romanian National Bank, 2015

Moreover, the level reached by the international reserves at the end of 2015, of approx. 35.5 billion Euros, has been neatly superior to that from December 2008, which has recorded 28.3 billion Euros.

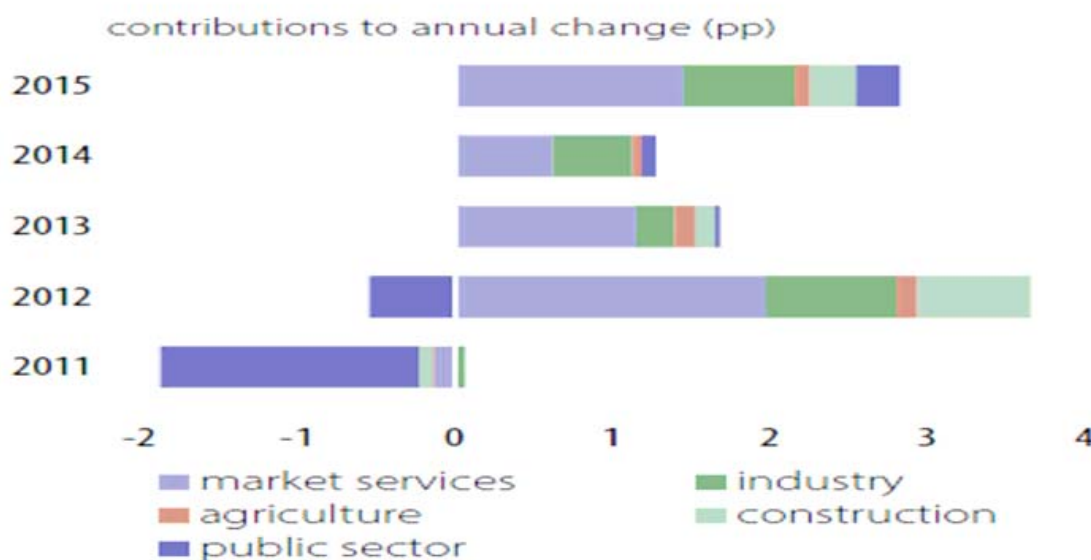
Romania's developments on the labour market

On the background of dynamizing the economic activity, the labour market conditions have improved during 2015. Thus, *the hiring pace has intensified*, the growth in the number of employees doubling compared to the previous year. However, the substantial increase in the rate of vacant jobs has not resulted in a corresponding advance of recruitment from the unemployed group, thus suggesting the persistence of some structural weaknesses related to required skills training in the labour market and the evolution of the population of working age.

The number of employees in Romania advanced by 2.8% in 2015, half of this increase being due to the employment achieved in the market services – especially IT&C, trade and transport, sectors undergoing rapid



expansion. Moreover, the revival of the construction activity has favoured the jobs creation, the number of employees exceeding 350 thousand people, number close to which it has been placed for three consecutive years. Also, personnel schemes have been extended in the industry as well, especially in the automotive sector and in the one related to the electrical equipment, against the background of maintaining the investment interest for this field, as well as in the food industry, which benefited in the second half of the year of a significant demand boost, following the enlargement of the scope of the reduced VAT rate of 9% (**Figure no. 7**).



Source: NIS, NBR calculations

Figure no. 7. Dynamics of the number of employees economy-wide: sectoral contributions

Source: Annual Report of Romanian National Bank, 2015

However, the return of the economic activity to the pre-crisis level in the first quarter of 2015 has not been accompanied by a similar recovery of the number of employees, so that by the end of 2015 had been regained only 70% of the jobs lost after the crisis. The only segment of the labour market where has been exceeded the level during the economic boom period was that of market services – the recovery of the construction activity is still in



its infancy, and in the industrial sphere structural changes have occurred that have emphasized the relative importance of some branches less dependent on the labour factor.

Increasing economy's capacity to create jobs observed during 2015, knowing an advance of more than 25% of the job vacancies, has not been reflected, however, in a corresponding reduction of the superfluous offer of labour force: the unemployment rate has marginally tempered, up to 5.1%, with -0.2 percentage points, and the BIM unemployment rate remained at 6.8% (**Figure no. 8**).



Source: NEA, NIS, NBR calculations

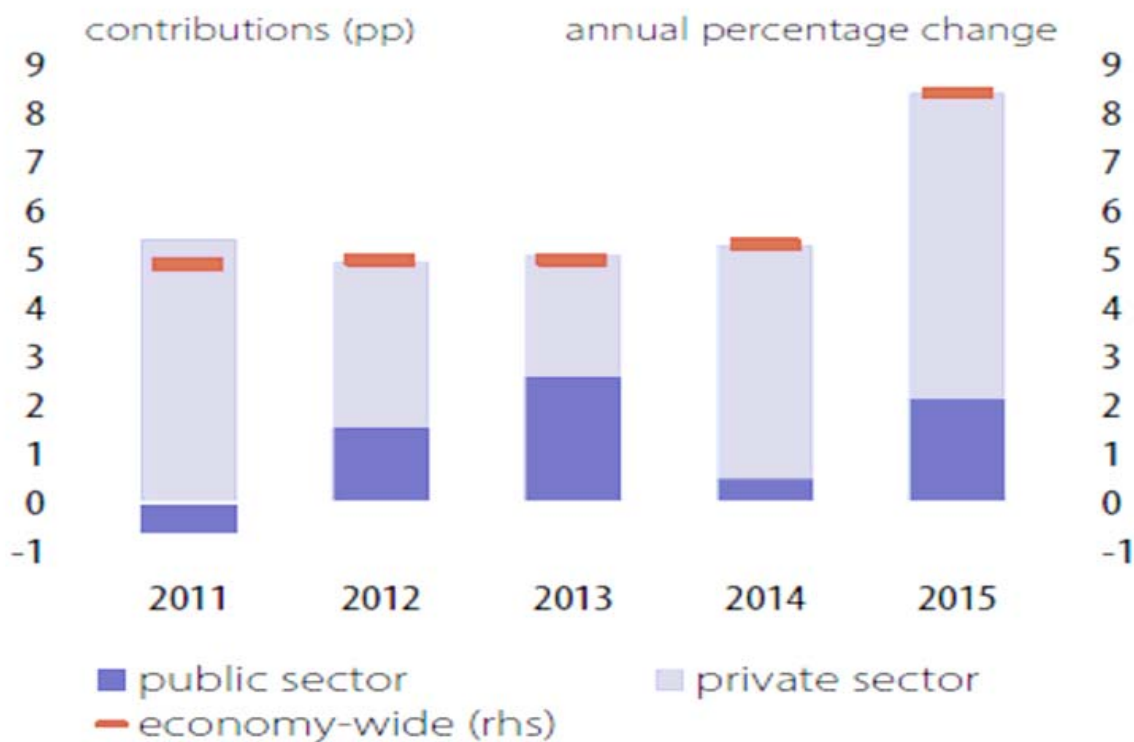
Figure no. 8. The number of employees economy-wide and unemployment rate

Source: Annual Report of Romanian National Bank, 2015



To some extent, the stagnation may be associated to the increase in the number of inactive people who are looking for a job, encouraged by the favourable economic environment, but the progress reports especially the persistence of the structural weaknesses in the labour market.

Intensifying the labour force absorption has been accompanied by an acceleration of the annually dynamics of the average gross salary up to 8.5%, after four years in which it has been placed around 5%. The evolution reflects the tightening trend observed on the labour markets, the two stages of increasing the minimum wage threshold in economy, with a cumulative impact higher than that of 2014, a series of salary increases awarded in the public sector, and in some sectors, prior productivity gains (**Figure no. 9**).



Source: NIS, NBR calculations

Figure no. 9. Wage earnings economy-wide

Source: Annual Report of Romanian National Bank, 2015



During 2015, a *faster pace of the wages* has been observed in the market services, especially in the segment of IT&C, due to business expansion, but also increased competition for candidates, as well as in constructions, given the trend of works revival. Though it has been situated below the economic average, a consistent pace has been recorded in industry as well, of approx. 6.8%, up with 0.3 percentage points, more accentuated in the branches orientated towards growth such as metal constructions and electrical equipment, but also in the sectors with a significant share of workers employed with the minimum wage, such as furniture, woodworking, light industry and food industry.

At the same time, *the level of the earnings in the public sector* it has exceeded that of the private sector since the fourth quarter of 2015, mainly due to the high level from the public administration, even if the wage increases have targeted several business segments such as education; local and public administration. Beyond the direct impact, the increases awarded in the public sector have the potential to influence the dynamic of the wages throughout the whole economy by showing a demonstration effect, thus exacerbating the increase pressures associated with the progressive tensions on the labour market.

The situation of long-term unemployed does not seem to have improved, their share in the active population maintaining higher than that from the pre-crisis period even after the economy returned to the positive growth rates, namely 3% between 2011-2015, compared to about 2% previously. The phenomenon, known in the literature as hysteresis effect, requires attention whereas the persons unemployed for a long period are likely to deteriorate their level of competences, being therefore less attractive to the employers, but also more difficult to integrate at the work place. Another basic problem is the situation of young people aged between 15 and 24 years, for which the unemployment rate, although it has decreased in 2015, remains at a high level, of 22%. In addition, the share of young people who are not employed or engaged in educational activities – the NEET3 rate – has continued to increase to 18.1%, among the highest in Europe, the gender gap being substantial, of approx. 6%, most likely as a result of the higher dropout rate in the case of female persons. At the same



time, the educational system proves to be inadequate in the light of the economy's requirements, both in terms of the range of created skills and the quality of training. The emphasis of the constraints on the development of the economic activity as a consequence of the shortage of qualified staff has determined more and more companies to create their own training facilities or financially support special classes within existing ones (**Figure no. 10**).

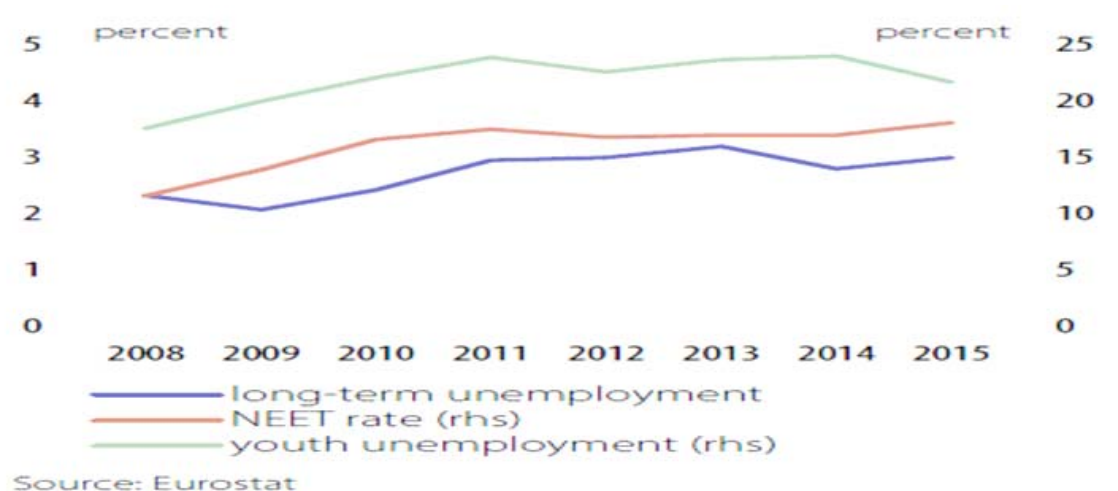


Figure no. 10. Structural indicators

Source: Annual Report of Romanian National Bank, 2015

The international economic context

The increase of the global economic activity has remained fragile in 2015, knowing a rate attenuation of 0.3 percentage points, up to 3.1%. The modest recovery of the developed countries, of 1.9%, has been overshadowed by a new slowdown at the level of the emerging economies, up to 4.0%. The latter have steadily lost ground in the recent years, amid the increase of the risk aversion of the foreign investors, but also of the steep drop of the main raw materials' quotations on the international markets.

In the context of the outlooks regarding *the inflation persistence at low levels*, but also of *the slow economic recovery in advanced countries*, the monetary policy of the main central banks has maintained its accommodative character during 2015. Undoubtedly, the most important evolution concerns the Chinese economy, whose growth rate has continued



to decline, so that the annual dynamics of the GDP has fell for the first time in the last 25 years below 7%, reaching a level of 6.9% in 2015. Given *the high degree of China's integration* on the international chains of added value, the transition of this economy from a growth model based on investment and exports towards one oriented towards domestic consumption has led to a slowdown of the global trade activity, while exacerbating the decline in commodity prices from the recent years. Meanwhile, in the main countries net exporters of raw materials, such as Brazil and Russia, the free fall in commodity prices has been one of the main causes of the severe economic contractions, with almost 4%, together with the intensification of the internal political tensions, in the case of Brazil, or external, consisting in the persistence of strained relations between Russia and the EU. Instead, *the low commodity prices*, especially oil, have supported the consumption growth in net importing countries, such as India, but also in most of the advanced countries – in case of the latter, a role was held as well by the expansionary monetary policies. *Resuming consumption in the advanced countries* has been the main engine of global economic growth in 2015. In the USA, the gradual recovery of the domestic consumption, at the same time with the improvement of the labour market conditions, but also of the investments, except those related to the energy sector, have favoured the maintenance of a robust economic growth, of 2.4%. Instead, the sluggishness of the external demand and the appreciation of the dollar have inhibited exporters' activity. *A revival of the economic activity* took place as well in the Euro area, with an acceleration rate of 0.7 percentage points, up to 1.6%, against the improvement of agents' confidence in the economy, of easing the financing conditions, of the labour market recovery, but also of the depreciation of the European currency. However, the positive influence of the latter evolution has not been sufficient to counterbalance the decline of the external demand, so that the contribution of the net exports to the economic growth has become slightly negative in 2015, for the first time since the beginning of the crisis. Regarding the other advanced economies, Britain has recorded a deceleration of the growth rate, up to 2.2% in the context of the uncertainties concerning the possible exit from the EU, and



Japan's economy grew timidly, with 0.5%, after the 2014 recession induced by the increase of the VAT quota (**Figure no. 11**).

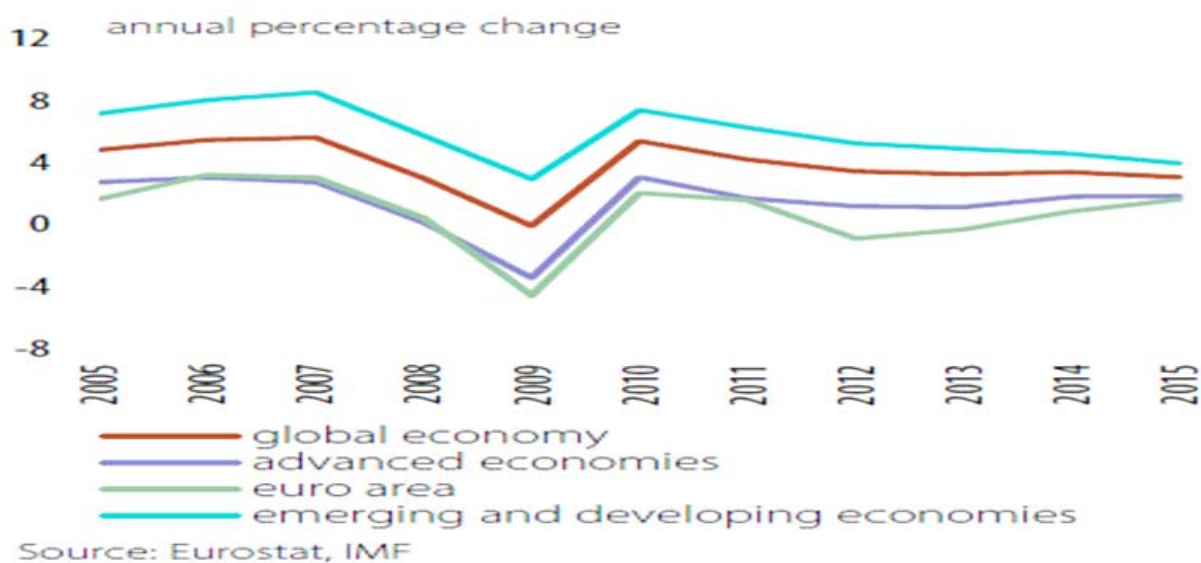


Figure no. 11. Global economic growth

Source: Annual Report of Romanian National Bank, 2015

The decline in commodity prices has offered an extra boost to the expansion of the domestic demand in developed economies in 2015, contributing largely to the growth of the disposable income of the population and to the reduction of the production costs for businesses. In *the context of the significant increase of the global offer over-plus*, the oil's price on the international markets has been halved in 2015. The amplification of supply surplus on this market has been the result of a strong advance of the crude oil production – primarily from the OPEC, as part of the strategy of certain members to expand the market share to the detriment of the competitors outside the organization, essentially of the oil producers through hydraulic fracturing in US – that took place, however, in terms of the economic downturn in emerging countries, particularly in China, the second largest consumer of oil worldwide.

However, over the year, *financial markets* have experienced a considerable volatility enhancement, on the background of the deterioration of growth prospects in emerging economies, of the expectations



materialisation regarding the closing of Fed's quantitative easing cycle, but also of the negotiations carried out between Greece and its international creditors. During this period, a number of emerging economies have experienced significant outflows of capital (flight to safety), which have put pressure meaning the depreciation of the domestic currencies, eroding the foreign currencies reserves of the central banks.

Conclusion

In an *internal and external environment marked by a highly degree of uncertainty*, in which the vulnerabilities that the Romanian economy has faced not long ago are risking to reappear, only a coherent set of policies in the macroeconomic, structural and macro-prudential field make possible the upward evolution of the Romanian economy on long-term and the insurance of price and financial system's stability. In these circumstances, the process of economic convergence – nominal and real – would take place in a sustainable manner, its advance being achieved while maintaining the macroeconomic balances. In the absence of a serious effort in this regard, there is the danger that the notable performance on these fronts – visible especially in 2015, but achieved over time – to not last.

