THE ROMANIAN AGRIFOOD SECTOR – RECENT POST ACCESSION EVOLUTION

SECTORUL AGROALIMENTAR ROMÂNESC – EVOLUȚII RECENTE POSTADERARE

CAMELIA GAVRILESCU[1], CAMELIA TOMA[1]

[1]Institute of Agricultural Economics, Romanian Academy, Bucharest, Romania; cami_gavrilescu@yahoo.com

Abstract: *By far, the main political and economic event Romania experienced since 1989 has been EU membership starting January 1, 2007. The last two pre-accession years, 2005 and 2006 meant an important number of political achievements and economic progress. During the first membership years, economic growth continued, but Romania experienced, as other new member states, a slowing pace of development, increase in agri-food and services prices, a reversal of the deflation trend and a reversion of the appreciation trend of the national currency. The economic crisis hit the Romanian economy a bit later than the old EU member states, therefore the figures for 2009 reflected the full impact.*

Key words: *EU membership, agri-food prices, agri-food trade, economic crisis*

INTRODUCTION

During the first two membership years, economic growth continued, but Romania experienced, as other new member states, a slowing pace of development, increase in agri-food and services prices, a reversal of the deflation trend and a reversion of the appreciation trend of the national currency during the second half of 2007.

The international economic crisis hit Romania severely since 2009, and despite a small +0.5% economic growth forecast for 2010 (which proved incorrect since it was a decrease of -1.3%), it is likely that the end of the crisis would occur as late as 2011. The agricultural sector, despite huge efforts for adaptation to EU requirements, has been severely hit by extreme weather conditions (droughts and floods), as well as by the ripple effects of

the crisis in the other economic sectors, registering low crop productions and pushing up the domestic agrifood prices, as well as the imports.

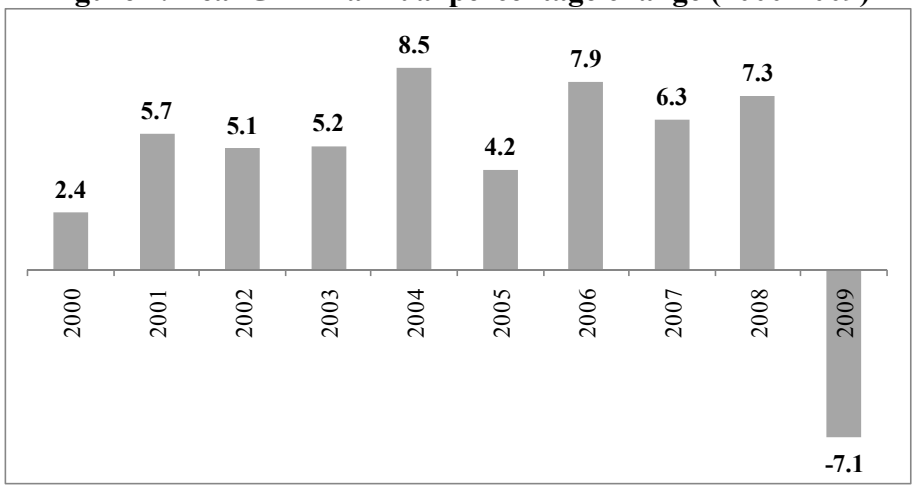
RECENT MACRO-ECONOMIC DEVELOPMENTS

The main political and economic event Romania experienced since 1989 is by far EU membership starting January 1, 2007. An important number of political achievements and economic progress occurred during the last two pre-accession years, 2005 and 2006; after accession, significant efforts have been made to speed up the economic development, in order to diminish the gap separating Romania from both old and new member states.

In the last pre-accession years, Romania's yearly growth rate has been spectacular: more than 5% yearly in 2001-2006, with the highest value in 2004 (+8.5%) (fig. 1).

The pace slowed down in 2005, mostly due to disastrous flooding that heavily affected agriculture and infrastructure, but growth resumed in 2006, to reach 7.9%, that was higher than the EU itself during the same period, and then mild variation until 2008. The international economic crisis hit severely Romania in 2009 and 2010, resulting in negative growth rates: -7.1% in 2009, which has been more drastic than the EU average of -4.2%, and continued to decrease in 2010, yet not as steeply (-1.3%).

Figure 1. Real GDP – annual percentage change (2000-2009)



Source: calculations using data from the National Institute for Statistics

The substantial macroeconomic growth until 2008 was driven by factors as the rapid expansion of foreign direct investment, increased labor productivity and a continued strong consumption surge, under an improved European economic environment.

The negative contribution of net exports of goods and services to economic growth increased markedly (from -4.6% in 2005 to -8.7% in 2007, down to -1.8% in 2008), and surprisingly, positive contribution in 2009 (resulting from a slower pace of decrease in exports: -5.5% as compared to imports: -20.6%) and 2010 (resulting from higher yearly rate of export expansion: +13.1, as compared to import expansion: +11.6%).

The contribution of agriculture is strictly linked to the weather conditions, so it has been negative to the GDP formation in 2007 (-1.3%), 2009 (-0.4%) and 2010 (-0.8%), and positive in 2008 (+1.2%).