In perspective, connected to the international context in which our country is as well, it is expected that *the normalization of Federal Reserve monetary policy* to be achieved gradually over the coming years, given the fragile global context and the appreciation pressures on the US dollar. The climate of uncertainty that has characterized the international economic and financial context in 2015 and the first half of 2016 has been emphasised at European level as well by the BREXIT. Beyond the short-term implications associated with the increased volatility on the financial markets, the materialization of this risk had the potential to weaken the cohesion of the EU, marking on the long-term the evolution of the European economies, especially the peripheral ones, in whose development the European project has been an anchor.



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ROMANIA'S IMPLICATION IN THE GLOBAL FINANCIAL CYCLE

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Abstract

In this article we intend to approach the global financial cycle and the international production networks, as well as Romania's international investment position through its main components. The targets relate to: the global financial cycle and the recent experience of emerging economies, describing global production networks, the implications of extending international production networks, the influence of trade integration on economic development. Also, we approach the evolution of investments in our country in 2015, with reference to international reserves, gross external debt and net external debt. Drawn conclusions refer to mitigating the contagion effects generated by the increase of the degree of global financial integration.

Keywords: *global financial cycle; international production networks; emerging economies; gross external debt; net external debt; financial integration; international investment position.*

JEL Classification: E2, E6, F4

Introduction

In an internal and external environment marked by a high degree of uncertainty, in which the vulnerabilities the Romanian economy has faced not long ago are likely to recur, only a coherent set of policies in the



macroeconomic, structural and macro-prudential field enable the ascendant evolution of the Romanian economy on a long-term and the insurance of price and financial system's stability. In these circumstances, the process of economic convergence – nominal and real – would take place in a sustainable manner, its advance being achieved while maintaining the macroeconomic balances. In the absence of a serious effort in this regard, there is the danger that the notable performance on these fronts – visible especially in 2015, but achieved over time – to not last.

The recent experience of emerging economies

The evolution of the emerging economies in the past two years, marked by turbulences on the financial markets and massive capital outputs, has brought back to the attention of the economic policy makers the importance of understanding *the effects of the global financial cycle on national economies*. Thus, beyond the influence of the business cycle, whose movements are captured by the indicators of the real economy, the economic activity is affected as well by the movements of the global financial cycle. Unlike the first, this one manifests on a much longer period of time (circa 15 years, compared to 1-8 years in case of the business cycle) and is harder to identify and assess, being generally correlated with the evolution of property and lending prices. Even if there is no consensus on the definition of the phenomenon in literature, the global financial cycle can be understood as a result of continuous interaction between:

- (i) investors' perceptions on the value of (under/overvalued) assets;
- (ii) their appetite for risk;
- (iii) the financial constraints encountered Borio, 2012.

Taking into consideration the important role held by the US dollar not only in the international trade but also on the international financial markets, Fed's monetary policy is an important source of the global financial cycle fluctuations. Moreover, in a recent speech, New York Fed's President said that US central bank has "*a special responsibility to manage the monetary policy in a way that contributes to promoting the global financial stability*".

In this context, monetary easing in the US after the crisis triggering in 2008, mostly through the practice of some interest rates close to zero and



some unconventional policies, such as direct purchases of assets, has generated globally a surplus of liquidity, putting growth pressures on the assets' prices and thus fuelling investors' appetite for risk.

As a result, the foreign capital has migrated towards emerging markets, in search of higher returns and to achieve a better portfolio diversification. The States in question have received such funding (perhaps even the technological advances associated), which has sustained the economic development and, as a result, the increase of the living standard. Even if Fed's loose monetary policy has boosted the expansion of the capital flows, it should be noted that their final destination has depended crucially on factors specific to the countries, which related primarily to the macroeconomic stability (quality of the institutions, fiscal and monetary policies, the level of deficits and debt, of the reserves, etc.).

These internal coordinates have proved to be more relevant in times of sudden change in investors' sentiment. The deterioration of the growth prospects of the emerging economies and the emergence of the first signals (in May 2013) concerning the interruption of Fed's longest cycle of quantitative easing, which also materialized by the end of 2015, made it possible for us to assist today to the significant redirection of the capital from emerging markets towards the advanced ones, together with the general decrease of the main raw materials prices on the international markets. Thus the situation has become delicate for the emerging economies as the massive withdrawals of capital, which have generated strong pressure for the devaluation of the national currencies, leading to the diminishing of the international reserves, have coincided with the end of the boom period in raw material prices, the previous episodes of overlay (e.g., the 80s) leading systematically to sovereign debt crises Reinhart et al., 2016.

According to the IMF assessment, the recent episode of capital withdrawal from the emerging economies is similar to that of the 90s (the Asian crisis) and the 80s (Latin America), both as amplitude of restricting net as share in the GDP (about 4%) and as percentage of the affected states (about 70%). However, there is an important distinction from the previous episodes, namely the one that the risks to the sustainability of the external debts seemed relatively manageable, largely due to strengthening the



macroeconomic policy framework. In this respect, a key role belonged to the exchange rate flexibility, which has facilitated an orderly depreciation of those countries' currencies. However, the better adequacy of the international reserves, and especially the predominance of some relatively moderated levels of the foreign debt have acted in the same direction IMF, 2016. Instead, the globalization of the financial markets and the more closely integration of the emerging economies into the international trade chains have determined the adverse effects to propagate not only regionally, but also at the level of the advanced economies, the latter facing fluctuations on the capital markets and especially a deceleration of the commercial transactions worldwide.

Global production networks

The influence of the external environment on the domestic economic context has acquired an additional dimension as the incorporation of some local sectors within the international production networks has grown. The relevance of this development for the Romanian economy is significant, practically lying at the base of reconfiguring the production on a more competitive structure that has favoured the correction of the external imbalances and has stimulated the economic recovery after the financial and economic crisis outbreak.

The main coordinates of extending the international production networks

In a broader perspective, at the level of the post-war global economy, the production process has acquired an increasingly transnational character along with blurring the restrictions which aimed at the trade and investment flows between countries, the two phenomena empowering one another. The expansion of the global production networks recorded an acceleration starting with the mid-1980s (**Figure no. 1**), mainly along developed economies – emerging economies axis, especially as a consequence of the information technology's progress, transmitted in the decrease of the communication costs Baldwin and Lopez-Gonzales, 2015 and which has facilitated the remote coordination of the network's nodes.

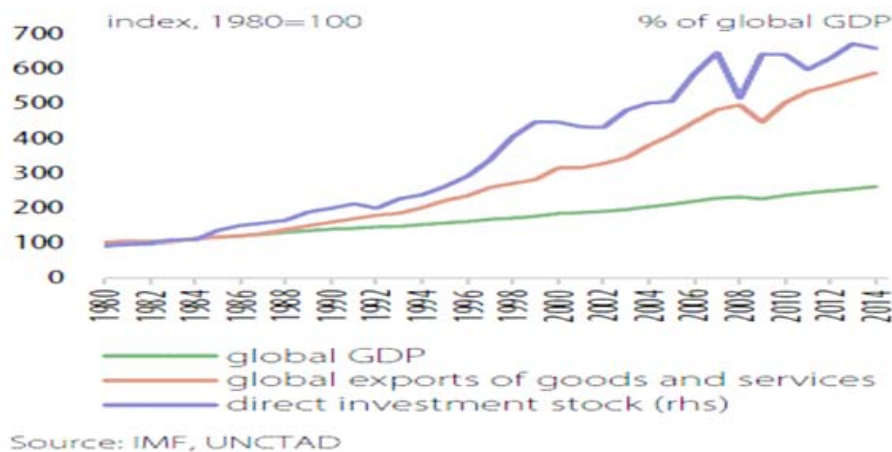


Figure no. 1. GDP, international trade and direct investment stock at global level

Source: Data published by IMF, UNCTAD

Over the decades that have brought about the emergence and expansion of the international production networks, the mechanism underlying this phenomenon has remained broadly unchanged. It essentially involves a company that seeks to improve its own activity – either by improving the cost structure or by expansion on new markets – and which, in this respect, finds favourable conditions for the realization of a production capacity in another country, usually an emerging economy. Beyond the complexity of cost-benefit analysis underpinning these investment decisions, the company primarily looks for a friendly economic environment, with predictable legislation. Another frequently cited element refers to the wage level, generally lower in emerging economies compared with that of developed countries, which translates into lower costs. However, at the same time, in terms of the human resources, manpower availability, possessing the skills necessary to carry out the appropriate parameters of productivity, is particularly important. Other relevant factors in the decision to locate a production capacity may concern the quality of transport infrastructure, the existence of cluster-type concentrations, for the types of networks where these structures play an important role (such as, for example, those from the automotive sector) or the consumption potential of the local market.

Starting with 2004, after the unequivocal outlining of Romania's European road, direct foreign investment rose steadily. Important flows



were directed towards industry (**Figure no. 2**), the role of these companies in the economy currently being prominent. However, in the light of current developments, the maintenance of the problems related to the insufficiency of the skilled labour force, the wage advance situated above that of the productivity and the lack of a noticeable improvement of infrastructure's quality have eroded the competitive advantage.

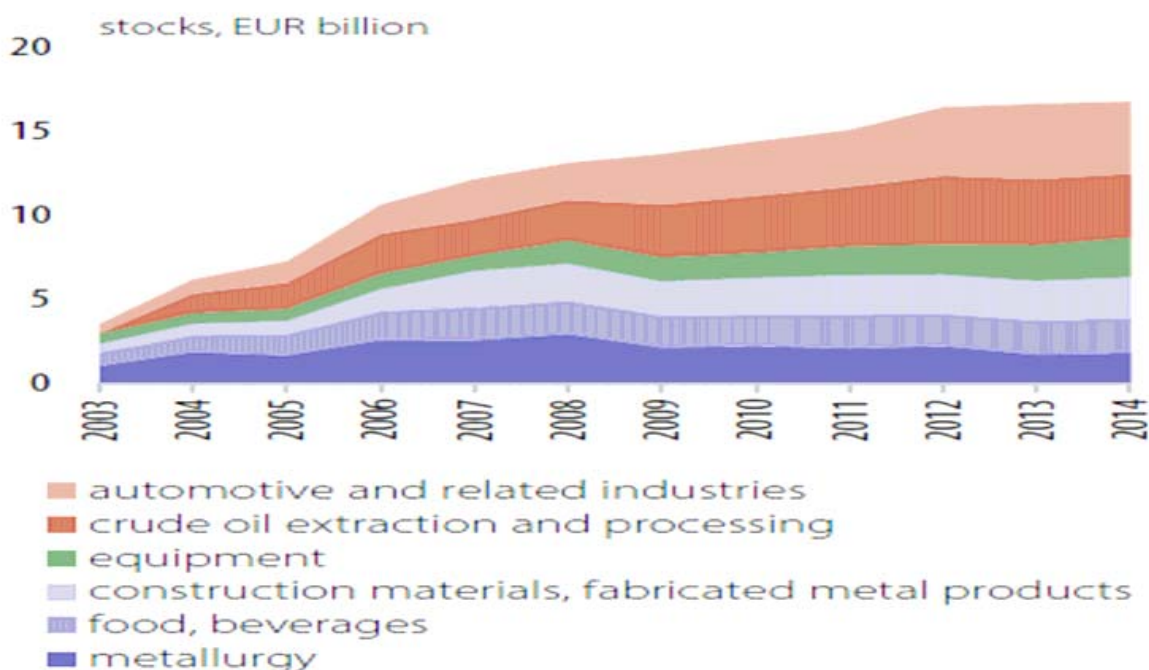


Figure no. 2. Direct investment in main industrial activities

Source: Data published by Annual Report of Romanian National Bank, 2015

Extending the international production networks

Widely fragmentation of global production in stages developed in different countries has claimed the adjustment of the way in which the economic evolutions are analysed and interpreted, and, implicitly, of the elements pursued in the substantiation of the trade, structural or development policies.

First, it is necessary that the evaluation of the competitiveness of an economy to look beyond the expansion of exports, as their relevance in



terms of creating jobs, incomes and welfare depends on the proportions in which they contain added value achieved at national level. In fact, high levels of exports show most often a significant content of added value of foreign origin (**Figure no. 3**).

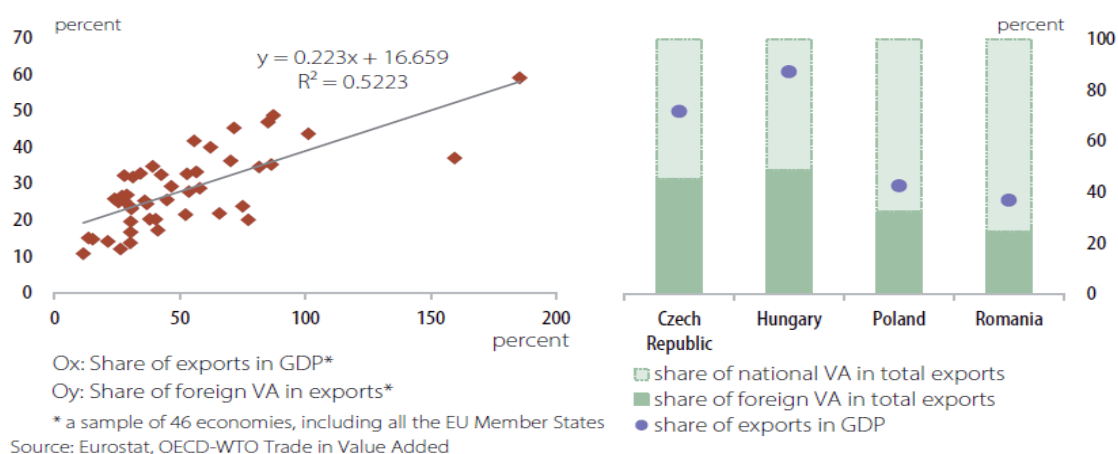


Figure no. 3. Export performance and share of foreign value added in exports (2011)

Source: Data published by Annual Report of Romanian National Bank, 2015

Regarding the export performance of the Romanian economy, although it is lower than other European emerging economies, has been accompanied by maintaining a substantial share of national added value.

Moreover, the interpretation of all the indicators that aim the exports (market share, technological content, etc.) should consider the size of the national production factors' contribution. For example, it is possible that the sluggishness or even the cessation of the activity of an exporter of products with high technological content to have relatively small effects on the national economy, to the extent that the local operations aim stages with a low added value (such as product assembly). However, beyond the implications of such a scenario, any foreign investment can bring, beside the immediate benefits, advantages in the medium and long term, to the extent that, conditioned by the existence of some favourable circumstances, the company decides to expand its operation, possibly towards activities with a higher added value content.

Trade integration has led, obviously, to an amplification of the exposure to external shocks, which means that potential adverse events are



transmitted stronger and faster locally. In addition, the complexity of the trade relations worldwide makes it difficult to quantify the relevance of the external shocks for a certain economy. For instance, the structural changes recorded in China's economy have the potential to influence the exports of the ECESE states despite of a possible limited direct exposure, by integration into the German production networks (IMF, 2016). Therefore, the assessment of the foreign demand should take into account the fact that the aggregated income of a trading partner is less relevant for the domestic production and exports, to the extent that this partner includes intermediate nodes of the networks, the demand for final goods which “activates” the transactions with it actually coming from third countries. For Romania, the foreign demand thus determined has revealed a lower exposure compared to the group of other EU countries (about 60% in 2011, according to OCDETiVA data), than that indicated by the share of commercial transactions (over 70%), which suggests that the exports directed to these countries are in consistent manner further processed and forwarded to other regions.

Also, the integration into the international production chains has implications on the traditional relationship between the exchange rate and the exports. Thus, the assumption that a depreciation in real terms (which can be determined, *caeteris paribus*, by a nominal depreciation) supports the sales to external partners loses its relevance if the domestic production depends on the imported *inputs* (which become more expensive). This theoretical mechanism has been validated from empirical perspective as well, the indicator effective real exchange rate that takes into account production's imported *inputs* having a superior performance than that calculated in the “classic” manner in explaining the evolution of exports.

Trade integration and economic development

The widely co-optation of the emerging economies in the production process represents an evolution with multiple implications in terms of welfare and economic development for all parties involved, although there is no consensus on the magnitude of the positive contributions relative to the negative ones.

From the perspective of the developed countries, the interpretation according to which the phenomenon is reduced to the loss of the productive capacity and of the jobs directly and indirectly attached was called into question by some studies, which ascribe it an increase in the utilization of the highly skilled labour force for a review of the literature, one can consult Amador and Cabral, 2015. Therefore, these economies essentially would



have recorded a re-qualification of the labour market, in the sense of increasing the importance of the employees with high level skills, to the detriment of those carry out activities that require a medium and low level of education. At the same time, an improvement of the production process parameters, transmitted in a more favourable price-performance ratio for the ultimate good, is beneficial for all the consumers in these countries.

For emerging economies, the advantages are clearer, the mitigation of the development gap between them and the group of rich countries being due, in a consistent manner, to the integration into the international production networks. From the perspective of the European project, this development has provided support for the enhancement of the real convergence between the new Member States and the “centre” consisting of the developed countries, thus acting as *de facto driver* of the European integration process. However, to the extent that the benefits are distributed unevenly in the society, they can lead to the appearance or increase of some imbalances. In this regard, an issue that requires attention in the national economy aims the dissonances between the development profiles of each region.

Romania’s investments evolution in 2015

Direct investments have totalled in 2015 net inflows amounting to 2,765 million Euros, up by 2.3% compared to 2014, against the background of reinvested profits. Non-residents’ investments in Romania reached 3,044 million Euros, with a level of shareholdings¹ amounting to 3,335 million Euros, diminished by the net negative value of the intra-group² loans. The top five investor countries³ have been: France (44.1%), the Netherlands (18.7%), UK (10.6%), Germany (9.2%) and Austria (3.4%).

Portfolio investments have recorded in 2015 net outflows of 776 million Euros, compared with the net inflows of 2,859 million Euros in 2014, under the terms of a lower volume of long-term government securities issued by the public administration and of the sale by non-residents of some holdings to residential investment funds.

“*Other investments*” component in 2015 has recorded net outflows amounting to 5,481 million Euros, down with 44.6% compared with 2014, trajectory imprinted by loans and deposits. Thus, long-term received loans

¹ Including the reinvested net estimated profit.

² Loans between the foreign investor and the resident company.

³ In terms of the share of direct investment inflows of the non-residents in Romania in 2015 (preliminary data). The five countries account for 86% of the total.



have totalled net outflows of 3,956 million Euros, compared to 5,419 million Euros in 2014, in the context of a lower volume of repayments in the account of central bank's loans. Short-term received loans have recorded net inflows of 365 million Euros, compared to net outflows of 77 million Euros in the previous year, against the background of easing of loan repayments of the non-financial corporations. Deposits have recorded net outflows of 1,537 million Euros, compared to 3,859 million Euros in the previous year, being noticed an increase in deposits opened by non-residents to resident banks and a decrease of the volume of residents' deposits (banks and non-financial corporations) abroad.

International reserves

At the end of 2015, Romania's international reserves totalled 35,485 million Euros, 20,7 million Euros less than at 31st of December 2014. The contribution of the net transactions and the price influences has been negative, amounting to 821 million Euros, this being counterbalanced by the exchange rate influences (+801 million Euros). Monetary gold has diminished its value with 42.7 million Euros, in line with the evolution of the quotations on the international market. Romania's international reserves have covered at the end of period 6.4 months of imports of goods and services, compared to 6.8 months at the end of 2014⁴.

Gross foreign debt

At 31st of December 2015, the gross external debt totalled 90 billion Euros. Long-term external debt⁵ has decreased compared to the end of 2014 by 6.8%, reaching to 70.7 billion Euros, due to some net outflows of 5.8 billion Euros, of the price influences related to debt securities (-0.4 billion Euros) and of the conversion of debt into shares and reclassifications (-0.1 billion Euros), opposing the change in exchange rates (+1.2 billion Euros).

Long-term external debt service amounted to 23.1 billion Euros in 2015, the capital ratios representing 21.3 billion Euros, while the cost with the interests and fees totalling 1.8 billion Euros.

⁴ The coverage degree of imports of goods and services is calculated as ratio between Romania's international reserves (foreign exchange + gold) at the end of the period and the average monthly imports of goods and services during that period.

⁵ Coming from trade credits and foreign loans, bonds, deposits and DST allocations.



The structure of the external debt by institutional sector in the long-term shows that at the end of 2015 the public administration sector continued to hold the largest share (44.4%), being followed by non-banks sector (39.5%). The banking sector (14.2%) and the monetary authority (1.9%) have continued to show diminished values, determined by the decrease in the balance of the deposits and payment of due instalments on the debt to the IMF.

The analysis of the long-term external debt on types of creditors reveals the steady decline of the share held by the international bodies (from 25.6% at the end of 2014 to 23.1% at 31st of December 2015) as a consequence of the repayments made under the loan granted by the IMF in 2009 (1.5 billion Euros), but also in account of the external debt to other multilateral creditors – EU, IBRD, EBRD, EIB (3.2 billion Euros). The trend of increasing the share of private sources (from 74.4% at the end of 2014 to 76.9% at the end of 2015) has maintained through the access to financing on the private capital markets in the form of securities.

Regarding the classification of maturity, on 31st of December 2015, the external debt with maturity over 5 years continued to hold the most important position (81.5%) in the long-term external debt.

The structure on currencies of the long-term external debt at end of the analysed period reveals a majority share of the Euro currency (74.2%, up by 0.9 percentage points versus December 31st, 2014), followed by RON (10.9%, up by 0.6 percentage points), US dollar (10.1%, up by 0.7 percentage points), DST (2.0%, down by 1.7 percentage points), Swiss franc (2.0%, down by 0.6 percentage points) and other currencies (0.8%).

Long-term external debt has represented 44.1% of the GDP at end of 2015 (down by 6.4 percentage points from the previous year end; **Figure no. 4**). The rate of the long-term external debt service has reduced by 3.5 percentage points, from 38.5% at end of 2014 to 35.0% at 31st of December 2015.



	percent	
	2014	2015
Gross external debt/GDP	63.1	56.1
Net external debt ⁹⁷ /GDP	29.6	23.6
Long-term gross external debt/GDP	50.5	44.1
Long-term gross external debt/exports of goods and services	122.5	107.3
Long-term gross external debt service ratio	38.5	35.0

Figure no. 4. Key external indebtedness indicators

Source: Data published by Annual Report of Romanian National Bank, 2015

Short-term external debt totalled 19.3 billion Euros at the end of 2015, its balance being 2.2% higher than 2014, as a result of some net capital inflows amounting to 1.8 billion Euros. Short-term external debt service totalled 28.1 billion Euros and its corresponding rate has been 42.7% at 31st of December 2015, with 12.1 percentage points less than at the end of 2014.

Net external debt⁶

Compared to 2014, at the end of 2015 the net external debt has recorded a low level, from 44.5 billion Euros to 37.9 billion Euros, due to the decrease of the net external debt of all institutional sectors⁷ (**Figure no. 5**).

⁶ The net external debt is equal to the difference between the gross external debt and the foreign assets which are based on the debt instruments (External Debt Statistics – Guide for Compilers and Users – IMF, 2013 edition).

⁷ Nonbanking sector; companies that accept deposits, excluding the central bank; public administration; the central bank.



	EUR million		
	Gross external debt	External assets in debt instruments	Net external debt
	(1)	(2)	(3) – (1) – (2)
General government	31,459	2,071	29,388
Cash and deposits	83	6	77
Debt securities	18,155	0	18,155
Loans	13,197	0	13,197
Trade credits and advances	2	1,985	-1,982
Other liabilities/assets	23	80	-58
Central bank	1,560	32,238	-30,678
Special drawing rights (SDR)	1,252	11	1,241
Cash and deposits	186	4,378	-4,192
Debt securities	0	27,849	-27,849
Loans	122	0	122
Other liabilities/assets	0	0	0
Deposit-taking corporations except the central bank	14,869	3,781	11,088
Cash and deposits	14,536	2,789	11,747
Debt securities	173	293	-120
Loans	0	475	-475
Other liabilities/assets	160	224	-64
Other sectors	21,693	10,961	10,732
Cash and deposits	0	3,129	-3,129
Debt securities	14	1,430	-1,416
Loans	19,918	3,703	16,214
Trade credits and advances	1,677	2,474	-798
Other liabilities/assets	85	225	-140
Debt instruments under direct investment	20,454	3,083	17,371
Total	90,034	52,134	37,900

Figure no. 5. Romania's external debt at the end of 2015

Source: Data published by Annual Report of Romanian National Bank, 2015

At the end of 2015 the public administration sector has marked a debtor external position in decline, the net debt reaching to 29.4 billion Euros (compared to 30.8 billion Euros in 2014), mainly as a result of repaying the outstanding external loans.

Net debtor position of the credit institutions, amounting to 11.1 billion Euros (compared to 12.8 billion Euros in 2014) has been determined by the diminution of the deposits attracted from mother banks.

Non-banking sector has recorded a net debtor position of 10.7 billion Euros (compared to 13.8 billion Euros in 2014), following the increase of foreign assets in the form of securities, of the deposits and loans, while reducing the external liabilities in the nature of loans.



The net creditor position of the central bank, of 30.7 billion Euros (compared to 29.6 billion Euros in 2014) has been generated by the increase in the foreign assets which are based on debt instruments (securities) and of reducing the debt to IMF by repaying the due instalments in the account of the stand-by agreement.

Debt instruments in the nature of direct investment have registered an increasing net debtor position, amounting to 17.4 billion Euros (compared to 16.8 billion Euros in 2014), determined by increased of the intra-group loans.

Conclusion

With regard to mitigating the contagion effects generated by the globally increase of the financial integration degree, Constâncio 2015, with whom we agree, exposes two currents of ideas. The first directly addresses the source of the global financial cycle, being also called *the global solution*, and presupposes an international coordination of Fed's monetary policy with that of the national central banks. Such a solution is however difficult to implement, given the fact that each central bank operates in a specific institutional and economic context, in accordance with its own status which provides the establishment of one or more basic objectives from national perspective. The second stream of ideas, more pragmatic, believes that the best line of action is to strengthen the national economies resilience to potential external shocks by *strengthening the macroeconomic fundamentals*, as well as *the calibration of the macro-prudential policy* according to the circumstances specific to each country. Within the latter, Rey 2015 distinguishes cyclical measures, which limit the growth rhythm of credit and of indebtedness during the economic expansion and, respectively, structural measures, which impose stricter limits of indebtedness to the financial intermediaries.



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ROMANIAN TOURISM MARKETING RESEARCHES

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Abstract

In sustainable development, tourism plays a vital role, with a high contribution in Romania’s economic recovery and relaunching. Raising the touristic product from the established values to those corresponding to the standards and preferences of the foreign tourists involves initiating and promoting actions that include, on one hand, the progress of the processes of education and training of a mentality appropriate to the current type of development, and on the other hand, emphasizing sustainable development in regions of touristic reception.

Based on these considerations, this paper aims to determine how the touristic products must be designed, from the point of view of marketing, to comply with the sustainability principles. To this end, we analyzed a research on consumption of touristic services in Romania, realized by INSOMAR, but also an analysis of the Romanian tourism seen by foreigners.

Keywords: *sustainable development; country brand; touristic product; research; foreign tourist; touristic circuit.*

JEL Classification: M39, Z32

Introduction

The paper covers the theoretical and practical aspects of Romanian tourism issues; the importance of the study arising from the implications that market research study has in solving the problems of the Romanian tourism and in order to substantiate the marketing strategy of the Tourism Ministry.

The paper analyzes a marketing research conducted by INSOMAR concerning the consumption of tourism services in Romania few years ago and examines the opinions of foreign tourists on the Romanian tourism potential.

For creating the article we have analyzed both Romanian and foreign literature, adding information from domestic and international scientific papers.

Literature Review

The works we have consulted on this subject are varied, from Romanian studies conducted by specialists in tourism, such as The National Strategy for Regional Development, edited by the National Centre for Sustainable Development, May 20th, 2008 and The Regional Operational Programme 2007-2013 (Regional Policy) developed by the Regional Development and Tourism Ministry, to foreign studies of the World Tourism Organization from speciality magazines – Tourism Vision 2020 Magazine. Then, we have consulted Romanian literature (Stănciulescu, G., “Sustainable Tourism Management in Urban Centres”, Economica Publishing, 2004; Ispas, A., “The Image of Romania as a Tourist Destination” in *Economic Talks Magazine*, no. 4/April 2007, pp. 48-53), foreign literature (Eagles, P.F.J., McCool, S.F., Haynes, C.D., “Sustainable Tourism in Protected Areas Guidelines for Planning and Management”, World Commission on Protected Areas, IUCN, 2002; Sundseth Kerstin, “Using Natural and Cultural Heritage to Develop Sustainable Tourism in Non-Traditional Tourist’s Destinations”, European Commission studies, Ecosystems LTD) and a study conducted by INSOMAR on the use of touristic services in Romania in 2009.

Worldwide Tourism Vision – 2020

Long-term forecast of the World Tourism Organization spans from 1995 to 2020. In the chart below (figure no. 1) it can be observed the structural trends of the forecast for this period. Experience shows that, on short-term, rapid growth periods (1995, 1996, 2000) alternate with slow growth periods (2001-2003).

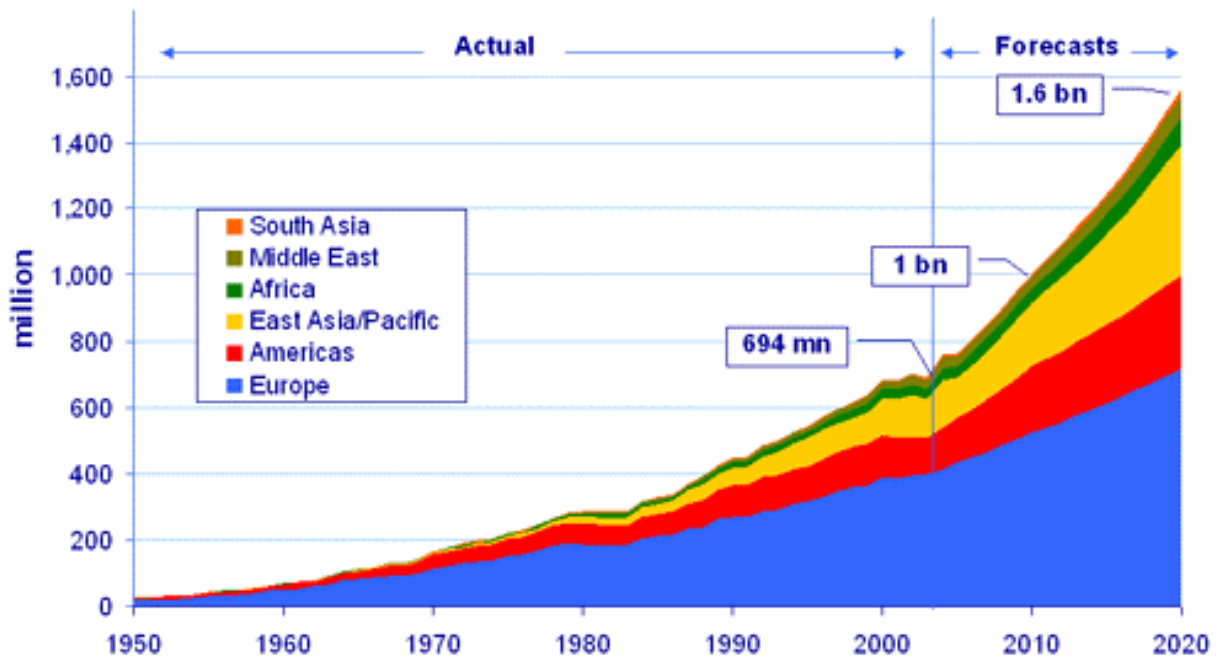


Figure no. 1. International tourism trends

Source: Tourism Vision 2020 – OMT Bulletin

Organization's projections show that the revenues from international arrivals are expected to reach about 1.6 billion Euros by the year 2020. Among these revenues, at worldwide level, in 2020, 1.2 billion Euros will come from intraregional travels and 378 million Euros will be from long distance travels. Of the total number of touristic arrivals by region it is shown that by 2020, the top three regions that receive tourists will be Europe (717 million tourists), East Asia and Pacific (397 million) and the two Americas (282 million) followed by Africa, the Middle East and South Asia. East Asia and Pacific, Asia, Middle East and Africa are forecasted to record growth rate of over 5% per year, compared to the world average of 4.1%. The more developed touristic regions in Europe and America are expected to achieve growth rates lower than the average. Europe will maintain the highest share of world arrivals, although there will be a decline from 60% in 1995 to 46% 2020.



Table no. 1. The situation of world tourism

	Base Year	Forecasts		Market share (%)		Average annual growth rate (%)
	1995	2010	2020	1995	2020	1995-2020
	(Million)					
World	565	1006	1561	100	100	4.1
Africa	20	47	77	3.6	5.0	5.5
Americas	110	190	282	19.3	18.1	3.8
East Asia and the Pacific	81	195	397	14.4	25.4	6.5
Europe	336	527	717	59.8	45.9	3.1
Middle East	14	36	69	2.2	4.4	6.7
South Asia	4	11	19	0.7	1.2	6.2

Source: <http://www.tourismnt.com.au/en/strategies/nt-tourism-vision-2020>

Long travels worldwide will grow faster (5.4%) per annum during 1995-2020, than intraregional travels (3.8%).

Conclusions of the SWOT analysis in the Romanian tourism

Tourism in Romania focuses on natural landscapes and its rich history, having an important contribution to country's economy. In 2008, domestic and international tourism has secured 4.8% of the GDP and about half a million jobs (5.8% of the total employment). After trade, tourism is the second important branch of the service industry. Of Romania's economic sectors, tourism is a dynamic one and undergoes rapid development, being also characterized by a high potential for expansion. After *World Travel and Tourism Council* estimates, Romania ranks the 4th amongst countries where tourism has grown rapidly, with an annual growth of the touristic potential of 8% from 2007 to 2016. The number of tourists rose from 4.8 million in 2002 to 6.6 million in 2004. Also in 2005, the Romanian tourism has attracted investments of 400 million Euros.



In 2010, the Romanian seaside has attracted about 1.8 million tourists, 15% fewer than in 2009.

In order to propose a strategy for the revival of Romania's international tourism it was necessary an analysis of the current situation of Romania as an international touristic destination in terms of marketing, to identify the action areas and intervention methods.

SWOT analysis is a summary of the marketing audit that presents the strengths and weaknesses of the organization, as well as the opportunities and threats of the external environment. Thus a list of positive and negative characteristics of the analyzed organization is made, characteristics which distinguish it from competing organizations. In conducting the SWOT analysis, Romania should be seen as a unified touristic destination, which owns both weaknesses and strengths, and is acting on a moving market, benefiting from opportunities, but also facing the inherent threats of an imperfect market.

Based on the SWOT analysis, the touristic organization may propose targets proper to the state of affairs, aiming, on the one hand, to eliminate the weaknesses and, where possible, to mitigate the impact of the external environment's threats. Furthermore, the development of the strengths and the exploitation and the fructification of the favourable opportunities are aimed.

After analysing the 4 components of the SWOT characterization, we can draw some conclusions that relate to the following issues:

In terms of natural resources and anthropic tourism resources, Romania is very well represented, the main touristic attractions being represented by the elements of ethnography, folklore, folk art and natural reservations. Regarding the reception facilities, Romania has a pretty good picture for the future, but still there would be room for more, so that the construction of new structures and the modernization of the existing ones are considered. Touristic structures of nutrition and treatment are well represented in comparison with the leisure and services ones, which are not sufficiently well-equipped in terms of technical-material basis. The latter require massive upgrades, but also the introduction of new forms of leisure and the extension of the services network. Tourism is very closely linked to culture and civilization, among them establishing an interdependent



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relationship. By capitalizing the natural, human and financial resources at its disposal, tourism generates economic and social effects that increase economic efficiency, progress and civilization. The manifestation of the touristic demand and its dynamics in Romania are determined by a number of demographic, psychological, organizational factors, playing a decisive role in various segments of tourism. For complex development of tourism, potential customers should be better informed through mass media and internet.

Consumption of tourism services in Romania and customer's profile

If we want to have a quality tourism we should know our potential customers, the factors influencing their behaviour, how the decision making process of buying goes and we should study the patterns regarding the consumer's behaviour.

Any travel agency's questions related to the purchasing process of a travel package should be:

- whose necessity is it answering to?
- who buys and who uses the product?
- how strong is the buyer's involvement with the product?
- how the buying process occurs?

and the factors that influence tourists' behaviour and should be known are:

1. *Cultural factors*

- culture
- subculture
- social class

2. *Social factors*

- reference groups
- family
- roles
- statuses

3. *Personal factors*

- age and stage of life cycle
- occupation, lifestyle, economic circumstances
- personality



- opinion about the self

4. *Psychological factors*

- motivation
- perception
- learning
- beliefs
- attitudes

At the basis of the Romanian touristic services should be the golden rule “Treat others the way you want to be treated.” This however requires highly trained people in the services provided.

Purchase decision-making process of the potential tourists has several steps:

1. Perception / Need identification is the first step toward buying, influenced by internal and external stimuli and is motivated by a previous experience.

2. Search for information from domestic sources (memory, past experiences), or external sources: family, friends, public information, promotional messages.

In a marketing research realised by INSOMAR, that the most used methods of information by the Romanian tourist when he wants to purchase a touristic package are:

- friends and acquaintances recommendations – 27.3%;
- Internet – 13.3%;
- press – 7.9%.

3. Evaluation of offered alternatives is based on several criteria:

- objective (price, features, physical characteristics of the product);
- subjective (determined by intangible factors).

The evaluation process is more complex as the product or service is more important and has higher costs.

If there is also a set of alternatives (represents a small number of variants subjected to the evaluation), then one goes to:

- identifying the criteria used in the assessment (the location of the facility, degree of comfort, stay cost);



- determining the importance given by the consumer to each criterion;
- the values and beliefs that the consumer possesses. (figure2)

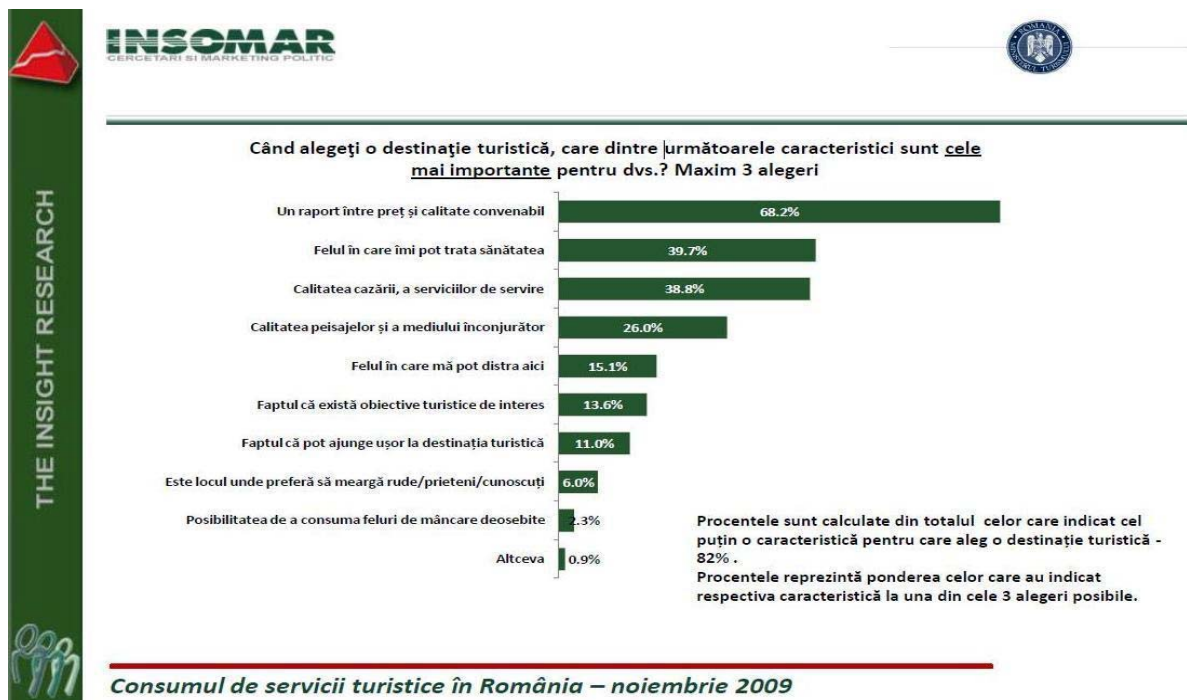


Figure no. 2. Features traced to a touristic destination

Source: INSOMAR research, 2009

4. The acquisition and payment of the touristic service must consider the place of the transaction, conditions of deployment, availability of the touristic service (figure no. 3).

5. Post-purchase evaluation, i.e. assessing the manner in which the product/service meets the expectations.

The models relating to the consumer's behaviour in tourism refer to:

- the rational approach, where the purchasing decision is the result of some rational and conscious economic evaluations;
- the behavioural approach, where the consumer's behaviour obeys the conditioning law;

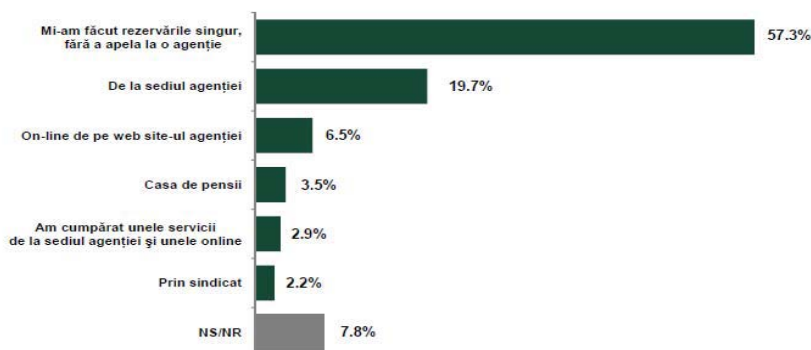


INSOMAR
CERCETARI SI MARKETING POLITIC



Care este modalitatea prin care ați achiziționat/intenționat să achiziționați în 2009 servicii turistice pentru vacanță?

Intrebare adresată celor care au răspuns că au mers și/sau intenționează să meargă în concediu în anul 2009 (40,3% din total populație)



Consumul de servicii turistice în România – august 2009

Figure no. 3. Acquisition methods

Source: INSOMAR

➤ the psychological approach, which is based on the transactional analysis in which personality knows three moods:

- 1) parent (thoughtful/authoritarian): the individual adopts a normative behaviour, reproduces previously learned schemes;
- 2) child (free/adapted/creative): the individual acts according to its own pleasures;
- 3) adult (positive/negative): the individual adopts a behaviour based on logic, analysis, reason.

➤ psychosocial approach is based on the theory of *conspicuous consumption* = the socio-cultural environment influences the behaviour, the individuals retrospectively to the group to which they belong or aspiring to (group membership).

Knowing the **typology of the tourist's personality helps us identify** the touristic activities in which they would participate (Figure no. 4).

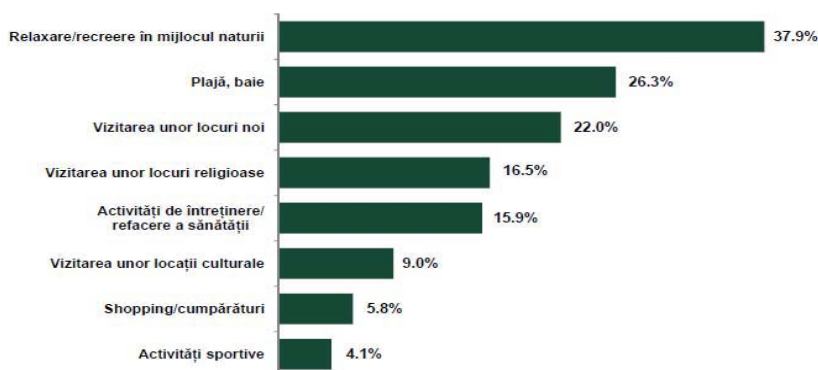


INSOMAR
CERCETARI SI MARKETING POLITIC



Care sunt activitățile pe care preferați să le desfășurați atunci când mergeți în vacanță? Menționați-le pe primele două cele mai importante pentru dvs

Întrebarea a permis alegerea a două variante de răspuns . 29,1% nu au putut da un răspuns la această întrebare.



Consumul de servicii turistice în România – august 2009

Figure no. 4. Ways to purchase the travel package

Source: INSOMAR research, 2009

Thus, in figure no. 4 stands out as a favourite for leisure, relaxation and recreation in the middle of the nature (37.9%), followed by beach and bath (26.3%), visiting some new places (22%).

From figure no. 5 of the INSOMAR survey, it results that the most agreed activities by the Romanian tourist in Romania are relaxation, recreation in the middle of the nature (37%) and visiting some new places (22.3%).

Romanian tourism seen by foreign tourists

On the official website of the National Tourism Authority of Romania (www.mturism.ro) have been presented studies realized by a number of specialized institutes from 11 countries in which Romania has Tourism Promotion Offices: Austria, Germany, Italy, Finland, Hungary, Norway, Sweden, UK, Spain, France and Denmark. The studies have been commissioned by Romanian offices and had as main objectives, for almost all countries: the manner in which is Romania perceived, as a potential touristic destination, by tourists from each of the 11 countries; which are the



strengths and weaknesses, opportunities and threats for the Romanian touristic products and which is the image of Romania as a touristic destination on the market of each country; which of the Romanian specific touristic products would be most interesting for travellers from those 11 countries; how is Romania perceived as a touristic destination compared to other Eastern European countries in terms of natural, provided services, quality-cost ratio potential etc.

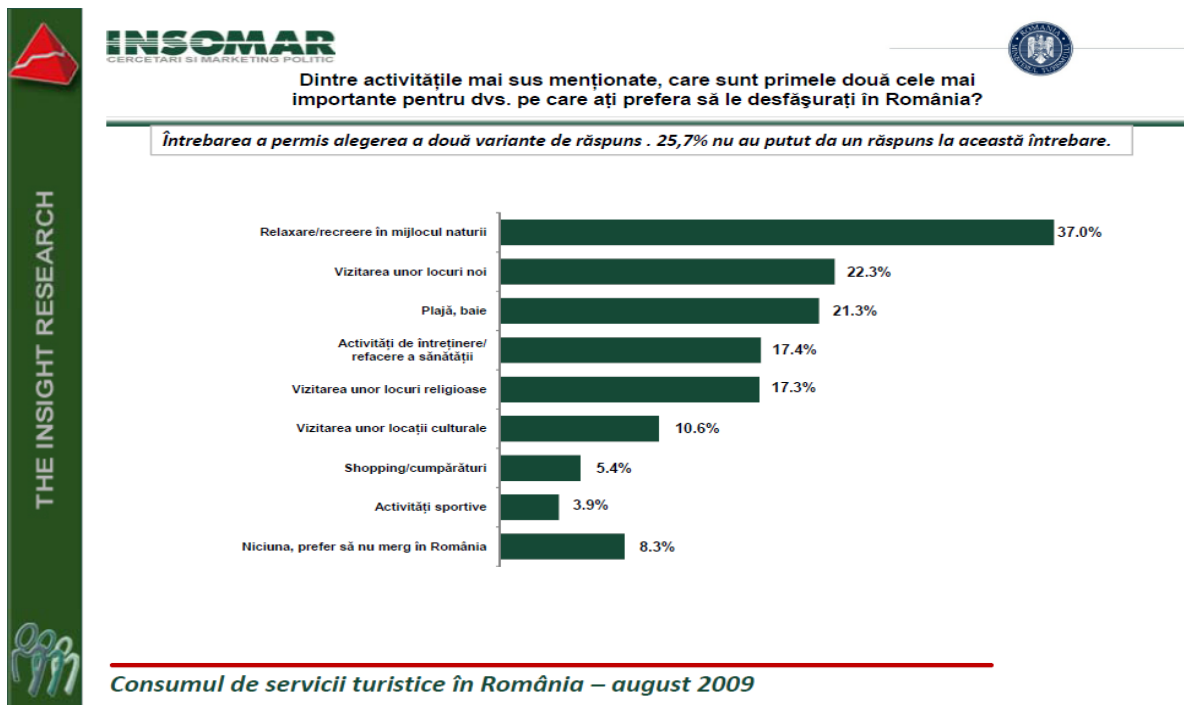


Figure no. 5. Consumption of touristic services in Romania

Source: INSOMAR research, 2009

From all the studies reviewed results the idea that Romania has considerable natural resources, with a great potential for tourism development.

Most examples mentioned by the **French** concern: the mineral water or thermal treatments from spas and the tourism in the seaside resorts. Romania benefits also from the diversity of the natural landscapes (a natural



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environment strongly contrasting) and the warm welcome given by the population to the foreigners, which is recognized by everyone.

From the study conducted by InterPress on the **Spanish** market it results that **the potential of the Romanian touristic market is big enough** to be known in Spain: diverse and complementary touristic resources (culture, nature, sports and ethnography); the “Latin” character, with a language with common origins and certain cultural traits that brings closer the two countries; relatively close to Spain geographically speaking (less than four hours by plane); the recent establishment of some air links that can promote touristic trips between the two countries; the increasingly higher presence of Romanians in Spain, a thing which determined the Spaniards to want to know a country of whose situation hardly knew anything before; a well preserved nature, in some cases original and highly appealing (especially the Carpathians and the Danube Delta); the enormous cultural riches, both architectural and artistic (“the biggest jewelleries – monasteries, castles, churches and traditional villages from Maramures and Bukovina should be harnessed”, said the interviewees).

The **Danes** emphasize the fact that Romania has **the potential to provide many opportunities for a family holiday with children**. In addition to the adventure and family values, many former Danish tourists say it is cheaper to visit Romania.

Without intending to present Romania’s values, as they were perceived by tourists or tour operators from all 11 countries, the opinion expressed by the **British** drew our attention. According to the study “**Romania in the UK Travel Market – Image and Product Perception Analysis**” realized by TripVision in February 2006, **Romania’s strengths** are: undegraded nature; life in the countryside; heritage; multiculturalism; diversity; smaller or larger towns, beautiful and undiscovered (except Bucharest); lifestyle (outside the capital); children’s safety; deep orientation towards family; organic food in rural areas (good for vegetarians), etc.

There are also other British travellers, strongly motivated by the desire to see new things and discover new places. TripVision called these types of individuals “**Explorers**” and considered them **the consumers segment with the greatest potential for the Romanian touristic market potential**. The explorers travel more than tourists’ average, but what is more important is the fact that they are more open and independent and want to experience authenticity before thinking about comfort.



According to the study conducted on the UK market, Romania's main opportunities are: **differentiation** from other East European countries (by language, culture, nutrition) and **promoting** offers for specific holidays also through images which are known to be international. Romania has spontaneously been described by the British respondents as "romantic", based on the country life, moving to architecture and history of the destination. Romanticism is something that lacks in the other East European countries and this should form the basis message for Romania around which can be add a number of specific products offer. For example: skiing, sledding, pleasant evening with good food and drink for a lower price than other ski resorts. There are a sufficient number of themed holidays that can be connected to the same primary communication in order to give Romania a differentiating point, distinctive and positive in relation to other destinations, especially to those from Eastern Europe, which can be considered competing.

In **Norway**, articles found on Romania and especially the image of the holidays' producers focuses on the following issues:

- a new holiday destination, which may be developed;
- a convenient destination in terms of tourism product prices;
- an interesting destination for consolidating the Eastern European myth;
- some exotic touristic attractions.

Romania is a destination which surprises most visitors, especially because the modest initial expectations. Tour operators often face the positive surprise of tourists when they visit Romania, often due to the total lack or modest anticipated expectations. The feeling of safety is one of the aspects that positively surprise the many tourists who go to Romania.

The final conclusion of this study is that what for Romania the new inventions in the field of tourism are not absolutely necessary. Instead, Romania requires marketing and attention directed to the fact that this country has many opportunities to offer for those who are interested in trying something different.

There are many other tips that Romania has received by means of these studies about the country's image as a touristic destination. The lack

of space does not permit us to present them all. We invite, however, all those interested to study these materials and to act accordingly.

We also hope that all those who have ordered these studies will draw the necessary lessons and will take all necessary steps to improve Romania's image as a touristic destination.

Conclusions and Proposals

A well-designed touristic product based on research may influence the development of some deprived area by:

- attracting a large number of foreign tourists in the area;
- upgrading and expanding infrastructures: accommodation, food, transport so as not to affect the existing natural environment;
- creating new jobs and developing the local human resources by training employees;
- preserving continuity of spiritual traditions, customs and values of the area.

Touristic products created by national bidders must be based on foreign and national tourists preferences, discovered from the market research. This would lead to ensuring the touristic flow in the areas promoted by the respective products and a high degree of tourist satisfaction.

Romanian touristic product quality and competitiveness can contribute to the development and maintenance of a sustainable tourism, especially if one takes into account as well the global tourism trends which manifest towards:

1. **Search for the cultural roots**, the local authentic specificity, architecture, customs, art, traditions, etc.
2. **Search for personal balance**, physical and mental, by practicing physical activities that do not involve the competitive spirit.
3. The practice by a certain category of tourists of the **extreme sports**.
4. Return to nature in rural areas: agritourism, green, ecological tourism.
5. The desire to have a second residence.



6. Spending holidays in a natural unpolluted environment.

Among the proposals of this subject we will mention the following:

- informing and making aware the travel agencies and tour operators about the importance of creating some competitive touristic products that would determine the achievement of a sustainable tourism in the promoted touristic area;
- state's involvement by granting some facilities to travel agencies that promote such Romanian touristic products in the economically disadvantaged areas;
- employment by tour operators and travel agencies of specialized personnel, with higher education studies in the field.

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EFFICIENT BUREAUCRACY IN THE PUBLIC SECTOR FOR SAFE ENVIRONMENT IN ROMANIA

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Abstract

Bureaucracy is an important phenomenon in all European countries, with significant consequences over the public and private systems. After the recent economic crises, European governments made efforts to reduce bureaucracy and to speed up the process of absorbing European funds and to encourage the business environment.

The aim of this paper is to present some particular aspects of positive bureaucracy and how efficient bureaucracy is facilitating a healthy business sector, a modern public administration and a safe environment in Romania.

Keywords: *bureaucracy; government; entrepreneurship.*

JEL Classification: D73, H70, L26

Introduction

This paper seeks to present some aspects of growing bureaucracy all over the world and how a significant level of bureaucracy could become a negative phenomenon, but without bureaucracy there will be a general chaos and no control on the public funds. In our opinion, a smooth running clean bureaucracy could be a good thing, with rules and regulation enforced to

keep a safe environment in each European country. Efficient bureaucracy is a good measure for avoiding disasters or inconvenience in the public sector or social services, but also for reforming the business environment.

Bureaucracy is related to the government administration and large public institutions, usually connected with public funds, state and local budget, expenditures, administrative procedures and high level of hierarchy in the public sector [Ionescu, 2012a]. The damaging effects of bureaucracy were observed in all European countries, such as increasing taxation, several levels of public management, significant number of documents, corruption in public sector and complicated fiscal reporting in connection with the lack of transparency, because the useful information is lost in forms and statements. However, there are some positive aspects of bureaucracy and we think that normal bureaucracy is imperative in order to maintain the safe public system and a growing business environment. The Romanian bureaucratic system is well-known and is affecting investors' decision to open business or to develop an international or regional network in the East-European space. According to the experts, Romania has an old bureaucratic system, legacy of the socialist economy, characteristic for the communist East-European countries [Ionescu, 2012b]. Thus, many of the administrative structures from the local communities are developed on the old foundations with many public servants and old infrastructure, not adapted to new European regulation. Inefficient government bureaucracy is one of the most problematic factors of doing business in Romania, as we could see in Table no. 1:

Table no. 1. The most problematic factors for doing business in Romania for 2015

Indicators	Score
Tax rates	15.8
Inefficient government bureaucracy	14.7
Access to financing	14.0

Inadequate supply of infrastructure	12.6
Corruption	8.7
Complexity of tax regulations	7.4
Inadequately educated workforce	6.8
Restrictive labour regulations	4.7
Poor work ethic in labour force	4.3
Policy instability	3.3
Insufficient capacity to innovate	2.5
Inflation	1.3
Poor public health	1.3
Foreign currency regulations	1.2
Crime and theft	0.8
Government instability/coups	0.6

Source: <http://www3.weforum.org/docs>

Analyzing the most problematic factors of doing business from Table no. 1, we observed that tax rates, inefficient bureaucracy and access to financing are on the first three positions that affected business decisions and economic development in Romania. Despite significant government stimulus adopted to simplify and modernize the administrative system, there is still a strong perception of high level of government bureaucracy in the Romanian public system and most of the citizens consider the politicians and public managers responsible. Although in the last 40 years impressive efforts have been made at the level of regional and global institutions [Gârdan & Gârdan, 2014], there is inefficient government bureaucracy. The use of the Internet offers a large amount of information [Popescu, 2015] and could reduce bureaucracy.

Literature Review

There are some important theories about bureaucracy and its consequences, as we identified:

M. Weber (1921) published the famous essay *Bureaucracy*, which presents the most important aspects of classic and modern bureaucracy, the

influence over the public administration and society in general. He presented for the first time the principles of modern European bureaucracy and the persistent character of bureaucratic system that affects the main level of the German state. Bureaucracy is damaging for all levels of society, if it is badly managed, but bureaucrat servants could perform better if they are more qualified.

Weber identified some specific aspects of administrative bureaucracy, such as: rigid division of labour, administrative chain of command, regular and continuous fulfilment of these assigned duties. The bureaucratization for Weber is indispensable to the modern world and public administration is characterized by hierarchical organization with a rational control.

E. Page and B. Jenkins (2005) in *Policy Bureaucracy* explain how policymaking is often assumed to involve activism, advocacy, and asserting preferences in the cut and thrust of politics. Yet, it also brings with it the active participation of people whose main connection with the policy in question owes little to any normative, still less emotional, attachment to the issue. “Policy bureaucracies, parts of government organizations with specific responsibility for maintaining and developing policy, have to be mobilized before most significant policy initiatives are launched – although, as we will see, they may also be mobilized to make sense of policy initiatives after they have been announced by politicians. The key players in policy bureaucracies are not the top civil servants alone, the ones we know most about, such as permanent secretaries.” Page and Jenkins said that in policy bureaucracy responsibility for maintaining and developing a specific area of policy rests to a large extent on middle-ranking officials, and our study concentrates on their role within policy bureaucracies.

C. J. Coyne (2008) presented the nature of public bureaucracy and its consequences over the public system. In his research *The Politics of Bureaucracy and the Failure of Post-war Reconstruction*, he explained the ability of the United States of America to impose liberal democratic institutions in foreign countries. Always bureaucracy is directly involved when public funds are used and government provides goods and services for the citizens or public institutions. The development of the modern society involves



overlapping public bureaucratic structures, while information deficiencies are a central issue facing any bureaucratic organization.

Bureaucracy could be found in all non-market forms of organization, such as government agencies, internal organization structures, within many private firms or non-profit organizations. Coyne thinks that bureaucrats coordinate people using a strong set of rules and procedures in all central or local institutions. “Public bureaucracies face major difficulties not just in coordinating interactions within existing institutions, but also in generating sustainable change over the broader economic, political and social meta-institutions of a society. These difficulties become glaringly evident in the case of reconstruction where information deficiencies, incentive compatibility and compliance enforcement are intensified and magnified.” [Coyne, 2008]

The Perception of Bureaucracy in Romania

An interesting indicator of bureaucratic perception is the score from Global Competitiveness Report (GCR) that indicates every year the responses weighted according to their rankings. According to this Report, bureaucracy is different in each country in connection with taxation, financing, employment, policy instability, fiscal transparency, etc. We present the collected data and our estimation in the table below:

Table no. 2. The bureaucracy perception in Romania, Poland, Bulgaria and Greece, period 2012-2016

Country	Score				
	2012	2013	2014	2015	2016
Romania	12,8	10,2	9,9	14,7	14,0
United Kingdom	8,6	11,0	8,5	10,1	10,0
Poland	13,4	13,2	14,6	11,1	12,0
France	7,5	8,8	10,3	12,1	12,0
Greece	21,0	21,2	19,8	17,7	16,0

Source: <http://www.transparency.org> and authors' estimation

We observe in Table no. 2 that bureaucracy score for Romania is similar to other EU countries such as Poland or France and much better than Greece for the period 2012-2015. Our estimation for year 2016 shows a high level of bureaucracy in Romania, Poland and France, but still higher in Greece. We noticed a constant growing of government bureaucracy in Romania due to enforcement of new regulation and the fiscal reforms with positive consequences over the safe environment.

In order to better understand the perception of bureaucracy in Romanian society, we developed our research based on the survey over more than 200 entrepreneurs, managers and employees of small business organizations in Bucharest. The questions were referring to existence of bureaucracy in the business market and if the evolution of bureaucracy will be positive or negative. About 20% of the participants were entrepreneurs and 80% employees, most of them had university/college degrees. Thus, on the first question, we wanted to know if according to their opinion there is bureaucracy in Romania, the results were: 65% of respondents said YES (there is bureaucracy), 30% of respondents said NO (there is no bureaucracy) and the difference of respondents said they do not know. We present the results in the figure below:

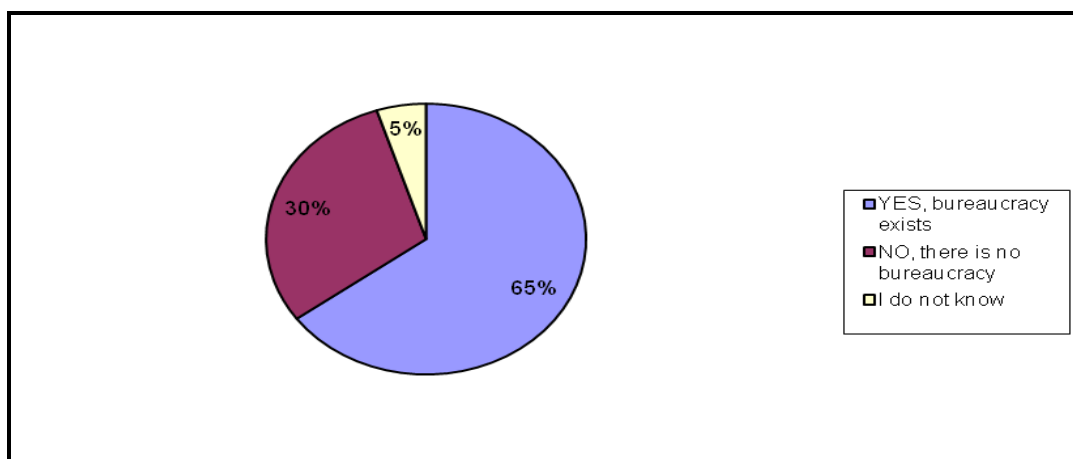


Figure no. 1. Bureaucracy perception in Romania, 2015

Source: Data collated by authors

Thus, on the second question, we wanted to know according to their opinion how will be the level of bureaucracy in Romania in the next few years and the results were: 70% of respondents said the bureaucracy will grow, 25% of respondents said that bureaucracy will be reduced and the difference of respondents said they do not know. We present the results in the figure below:

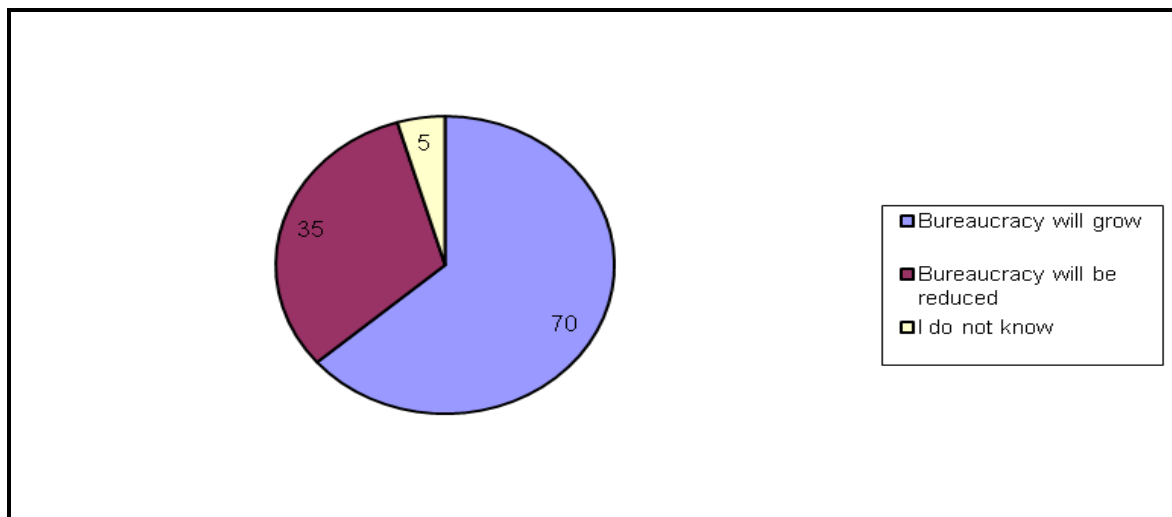


Figure no. 2. The perception of bureaucracy evolution in Romania

Source: Data collated by authors

Despite the high level of bureaucracy perception in Romanian public system, we could identify some positive aspects of bureaucratic elements that include the safety management systems for airports, safety procedures in place to minimize risks to health and hygiene in government buildings and offices, etc. Efficient bureaucracy could be found in many ways and indicators such as: road signs, safety fences, warning signs, city hall banners, information on the radio, television, internet, etc. In most European countries, there is a balance between individuals and the civic authorities to provide safe environment, but sometimes citizens could have an individual choice if they decide to follow the safety procedures or not.

Efficient bureaucracy is observed on the procedure to start a business in Romania. According to the information from the Bucharest Trade Register Office, is a very fast process to start-up:

Table no. 3. The steps to start a business in Romania

The efficient bureaucratic steps
Reservation of the company name
Opening a bank account
Deposit the social capital
Fiscal certification of officers and/or representatives
Company registration in the commercial registry
VAT registration
Employee contracts

Source: Bucharest Trade Register Office

We consider these steps as elements of efficient bureaucracy that facilitate small business and develop partnerships with local or European investors. Bureaucracy in the public sector became more efficient as a result of improving public policies process in Romania (Gurgu and Zorzoliu, 2016).

Conclusion

In this paper we presented the analysis of the positive aspects of bureaucracy, how efficient bureaucracy is facilitating a safe environment in Romania and the perception of the people about it. Our research presented that most of the people considered that public bureaucracy has a high level in Romania, despite de positive aspects and the safe environment. In most European countries the bureaucracy in the public sector is accelerated due to EU regulations, globalization and terrorist attacks.

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PUBLIC DEBT ANALYSIS BASED ON SUSTAINABILITY INDICATORS

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Abstract

This article is an analysis of public debt, in terms of sustainability and vulnerability indicators, under a functioning market economy. The problems encountered regarding the high level of public debt or the potential risks of budgetary pressure converge to the idea that sustainability of public finances should be a major challenge for public policy.

Thus, the policy adequate to address public finance sustainability must have as its starting point the overall strategy of the European Union, as well as the economic development of Member States, focusing on the most important performance components, namely, reducing public debt levels, increasing productivity and employment and, last but not the least, reforming social security systems.

In order to achieve sustainable levels of public debt, the European Union Member States are required to establish and accomplish medium term strategic budgetary goals to ensure a downward trend in public debt.

Keywords: *public debt; public debt sustainability; vulnerability; budget deficit; gross domestic product (GDP); level of indebtedness; European System of Accounts; Maastricht Treaty.*

JEL Classification: E62, H63, O11, O47



Introduction – Considerations on Public Debt

In the past two decades, destabilizing phenomena were recorded worldwide, considered *financial crises* that have adversely affected the states' economies by affecting accumulated debt management capabilities, including the methods of establishing their repayment sources. Disturbing aspects have led to the emergence of budgetary difficulties, which was considered as a challenge to public debt managers who currently have the possibility to activate on financial markets fairly sophisticated and complex.

As mentioned before, the article contains an analysis of public debt in terms of sustainability and vulnerability indicators, which, in the context of a functional market economy, converges to the idea that the sustainability of public finances should constitute a major challenge at public policy level. This analysis of the public debt in terms of sustainability and vulnerability indicators is important since an inadequate management of public debt may lead in time to its not being sustainable, respectively attaining a public debt level which would not allow the observance, by the executive power of each state, of current and future obligations concerning public debt servicing. Based on the analysis of the sustainability and vulnerability indicators, in parallel with the impossibility to maintain an acceptable economic development level, the decision-making factors with competences in the field of public debt management may reduce or reschedule the public debt, which generates major financial crises, with a significant negative economic impact.

Given that economies are facing unforeseen events, such as damage to private sector balance, which may have consequences such as triggering fiscal, financial and economic crises, strategies for public debt can become dangerously vulnerable. Also, economic shocks may have, individually or together, a negative impact on public debt of an economy, which can lead to vulnerability of public debt strategy of, which, in turn, may have an impact on the global economy and, last but not least, it can seriously damage a state's financial situation.

The research is based on an extensive documentation, being substantiated scientifically by a comprehensive bibliographical material and relevant (as described in the bibliographic references). The bibliography



includes books, documents, articles, studies, regulations and standards, with the source literature both Romanian and foreign. Sources have a great variety and a multidisciplinary content.

The choice of methods of research, as well as the formulation of the plan for the survey, for collecting data and information, for the analysis and interpretation of data and the exposure of the research results, are completed presentation of graphs showing the evolution and trends specific to Romania for the 2010-2014 period, such as: the public debt, the Gross Domestic Product, and the public debt and GDP per capita trends in Romania.

The *recent examples* that were recorded in emerging economies have shown that shocks can turn into financial crises creating difficulties in managing public debt and that may have significant budgetary implications.

An emerging market is considered a developing market. The characteristic elements of the emerging markets are considered to be both *industrialization effort as well as social and/or business activity that records fast growth*. Under these circumstances, an emerging economy features the following characteristics:

- 1) an intermediate GDP (income calculated at purchasing power parity is between 10% and 75% of EU average per capita);
- 2) an accelerated economic growth (*in the past decade, the economy analysed had an economic growth rate which resulted in a decrease of the development gap compared to advanced countries*);
- 3) institutional changes and a process of economic openness recorded for a period of at least 10 years.

By way of example, it can be stated that in 2012, the International Monetary Fund¹ (IMF, 2012) considered the following countries as having emerging economies, namely: Argentina, Brazil, Bulgaria, Chile, China, Colombia, Estonia, Hungary, India, Indonesia, Latvia, Lithuania, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, **Romania**, Russia, South Africa, Thailand, Turkey, Ukraine, and Venezuela.

¹ <http://www.imf.org/external/np/pp/eng/2012/061512.pdf>, *Fiscal Policy and Employment in Advanced and Emerging Economies*, Prepared by the Fiscal Affairs Department, Approved by Carlo Cottarelli, June 15th, 2012.



For the most part, the financial needs of the states are covered of taxes, fees, contributions, levies that the state charges from taxpayers who are considered *ordinary resources*. Typically, these are insufficient and, then, both the state and local authorities use different kind of financial resources, known as *extraordinary*, namely *public loans*. In any economy, this kind of loans are used to cover the so-called “*minuses*” involved in the operation of a fiscal system or failure to collect on time the revenue expected to be collected at the budget and from the necessity of performing some expenses that become due. Under a functioning market economy, the state uses this source of funding to promote new investments, which are intended both for modernization and innovation of existing assets, context in which the concept of public *debt is born*.

Also, one of the basic principles of developing any type of budget is budget balance but it is not done often, directly, by covering budget spending with budget revenue, situations in which it is stated that the budget was elaborated with *financing deficit* [Bistriceanu, 2001] which is named the *budget deficit*.

In order to achieve the objectives of public debt management and to emphasize a balance between financial funds resources and the expenditure level, the state through the Ministry of Public Finance uses certain financial instruments. One of these tools is the *State loan*, notion judged to be the material result of an agreement recorded in a document, signed by the state through its financial agent with a natural person or entity, in order to mobilise from them some cash on hand, for a determined period of time in terms of repayment and interest, a priori established.

As highlighted in the pertaining literature², public debt managers currently operate in sophisticated and complex financial environments. A global capital market can generate numerous benefits (*for example, easier access to a larger portfolio of capital at a lower cost, more efficient domestic capital markets and the ability to better tailor risks using new*

² ISSAI [The International Standards of Supreme Audit Institutions] 5440 – “ISSAI 5440 Guidance for Conducting a Public Debt Audit – The Use of Substantive Tests in Financial Audits”.



financial instruments). However, public debt strategies can become dangerously vulnerable when faced with unforeseen events such as deterioration of the private sector balance, which may trigger fiscal, financial and economic crises. [Dascălu, 2015]

Public Debt Management

At international level³, the aspects concerning public debt management undergo a permanent change, triggered by the development of states economies.

Public debt management is considered the process of establishing and implementing the strategy for the administration and management of public debt in order to contract loans necessary at levels of cost and risk required. It should cover the main financial obligations over which the central, regional and local governments exercise their control.

Public debt management is particularly important because:

- ✓ it can provide a level and rate of growth of public debt sustainable in a variety of circumstances;
- ✓ long-term public borrowing costs can be reduced, thereby reducing the impact of deficit financing, thus contributing to both fiscal sustainability and public debt;
- ✓ economic crises that may occur due to inadequate structuring of public debt can be avoided;
- ✓ public debt portfolio is usually the largest financial portfolio in one country and may have a major impact on financial stability – consequently, an effective management is essential.

To ensure effective management of public debt, a range of measures that governments can apply can be used, including the development of a legal framework for the provision of overall parameters.

For public debt management activities, allocations of clear powers are required to authorize the issuance of public debt instruments and types of tools that can be used.

Particular attention should be paid to the legal framework which is manifested by organizational agreements on assignment of responsibilities

³ *Idem.*



between the Ministry of Public Finance, National Bank of Romania and the separate organizational speciality structure which is responsible for public debt management, in terms of policy applied in the field, public debt primary offerings, operations on the secondary market, deposit facilities and agreements governing transactions with public debt instruments. All this must be presented to the public with details of public debt management objectives and measures of cost and risk to be taken.

The guidelines underlying public debt management, as they have been drawn up by the International Monetary Fund and World Bank, identify characteristics of an effective public debt management. Here are some of the most important guidelines:

✓ *coordination with monetary and fiscal policies*, situation in which public debt managers, fiscal policy advisers, and central banks have the obligation to understand the objectives of each of them, given the interdependencies between their different policies' instruments. If the level of financial development allows, then it is necessary to separate public debt management, monetary policy objectives and responsibilities;

✓ *the availability of information*, which should allow the public to access information relating to the process of formulation and reporting of policies for public debt management, the details on the portfolio and structure of public debt and financial assets – including currency, maturity and interest rate structure;

✓ *public debt management strategy*, which assumes a public debt management strategy, which specifies the objectives of public debt management, given the inherent risks. This should be complemented by the return of cash management policies to enable the authorities involved to fulfil financial obligations as they become due, in a high safety measure;

✓ *legal framework of risk management*, which involves developing an appropriate framework to allow public debt managers to identify, administer and manage the compromises between risks and costs expected related to public debt portfolio;

✓ *development and maintenance of efficient market for public debt instruments*, situations where public debt managers should ensure that their policies and operations are consistent and keep pace with the development of an efficient market for public debt instruments.



Public Debt Sustainability Considerations

In accordance with current legal provisions, in Romania... *“The Ministry of Public Finance performs the strategy function, ensuring strategy development in the field of public debt, and the public debt management function”*⁴.

The main tasks of the Ministry of Public Finance in this area are:

- *contracting and repayment of public debt;*
- *managing risks related to the government debt portfolio;*
- *drafting of documents concerning the annual general account of the public debt, which is presented to the Government for acceptance, in order to be submitted to the Parliament for adoption;*
- *contracting and guaranteeing State loans on the domestic and foreign financial market, for the purposes and within the competence established by law;*
- *monitoring the compliance with commitments assumed through agreements with international financial institutions on public debt.*

In addition, certain principles were established by legal provisions⁵, underlying the efficient management of public finance and public debt, which must serve the public interest in the long term, help economic improvement and development of fiscal and budgetary policies, within a sustainable framework. For these reasons, national institutions with tasks in the field are required to lead prudently the fiscal and budgetary policies, and resources, budgetary obligations and fiscal risks should be managed so as to ensure a sustainable fiscal position in the medium and long term.

In this context, *public finance sustainability* requires that, in the medium and long term, fiscal and budgetary policies offer the possibility of risk or contingency management, without requiring significant adjustments

⁴ Government Decision no. 34/2009 on the organisation and operation of the Ministry of Public Finance, published in the Official Bulletin no. 52 of 28.01.2009, as subsequently modified and completed.

⁵ Law no. 69/2010 on fiscal and budgetary accountability, published in the Official Bulletin no. 252 of April 20th, 2010, updated in 2015.



to budget expenses, income or deficit, which have destabilizing economic and social effects.

The concept of public finance is associated with the “*State, administrative-territorial units and other public institutions, in relation to their resources, expenses, loans and debt*”. [Văcărel et al., 2008] According to some studies in public finance and taxation... “*The field of public finance forms an area of research that deals with income and expenditure matters of governments (at federal, state and local level). In modern times, these matters are divided into four major groups: public revenue, public expenditure, public debt and certain matters related to the fiscal system as a whole, such as local government and fiscal policy.*” [Groves, 1964]

A review of the above shows that these four major groups constitute basic elements to be considered in the analysis of public debt sustainability, considered a concept interrelated with public finance sustainability.

Indicators Used in the Analysis of Public Debt Sustainability

International Standards of Supreme Audit Institutions⁶ provide that... “*public debt sustainability is the degree to which a government can maintain existing programs and fulfil the requirements of creditors, without increasing the public debt burden on the economy.*”

Based on the results made public on debt sustainability, solutions may be *developed* concerning a government’s ability to maintain the same direction of expenditure and revenues, or if adjustments are necessary to maintain government debt as a constant proportion of the Gross Domestic Product (hereinafter called “GDP”).

Public debt sustainability analysis is a complex exercise and with multiple implications, and should consider the following issues:

- trend of the *public debt to gross domestic product (GDP)* ratio;
- *public debt to GDP* ratio, which is consolidated at a high level, but with acceptable refinancing risk and maintaining the trend of economic growth;
- *public debt structure*, which can increase the likelihood of negative circumstances over it.

⁶ ISSAI [The International Standards of Supreme Audit Institutions] 5410 “*Guidance for Planning and Conducting an Audit of Internal Controls of Public Debt*”.



If at the beginning of the transition period, in 1990, public debt in Romania was not significant, but in the coming years, its accumulation process accelerated. In absolute terms, public debt is of no particular relevance in quantifying the state of economy or the danger posed to it⁷.

The government debt to gross domestic product ratio, one of the convergence criteria laid down by the Protocol on the excessive deficit procedure annexed to the Treaty of Maastricht, is the most important indicator in measuring the indebtedness of a country considering its economic activity, highlighting the solvency of the country, if a decision was taken concerning its repayment in full in that year.

Sustainability analysis aims to provide answers regarding the government's ability to maintain the same direction of expenditure and revenue, or, whether it will have to make adjustments to maintain public debt constant as a proportion of GDP.

In order to exemplify the analysis of this indicator, we present below the public debt trend, the GDP trend, and the public debt as a percentage of the GDP for the period 2010-2014, registered for the Romanian economy.

Chart 1 shows the trend of public debt in Romania, in the period 2010-2014.

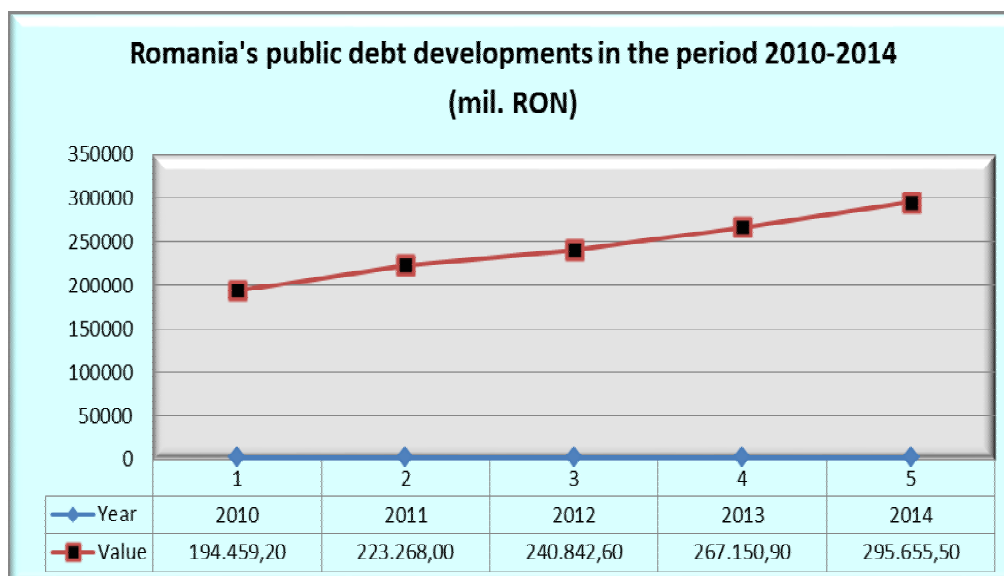


Figure no. 1. The public debt trend during 2010-2014 (mil. RON)

Source: Data published by the National Institute of Statistics, www.insse.ro

⁷ www.curteadeconturi.ro. *Financial Audit Report of the Public Debt Annual General Account for the year 2014, at the Ministry of Public Finances.*



Chart 2 shows the GDP trend in Romania, in the period 2010-2014.

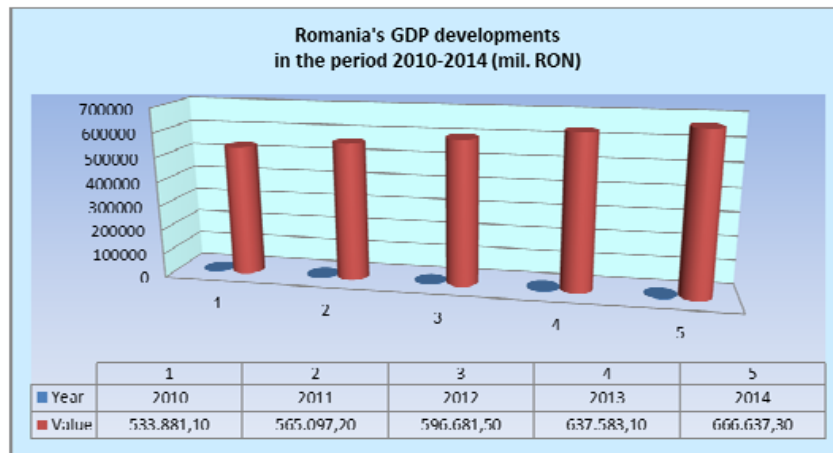


Figure no. 2. The Gross Domestic Product trend during 2010-2014 (mil. RON)

Source: Data published by the National Institute of Statistics, www.insse.ro

The trend of public debt level⁸, of Romania's GDP and of the former's weight in the GDP – in the period 31.12.1990-31.12.2014 – is shown in the chart below:

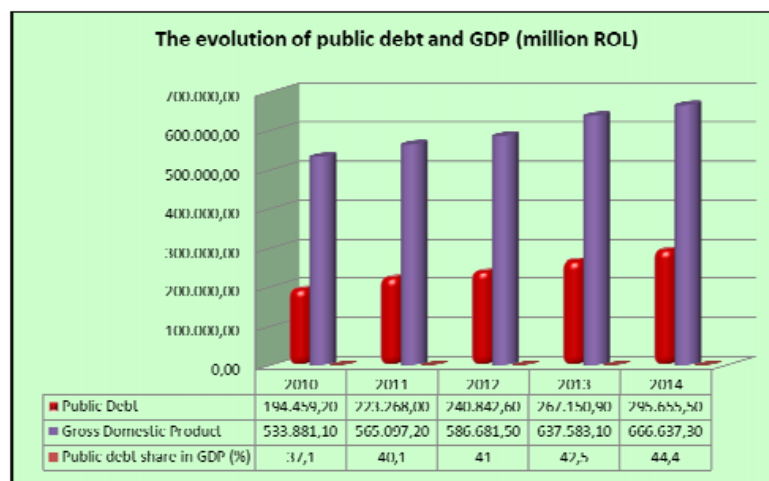


Figure no. 3. The public debt and GDP trends during 2010-2014 (mil. RON)

Source: Data published by the National Institute of Statistics, www.insse.ro

⁸ Data published by the National Institute of Statistics, www.insse.ro



An analysis of the data presented shows that, in 2014, the public debt grew at a higher rate than economic growth compared to 2010, a situation in which public finance sustainability should be a major challenge to the application of public policies in the field.

The most commonly used ratio to analyse sustainability is the *Public debt to GDP ratio*, which measures the indebtedness level in relation to the economic results of a country, and is recognized as *the most important* ratio in *measuring indebtedness*, while stressing country's solvency.

In addition, the public debt of the state to GDP ratio represents one of the convergence criteria that were established by the *Protocol on the excessive deficit procedure* annexed to the Treaty of Maastricht⁹, which demonstrates that it has been and continues to be significantly below the reference value of **60%** of the GDP.

For reasons of public debt sustainability in the group of emerging economies, as well as for moderating interest expenses and their impact on primary deficit, fiscal consolidation must place a public debt ceiling, which is below 40% of GDP¹⁰.

A review of the above data shows that, although the public debt to gross domestic product ratio is below the alert threshold of 60%, it is considered that maintaining a growth rate of public debt higher than the economic growth rate will increase the solvency risk.

Indebtedness of a country should not be analysed only strictly as a mathematical value, but it must be correlated with the level of public debt per capita and GDP per capita, because at the same percentage of GDP, the affordability of the public debt burden is much lower in developing countries (with low GDP) than in developed countries (which, by default, have a much higher level of GDP).

Sustainable fulfilment of the Maastricht criteria is conditional on achieving a high level of real convergence, the GDP/capita representing the best synthetic indicator in this respect.

The following chart shows the public debt and GDP trends per capita in Romania, during 2010-2014.

⁹ Treaty on the European Union, published in the Official Journal C191 of July 29th, 1992.

¹⁰ In keeping with the *Report on financial stability 2012*, drafted by the National Bank of Romania – Financial Stability Directorate.

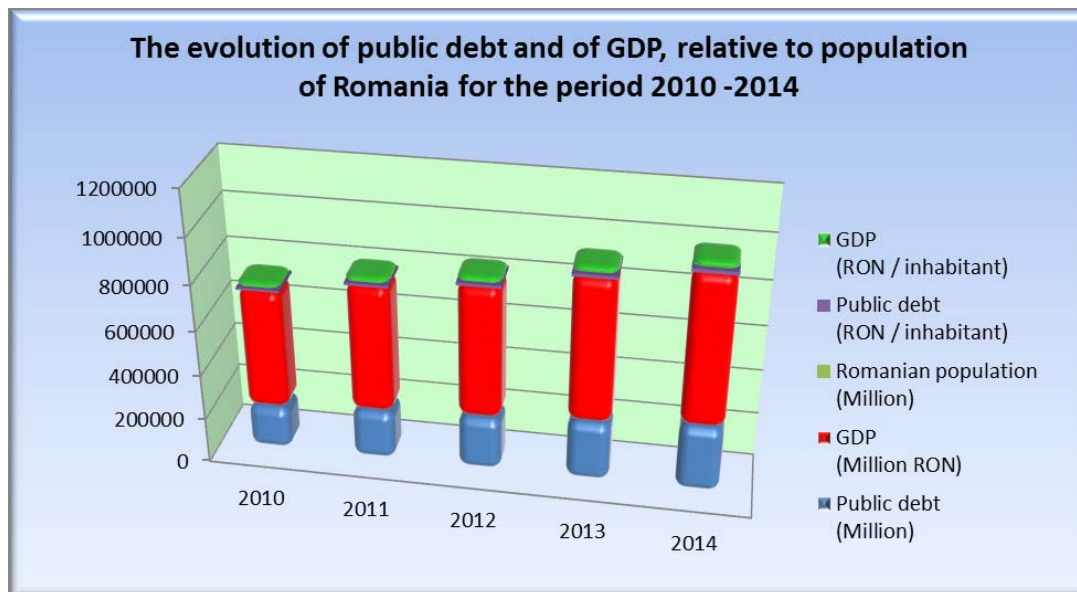


Figure no. 4. The public debt and GDP per capita trends in Romania during 2010-2014 (mil. RON)

Source: Data published by the National Institute of Statistics, www.insse.ro

Given that Romania's population has been declining permanently and the volume of public debt of the country continually grew, the indebtedness of the population has grown at a fast pace, registering at the end of 2014 **RON 14,850.66/capita**¹¹. It thus appears that the public debt/capita ratio showed a sharp rise compared to the GDP/capita.

Conclusion

In order to maintain the public debt at an acceptable level, it is necessary to focus the efforts and financial resources of the Romanian economy towards *GDP growth*, through the development of both the industrial sector (using investments in intelligent technologies that generate added value) and the agricultural sector (organic farming), but also through the development of constructions and services for the population.

GDP growth can be achieved by *reducing the tax burden on the economy*, especially on the *manufacturing sector in all branches of the economy* and by *increased collection of taxes*, which can generate financial

¹¹ Data published by the National Institute of Statistics, www.insse.ro.



resources, *funds* that should be *oriented* with priority towards *investments* in the manufacturing sector of the Romanian economy.

In addition, the GDP growth, increasing exports and reducing imports will have the effect of increasing the international reserves (foreign currency) of the country, increasing capacity to repay foreign funds borrowed on capital markets and financial banking and non-banking institutions, but also decreasing the need of the economy to borrow both internal and external funds.

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THE ADAPTATION OF PROFIT AND LOSS ACCOUNT TO THE CURRENT REQUIREMENTS REPORTING OF THE PERFORMANCES

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Abstract

The financial performance – a very complex notion and high informational load for users of accounting information is reflected best by the financial statements, the profit and loss account and the situation of equity variations. The last situation can be presented as a statement of comprehensive income, including beside the result of profit and loss account, the gains and losses directly recognized in equities without passing through the profit and loss account.

The development of increasingly complex activities emphasizes the utility, the necessity of the profit and loss account in the financial reporting by increasing the interest in the enterprise performance, especially for the dynamic information that this situation can provide.

Meanwhile, there is a declining interest in the historical costs and static information. Although the balance sheet contains information on performance, it does not prevent the achievement of its forecasts.

In this paper we propose to approach the profit and loss account in view of two representative referential, namely in terms of IAS 1 standard “The preparation and presentation of the financial statements” and the national regulation, the Finance Order no. 1802/2014 regarding the Approval of the Accounting Regulations on the annual individual and consolidated financial statements, aiming to emphasize the advantages, but also the limits provided by this models. This way, will see which of these models of profit and loss account respond best to users’ needs.

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Keywords: *the financial performance; the profit and loss account; the models of profit and loss account; the integrated performance; the enterprise.*

JEL Classification: M40, M41

Introduction

The development of increasingly complex activities emphasizes the utility, the necessity of the profit and loss account in the financial reporting by increasing the interest in the enterprise performance, especially for the dynamic information that this situation can provide.

The information regarding the performance of an enterprise, especially its profitability, helps to assess the potential changes of economic resources that the enterprise can control in the future. In addition, they are used to anticipate the enterprise capacity to generate future cash flows with the existing resources. The same information is useful for formulating and reasoning the efficiency of the enterprise to procure new resources.

The concept of “performance” is differently interpreted by the users of accounting information, depending on their interests. Thus, the managers are interested in the substantiation of decisions on overall performance, the investors are especially interested in the profitability of their investments, the employees are interested in the stability and profitability of the enterprise, and the creditors are interested in the solvency and company’s ability to pay debts according to schedule. We can say that measuring the activity of an enterprise’s financial performance is based on the user’s objectives.

The result of the financial exercise, expressed in the profit and loss account, is commonly used as a measure for assessing the activity of an enterprise’s financial performance.

In addition, the profit and loss account provides the essential information in the forecasting of the enterprise’s capability to generate future cash flows.

A question that can be made is how the information contained on this situation can help users in predicting future cash flows, knowing that this situation provides information to assess the past performance of the enterprise. The substantiation of the response is based on the following



thinking, a positive past performance is not an absolute guarantee of a desired positive development, but the analysis can trace the future evolution trend of enterprise' activity, within certain margin of risk. Moreover, the profit and loss account helps users in determining the risk or the uncertainty level regarding the future cash flows.

However, the results from accounting are the consequences of applying series of postulates, principles, independence of financial exercises and connection of expenses to incomes that is why this synthesis document must be treated with a dose of prudence.

Literature Review

Research theme responds the current needs in the area of non-financial reporting.

I studied current legislation and the latest works in the area. It is a topical issue and of great interest.

1. Ways of presenting income and expenses offered by IAS 1 “Presentation of Financial Statements”

The conceptual framework of international accounting in connection with the profit and loss account defines and characterizes the elements that describe the enterprise's financial performance, namely: the incomes and the expenses.

The definitions proposed by the IASB accounting framework for revenues and expenditures are very comprehensive, they refer to both incomes/expenditures incurred in the normal course of activities and to gains/losses, ups/downs of securities that can occur during the accounting period, whether are latent or realized.

The revised IAS 1 offers to entities two versions (options) to present all the items of incomes and expenses (including those directly affected by the equity), namely:

- to be presented *in one unique* financial situation called *The statement of the comprehensive income*;
- to be presented *in two* financial statements: *The profit and loss account* and *The statement of the comprehensive income*.

The statement of the comprehensive income should be given separate headings: *The profit or loss account* and *Other elements of the comprehensive income*.

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The section *Other elements of the comprehensive income* comprises:

- the variation of the reserve re-evaluation after the assets revaluation (falling under the incidence of IAS 16 and IAS 38);
- the gains and losses from the revaluation of the financial assets measured at fair value (falling under the incidence of IAS 39);
- the gains and losses from the evaluation of instruments used to cover the risks of cash flows (falling under the incidence of IAS 39);
- the gains and losses arising from the conversion of the financial statements of abroad operations (IAS 21) etc.

From the financial analysis of the three situations listed above, the last two cases are obtained by separating the first financial statements “The statement of compressive income as a unique situation” in two distinct situations: “The profit and loss account” and “The statement of the comprehensive income”, keeping the order of the headings. The idea is to distinguish a situation that shows the elements which directly contributed to the acquirement of profit or loss, called “The profit and loss account”.

Moreover, “The profit and loss account” should present different the profit or loss obtained under conditions of normal activity from the profit or loss derived from uncertain or discontinuous operations.

It is interesting to analyze the first part of “The comprehensive income as a unique situation” called profit or loss. Thus, the IAS 1 enables enterprise to decide on the structure and content of the revenues and expenditures reported in profit or loss, offering this way a minimal list of items that must be listed. The enterprises have the freedom to choose between a presentation of expenses by nature or by function, but they must be very careful in their choosing not to distort the financial performance of the activity.

The international standard IAS 1 does not propose a rigid structure of the profit and loss account, but encourages the exercise of professional reasoning in assessing the significance of an item of income or expense. If they are significant, the elements are presented separately, depending on the nature or importance.

The costs and revenues, analyzed by their nature separate into operating expenses and incomes and financial expenses and incomes.



The category of operating expenses and revenues includes those incurred in: obtaining production, the sale of stocks, the provided services, other expenses and incomes such as donations, compensations, subsidies, costs and incomes from the assets adjustment in order to present their non-financial debt in the balance sheet, gains and losses from sales of tangible and intangible assets, etc.

In addition, in the financial revenues and expenditures category we can mention the interests, incomes from securities held in associated companies, expenditures and revenues from adjustments of assets and financial liabilities in order to present them into the balance sheet, gains and losses from sales of financial assets, the differences from exchange rate, etc.

The operating and financial revenues and expenses are considered ordinary because they are quite common and occur during the normal activity of the enterprise.

Next we will analyze the profit or loss of the financial exercise – under the vision of the international standard IAS 1 by two methods: the classification of expenditures both by nature and by their functions. We highlight the benefits and limitations of each method.

Table no. 1. The profit or loss of the financial exercise – under the vision of the international standard IAS 1

The profit or loss of the exercise, with the classification of the expenses by nature	The profit or loss of the exercise, with the classification of the expenses by function
Incomes	Incomes
Other incomes	Cost of sales
The stocks variation	The gross margin
Immobilized production	Other incomes
Consumption of raw materials and consumables	Distribution costs
Personnel expenses	Administrative expenses
Expenses regarding the depreciation	Other expenses
The corporal immobilizations	The financing costs
depreciation	The percent of profit of associated enterprise

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Other expenses The financing costs The percent of profit of associated enterprise The profit before taxation Income tax expenses Profit or loss from continuing activities Profit or loss from discontinuous activities The profit or loss of the exercise	The profit before taxation Income tax expenses Profit or loss from continuing activities Profit or loss from discontinuous activities The profit or loss of the exercise
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Source: www.iasplus.com/en/standards/ias/ias1

The advantages of using the method of classification of expenses by nature:

- allows the use of profit and loss account in the calculation of intermediate balances, allows macroeconomic aggregate calculations;
- the information from the classification of expenses by nature is useful in the estimation of the future cash flows for the enterprise;
- this method is easy to apply because it does not require the allocation of operating expenses on functional classification. This model is suitable to the needs of small and medium-sized enterprises or to the large ones that do not exceed certain thresholds of indicators used in European boundaries: the turnover, the total assets and the number of employees;
- this method provides more objective and verifiable information;
- facilitates the cash flow projections.

The disadvantages (limits) of this method:

- this model does not say anything about the performance of the management in achieving the enterprise functions.

If we analyze the scheme of profit or loss of the exercise *with the classification of expenses by function*, is seen that the revenue item represents the turnover. By lowering the cost of sales from the income (the turnover), the gross profit indicator is obtained, which in fact is the gross margin on cost of sales.



The cost of sales includes all costs for supplies, services provided by third parties, labour, rent and depreciation expense used in the manufacturing process of goods.

The cost of an inventory item does not include the sales and administrative expenses. So the sale cost does not include the distribution and administration expenses.

The distribution costs refer to expenses incurred in the promotion and distribution of the goods, sold by the company. (Marketing costs, staff costs used in the distribution of products, depreciation, rent space with commercial destination).

The IAS 1 standard requires the companies that use the method of classification by function to present additional information about the nature of expenses, including the depreciation and personnel expenses.

The advantages of using the method of classification of expenditure by their functions:

- this presentation often provides more relevant information to users than the classification of expenses by nature, but the allocation of costs by functions can be often arbitrary and involves considerable professional reasoning;

- this model of analysis offers information on performance management regarding the business, the distribution and administration functions, so it is more relevant in the analysis of the financial performance than the other models which says almost nothing about the performance of enterprise;

- the presentation of expenses by function permits the determination of the gross margin as a difference between the turnover and the cost of sold goods or provided services. These indicators provide important information used in the comparison of the enterprise efficiency.

The limits of the method:

- this model, even more relevant in the analysis of the financial performance, is less reliable, because the allocation of costs depends on how the enterprise management defines its function. Moreover, if managers make organizational changes and adjust the functions, then the information cannot be compared over time;

– does not allow the forecast for the future cash flows. Therefore, IAS 1 requires companies to present the additional information on the nature of expenses, including the expenses with depreciation and personnel.

2. Ways of presenting income and expenses offered by Finance Order no. 1802/ 2014 regarding the Approval of the Accounting Regulations on the annual individual and consolidated financial statements

Next, we will analyze the Profit and loss account – from the national regulation, *the Finance Order no. 1802/2014 regarding the Approval of the Accounting Regulations on the annual individual and consolidated financial statements* point of view – by presenting it as a list form with the classification of the expenditures and incomes by nature, presenting the advantages and limits.

Table no. 2. The profit or loss of the financial exercise – under the vision of the national regulation

The simplified form list of the profit and loss account, with the classification of the expenditures by their nature
The net turnover
The stocks variation of the finished goods and the production in progress
The exercise production
Other operating incomes
Operating expenditures
Adjustments of value of the tangible, intangible immobilizations and circulating assets
Other operating expenditures
Incomes from participating interest, from other investments, and loans
Receivable interests and other similar incomes
Payable interests and other similar expenditures
Profit/loss of the current activity
Income tax
The result of the financial exercise

Source: Finance Order no. 1802/2014 with subsequent amendments



The model of the profit and loss account with the classification of expenses by nature has the advantage that the financial analyst can study the consumption of inputs, by reporting various expenses classified by nature in the production of the exercise. In this way it can be established the wealth created by the enterprise expressed through the added value and the way this wealth is distributed.

The added value expresses the growth of value that results from the use of production factors, especially labour and capital factors, over the amount of raw materials, the purchased materials and services from other enterprise, so the added value represents the wealth created by the enterprise by exploiting the technical, human and financial resources of other companies. This indicator expresses the contribution of the company in the production of goods and services, allowing the assessment of the degree of integration as a ratio between the added value and the turnover, and provides information about the progress or the regress of the company's activities.

The profit and loss account divided by the classification of expenses and incomes by their nature presents particular interest for the government and its organs. They require information to regulate the enterprise activities, to determine the fiscal policy, but also to calculate the national product, the national income, and other similar indicators.

This model shows a number of features and compatibilities between national accounts and enterprise accounts.

Conclusions

In conclusion, in order to answer to all the demands of today's global information regarding the result, but also to the information about nature and destinations of expenses, it is necessary a *Situation of the integrated performance* of the enterprise.

This situation must satisfy many requirements of the necessity of information on performance, namely:

- the single statement of financial performance should be divided into three components: the results of operational activities; the results of financial activities and other treasury activities; other gains and losses;

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- the continuing operations results should be separated from the staple ones, detailed reporting on the outcome of continue operations and staple operations;
- the presentation of cost classification by function, as well as by nature;
- the changes in the accounting policy should be reported and retroactively apply the new policy;
- the report of all changes in the results generated by the transactions and events relating to the business;
- the calculation and presentation of the indicator “Earnings per share”.

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ANGULARJS – THE NEWEST TECHNOLOGY IN CREATING WEB APPLICATIONS

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Abstract

This article is the result of searching and selecting new technologies that help programmer in developing web applications. It also represents a pleading for using it, showing its advantages and disadvantages. Alongside the article there are features regarding binding elements, modules, filters and directives. It is a synthesis and a guide of good practice for innovative programmers. All technical issues presented are supported by a case study.

Keywords: *AngularJS; JavaScript; MVC.*

JEL Classification: M15

Introduction

AngularJS is a complete JavaScript-based open-source front-end MVC (Model-View-Controller) framework created by Miško Hevery and maintained by a community of individuals and corporations¹. AngularJS makes developing single-page web applications easy even for those not accustomed with JavaScript or JQuery. Even more, it provides the separation of application logic, data models, and views – a task that needed employment of big frameworks (ASP.NET, JavaEE with Tomcat, etc.) in the past. Also, it is suitable for service integration, and inherits dependency injection design pattern from aspect oriented programming.

¹ <https://en.wikipedia.org/wiki/AngularJS>.



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AngularJS is used on the websites of Wolfram Alpha, NBC, Walgreens, Intel, Sprint, ABC News, and approximately 8,400 other sites out of 1 million tested in July 2015².

1. How to Employ Angular in Web Apps [Lerner, 2013]

We simply have to include angular.js in our HTML and explicitly set the ng-app attribute on an element in the DOM:

```
<div ng-app="myApp">
```

The ng-app attribute declares that everything inside of it belongs to this Angular app. Only the DOM elements inside the one with the ng-app attribute (eg. <div>) will be affected by Angular.

The controller is a function that adds additional functionality to the web app. Declaring the ng-controller attribute on a DOM element says that all of the elements inside of it belong to the controller:

```
<div ng-app="myApp" ng-controller="MyController">
```

The scope object is simply a JavaScript object whose properties are all available to the view and with which the controller can interact:

E.g.:

```
<!DOCTYPE html>
<html>
<script
src="http://ajax.googleapis.com/ajax/libs/angularjs/1.4
.8/angular.min.js"></script>
<body>

<div ng-app="myApp" ng-controller="SelectController">

<select ng-model="select_country" ng-options="country
for country in countries">
<option value="">Choose Country</option></select>
```

² libscore.com. Retrieved 2016-07-13.



```
</div>

<script>
var app = angular.module('myApp', [])
.controller('SelectController', function($scope) {
$scope.countries = ["Romania", "Belgium",
"Washington"]; })
</script>

</body>
</html>
```

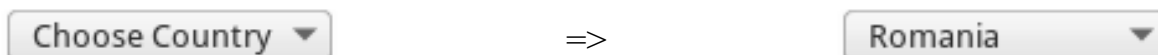


Figure no. 1. AngularJS combo control

When we define custom behaviour for a web app, we set the execution context by designing methods in our controllers, and properties in the views.

There are two ways of updating the scope when the view modifies it, being sure that the view will immediately update when the scope changes:

1. By using expressions, ex. `{{...}}`

E.g.:

```
<!DOCTYPE html>
<html>
<script
src="http://ajax.googleapis.com/ajax/libs/angularjs/1.4
.8/angular.min.js"></script>
<body>

<div ng-app="myApp" ng-controller="LocController">

<ul>
<li ng-repeat="person in people"> {{person.name}} lives
in {{person.city}} </li></ul>
</div>
```



```
<script>
var app = angular.module('myApp', [])
.controller('LocController', function($scope) {
$scope.people = [
{name: "Radu", city: "Bucuresti"},
{name: "Emil", city: "Braila"} ]; })
</script>

</body>
</html>
```

- Radu lives in Bucuresti
- Emil lives in Braila

Figure no. 2. Result of ng-repeat directive with curly braces one way binding style

2. By using ng-bind directive, where language is defined in controller as scope attribute:

E.g.:

```
<!DOCTYPE html>
<html>
<script
src="http://ajax.googleapis.com/ajax/libs/angularjs/1.4
.8/angular.min.js"></script>
<body>

<div ng-app="myApp" ng-controller="LangController">

<p ng-bind="language"></p>

</div>

<script>
var app = angular.module('myApp', [])
.controller('LangController', function($scope) {
$scope.language="English"; })
</script>
```



```
</body>  
</html>
```

English

Figure no. 3. One way binding with ng-bind directive

or you can use theng-model directive on HTML controls to bind the model to the view that provides a two-way binding between the model and the view:

E.g.:

```
<!DOCTYPE html>  
<html>  
<script  
src="http://ajax.googleapis.com/ajax/libs/angularjs/1.4  
.8/angular.min.js"></script>  
<body>  
  
<div ng-app="myApp" ng-controller="UserController">  
  
Name: <input ng-model="user">  
<p ng-bind="user"></p>  
  
</div>  
  
<script>  
var app = angular.module('myApp', [])  
.controller('UserController', function($scope) {  
$scope.user = "Guest"; })  
</script>  
  
</body>  
</html>
```

First time, the input control is filled with Guest,

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Name:

Guest

Figure no. 4. Autofilled input control from controller attribute

when we change the value to Radu, the paragraph element will show Radu, thus changing the value of the name scope attribute:

Name:

Radu

Figure no. 5. Setting controller attribute with input control value

The module is a container for the different parts of an application (controllers). We declare a module by using angular.module() method:

```
var app = angular.module('myApp', [])
```

We need to pass two parameters to the method when we declare a module:

- 1) the name of the module we are creating;
- 2) the list of dependencies, otherwise known as injectables that can be used to define dependent modules.

Filters can be applied in view using binding curly braces:

E.g.:

```
<li ng-repeat="person in people | filter : 'Radu">
  {{person.name | uppercase}} lives in {{person.city |
  lowercase}} </li>
```

or in controller by using filter service:

E.g.:

```
var app = app.controller('NameController', ['$scope', '$filter', function($scope, $filter) {
    $scope.name = $filter('lowercase')('Radu');
}]);
```

2. Case study

We have created a new website, using bootstrap library (Figure no. 6):

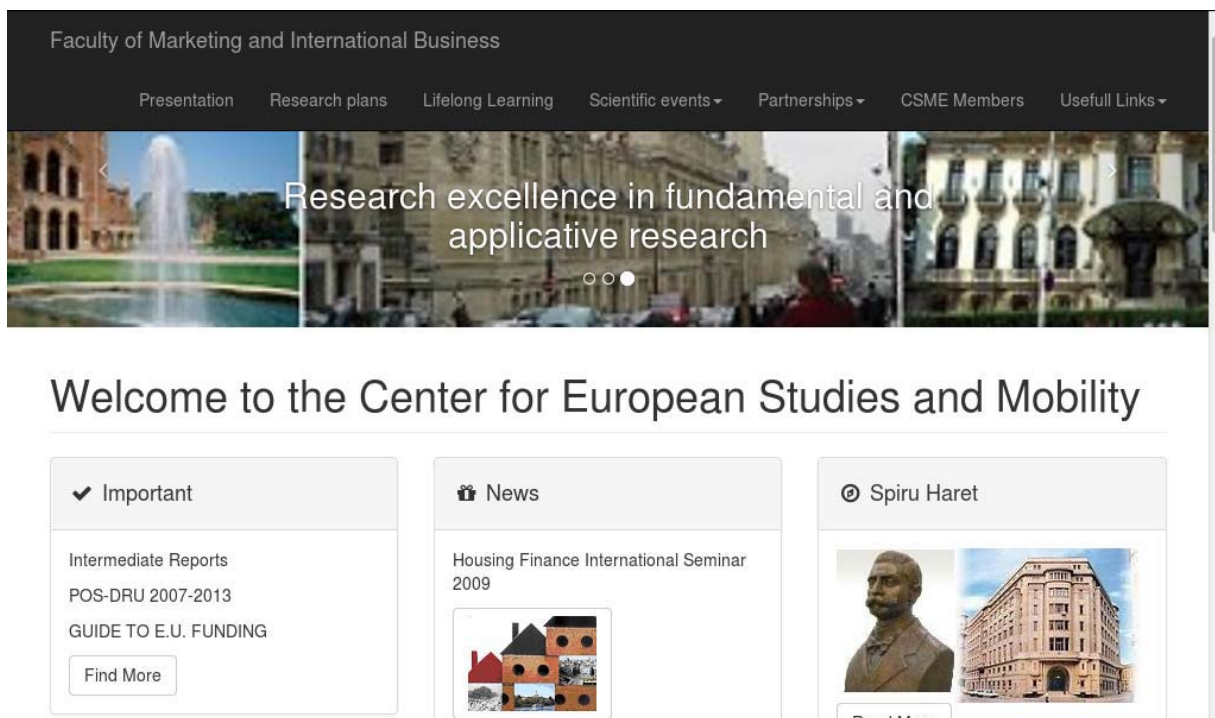


Figure no. 6. Website home page

We have decided to generate dynamic content using AngularJS and JSON for the About web page:


Presentation Research plans Lifelong Learning Scientific events Partnerships CSME Members Usefull Links

Spiru Haret University Faculty of Marketing and International Business

Home / About

Home
Management
Scientific Council
Secretariat
Contact
Research USH Regulations
Legislation
The methodology of quality evaluation

Center for European Studies and Mobility



- 1 . Research, innovation, education
- 2 . Education integration of research in lifelong learning
- 3 . Research excellence in fundamental and applicative research
- 4 . Inovation methods, inovative models in knowledge based economy

Figure no. 7. The About page of the site was populated with data using AngularJS

The source code for the About page of the site reveals the technology used and a sample of it is presented in the following paragraph:

```

<!DOCTYPE html>
<html lang="en">
<head>
<meta charset="utf-8">
<meta http-equiv="X-UA-Compatible" content="IE=edge">
<meta name="viewport" content="width=device-width,
initial-scale=1">
<meta name="description" content="CSME">
<meta name="author" content="Radu & Rocsana Manea">
<title>CSME</title>
<!-- Bootstrap Core CSS -->
<link href="css/bootstrap.min.css" rel="stylesheet">
...
<!-- Angularjs -->
    
```



```
<script
src="http://ajax.googleapis.com/ajax/libs/angularjs/1.4
.8/angular.min.js"></script>
</head>
<body>
...
<!-- Content Column -->
    <div          ng-app="myApp"                ng-
controller="AboutController">
<div class="col-md-9">
    <table width="100%"><tr>
        <td><h2>Center for European Studies and
Mobility</h2></td>
        <td></td></tr></table>
        <h4      ng-repeat="quote      in      quotes">
{{quote.no}} . {{quote.text}} </h4>
</div>
    </div>
<script>
var app = angular.module('myApp', [])
.controller('AboutController', function($scope) {
$scope.quotes = [
{no: "1", text: "Research, innovation, education"},
{no: "2", text: "Education integration of research in
lifelong learning"},
{no: "3", text: "Research excellence in fundamental and
applicative research"},
{no: "4", text: "Inovation methods, inovative models in
knowledge based economy"} ]; })
</script>
</div>

...
</body></html>
```

Conclusions

Web applications evolved from client server architecture to service oriented architecture and finally to microservices architecture pattern. AngularJS along side with Bootstrap (a CSS framework) and NodeJS just

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fills the gap created by this transition, allowing developers creating robust and complex web applications, with minimum amount of time and effort. AngularJS can be downloaded from <https://angularjs.org/.org/>.

References

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SPECIFIC SUBJECTS OF LICENSE ACADEMIC PROGRAM – AN IMPORTANT STAGE OF PROFESSIONAL DEVELOPMENT OF FUTURE MILITARY LEADERS AT NATIONAL MILITARY UNIVERSITY, BULGARIA

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Abstract

On the basis of an approved request by the Head of National Military University we have conducted a research on motivation in military formations of the example of Vasil Levski National Military University in Veliko Tarnovo, Bulgaria. Subject of the study is motivation for training and military activities of the cadets and the objects of the study are students in professional military direction in “Organization and management of military units at the tactical level,” Land forces faculty at the National Military University of Bulgaria. The article presents results of the study at second item – “Do you agree that the study of specialized topics is an important stage of your professional development as future military leader?”. The interviewees were cadets who graduated through the following academic years – 2013/2014, 2014/2015, 2015/2016.

Keywords: *motivation; military formations; National Military University; specialized topics; professional development; military leader.*

JEL Classification: O15



Introduction

Leadership is directly related to the human need of power as one of the needs that must be satisfied in order for a person to meet others, to feel complete, approved and followed by individuals. Throughout his entire life, a man aims to be a figure that inspires others, and to be followed by others.

“Leadership is an upliftment of the human imagination to greater heights, striving for higher standards of performance, forming a personality beyond its normal shape” [Drucker, 1992]. It “is not a job, profession and occupation in general, but a function that each better or worse performs in the interactions with others. Leadership is both a process and a personal quality. The process of leadership is using uncoerced influence to steer and coordinate the activities of members of the organized group to reach its objectives. As a personal capacity, leadership is a combination of features and characteristics of the individual, who successfully use such influence.” [Kamenov, 2000]

Leadership is a “phenomenon of group dynamics in which the result of the interaction of members in the implementation of a common activity, a person has rights to organize a group to solve a specific tasks” [Djonev, 1997]. It is a phenomenon of informal personal relations, and there are no formalized procedures to elevate the leader and there are no administrative measures for his/her approval. The other members of the group take the leader completely voluntary, build their own attitude to him or her as a leader and to yourself as to a led. Leader is a member of the group, which has considerable influence on the behaviour of other participants in the joint activity. Status of authority is mandatory for a leader. Authority and his power are upheld from his personal qualities and contributions that he does to achieve group goals.

In modern management we do not talk about managers and subordinates, but about leader and followers, and here lies a key to understanding leadership – this is purely the human ability to inspire people we are managing so as to follow us.

On the basis of an approved request by the Head of National Military University it is conducting research on motivation in military formations of the example of Vasil Levski National Military University in Veliko Tarnovo, Bulgaria. Subject of the study is motivation for training

and military activities of the cadets and the objects of the study are students in professional military direction in “Organization and management of military units at the tactical level,” Land forces faculty at the National Military University of Bulgaria.

A research hypothesis states that a specific organizational culture at military universities and in particular at Vasil Levski National Military University has a major impact on individual motivation of cadets for education and military activity in the process of achieving the specific objectives of educational preparation in these organizations. We believe that the academic performance of the cadets and the received satisfaction from their training during their academic preparation is dependent on both the quality and intensity of the efforts made by them and the methods of extrinsic motivation used by academic and command staff. It is possible to establish during the investigation that certain elements of the learning process and/or military activity do not fully meet the demands, needs and expectations of the cadets when it comes to preparing for future officers.

Recruiting information regarding the survey is carried out through a combination of research methods. The main method of the study is empirical survey conducted in a real educational environment. An appropriate questionnaire was prepared including 24 items to help achieve the stated research purposes and to allow testing the validity of the formulated research hypothesis and made scientific assumptions after exploring the variety of existing theories of motivation. The questionnaire was prepared after long research work by Elitsa Petrova and Dumitru Iancu as a consequence of their multiannual research in the field of motivation. Mathematical and statistical methods are used for processing and analysing survey results and their graphical representation.

General profile of participants

The article presents results of the study at second item – “Do you agree that the study of specialized topics is an important stage of your professional development as future military leader?”. The interviewees were cadets who graduated through the following academic years – 2013/2014, 2014/2015, 2015/2016.

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Totally, all cadets for three academic years numbered 145 people, including 124 men and 18 women. Respondents of the survey were 124 people of which 109 were men and 15 are women, which are 88% of all available cadets.

Table no. 1. General profile of participants

Alumni 2014 2015 2016	Total number of cadets	Total number of respondents	Male total	Female total	Male Respondents	Female Respondents
Total	145	124	127	18	109	15

Profile of participants in the study by military specialties has been prepared in separate tables. Specialties covered by the study are the following:

- Mechanised Infantry and Tank Troops;
- Intelligence / Signal Intelligence and Electronic Warfare;
- Military Computer and Information Systems;
- Engineers;
- Military Logistics; Fuel, Oil and Lubricants;
- Movement and Transportation;
- Nuclear, Biological and Chemical Safety and Protection, and Ecology;
- Tank Troops – Technical and Automotive Troops.

Table no. 2. Participants in the study by speciality

Total number of cadets	Total number of respond ents	Male total	Female total	Male Respondents	Female Respondents	Speciality
33	29	32	1	28	1	Mechanised Infantry and Tank Troops
20	18	20	0	18	0	Intelligence / Signal Intelligence and Electronic Warfare
37	30	32	5	25	5	Military Computer and Information Systems
15	12	14	1	11	1	Engineers

Total number of cadets	Total number of respondents	Male total	Female total	Male Respondents	Female Respondents	Speciality
16	14	10	6	9	5	Military Logistics; Fuel, Oil and Lubricants
6	5	4	2	4	1	Movement and Transportation
4	4	3	1	3	1	Nuclear, Biological and Chemical Safety and Protection, and Ecology
14	12	12	2	11	1	Tank Troops – Technical and Automotive Troops

Table 2 shows the total number of cadets in specialties, as well as the respondents in the study. The exported data shows that the Military Computer and Information Systems have the highest percentage of participation – 24%, followed by Corps of Motorized Infantry and Tank Forces – 23%, Intelligence / Signal Intelligence and Electronic Warfare – 15%, and Military Logistics; Fuel, Oil and Lubricants – 11%. Tank Troops – Technical and Automotive Troops and Engineers’ Corps have equal percentage of study participants – 10%, followed by Movement and Transportation – 4% and Corps for Nuclear and Chemical Safety and Protection and Ecology – 3%. The released data are informative and show range of the survey. The data do not show any disturbing information as the number of students at the National Military University is defined by national state order from Ministry of Defence and could not be changed without authorization.

Socio-demographic distinction by gender is made.

Distribution by gender and academic speciality was performed and combined in the course of processing the data from the current study. The data show the percentage of men and women who are respondents of the survey by speciality.

The processing of the data revealed that 26% of men respondents are trained in an academic specialty – Mechanised Infantry and Tank Troops, 24% of men respondents are trained in an academic specialty – Military Computer and Information Systems, and 16% of men respondents are trained in Intelligence/Signal Intelligence and Electronic Warfare.

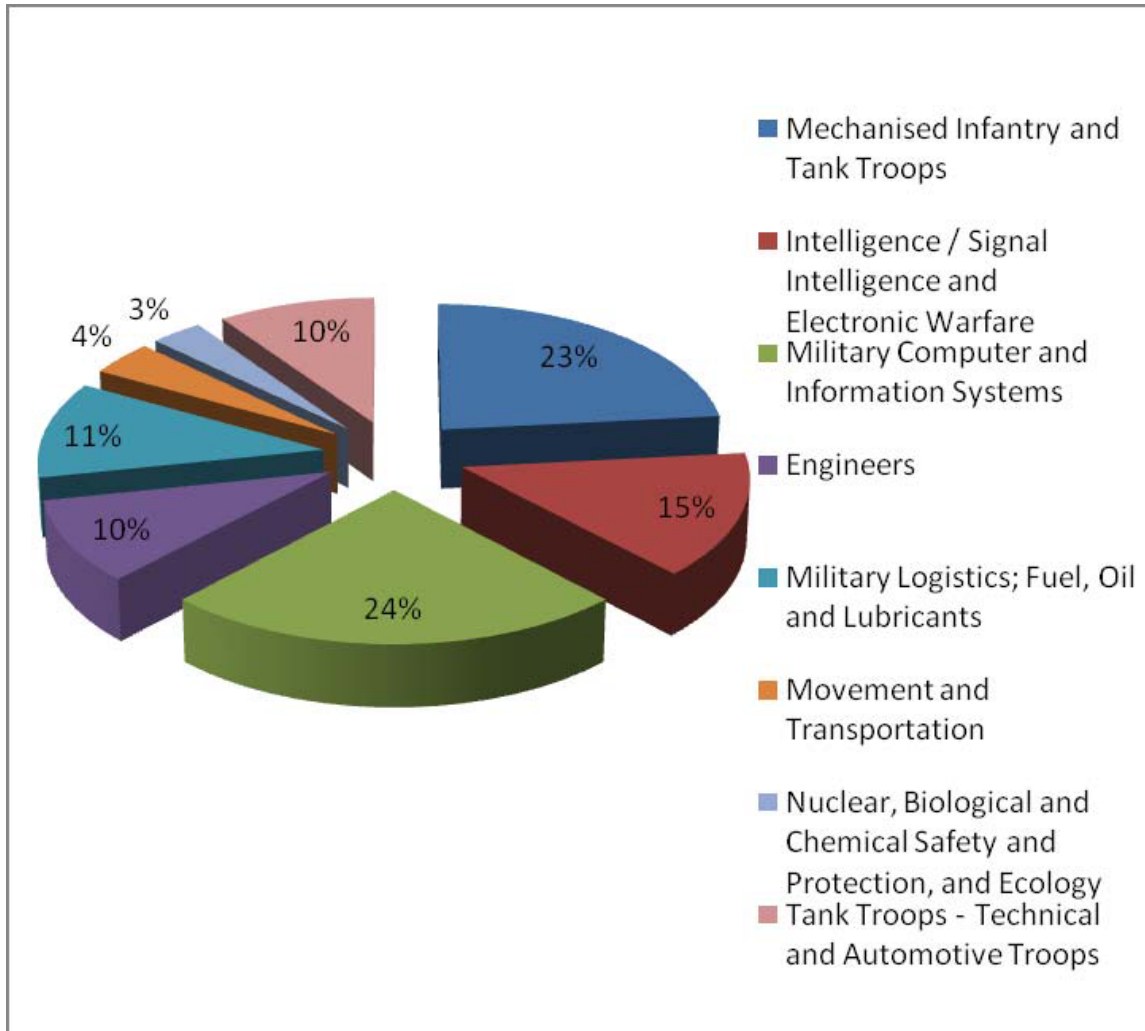


Figure no. 1. Participants in the study grouped by speciality

Tank Troops – Technical and Automotive Troops and Engineers have equal percentage of men participants – 10%. 8% of men respondents are trained in an academic specialty – Rearward and Non-combate Troops, 4% in the Movement and Transportation, and 3% in Corps for Nuclear and Chemical Safety and Protection and Ecology.