Despite the fact that the average level of labor productivity increased in Romania in 2000-2006, it still is just a fraction of the EU one: in 2009, labor productivity per worker in Romania was just 41% as compared to the EU level (29% in 2000).

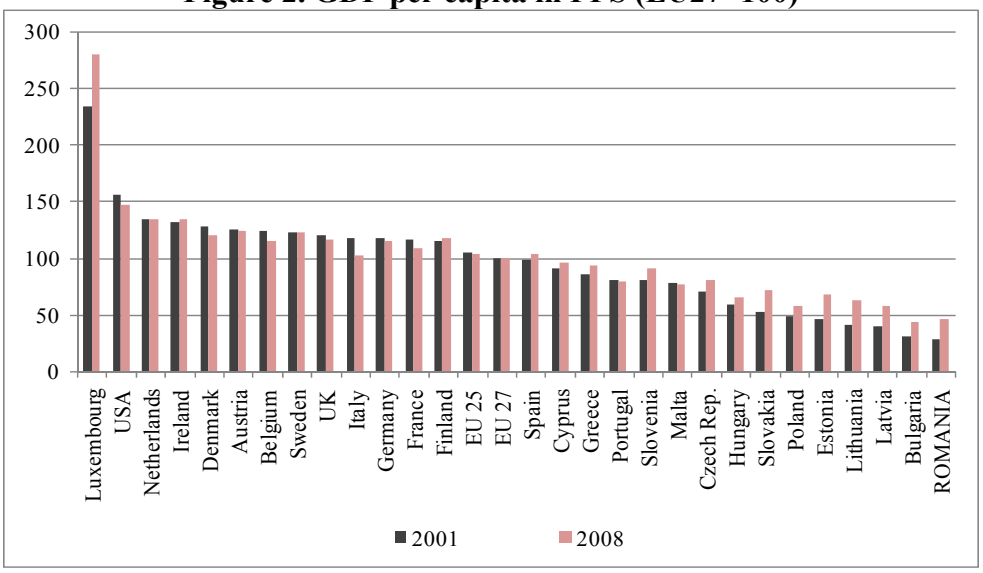
Similarly to the previous years, the chief driver of GDP dynamics was gross fixed capital formation, significantly higher than the GDP growth itself (15.3% yearly growth in 2005, 30.1% in 2007, 16.2% in 2008). The crisis meant a severe drop in the gross fixed capital formation (-25.3% in 2009 and -13.1% in 2010).

Final consumption growth also reported a pick-up, with the annual pace of increase of private consumption speeding up to 9.4% in 2008, from 10.3% in 2007, and 11.6% a year earlier; this was fuelled in part by outlays for goods-and-services purchases, hinting at larger inflationary pressures exerted by consumer demand. The commercial banks provided medium and long-term loans at affordable interest rates for the public; consequently, the expenditure structure shifted to household durable goods and dwellings. In 2009, the household actual individual final consumption diminished significantly, due both to a reduction in the volume of retail goods sold (-17.6%), as well as in the volume of market services provided (-15.1%). In 2010, the household actual individual final consumption almost put n end to its drop, reaching a final -2%.

In Romania, GDP/capita (PPS) increased since 2001, thus slowly reducing the gap to the average EU-25. Yet, in 2008, GDP per capita was

just 46% of the average EU-27 (26% in 2000), by 6% higher than Bulgaria and by 10% than the last one in the 25-Member States- hierarchy (Latvia) (fig. 2).

Figure 2. GDP per capita in PPS (EU27=100)



Source: Eurostat

Foreign Direct Investments declined by 43% during the first half of 2009 compared to the first semester of the previous year, reaching almost 3.2 billion EUR.

The contribution of agriculture to the GDP decreased slowly during the last years: 13.3% in 2001, down to 8.1% in 2006, 7.2% in 2008, 6.3% in 2009 and 5.9% in 2010. As a comparison, EU-27's agriculture contribution to the GDP was 1.8% only in 2008. Nevertheless, agriculture employs in Romania almost 1/3 of the population, thus remaining a very important economic and social economic sector.

Although partially compensated by foreign remittances of Romanian workers temporarily migrated abroad, valued at Euro 3-4 billion yearly (unofficial data say even 7-8 billion), the current account deficit grew strongly, to reach EUR 6,888 million in 2005, EUR 16,157 million in 2008, accounting for 11.6% of GDP in 2008, against 8.6% in 2005. It decreased severely in 2009, down to -4.5% of the GDP, mostly due to the contraction

of external trade. In 2010, the current account deficit grew by 5% as to 2009, reaching 5.15 billion EUR.

The trade deficit increased continuously since 1998, to EUR 23,515 million in 2008, reaching a 16.8% share in GDP, as compared to 12.1% in 2006, and 9.8% in 2005, and weighed heavily on the current account deficit. The trade gap widened, due to the slowing growth rate of exports and increasing imports. Managing the trade deficit in order to reduce pressure on the balance of payments remained a major challenge to the government. Yet, in 2009, the crisis diminished the exports by 13.9% and the imports by 21.8%. As a result, the trade deficit in 2009 diminished by almost 60% as compared to 2008, going below EUR billion 10, first time after 2004. The trend continued in 2010, the trade deficit dropping to 9.45 billion EUR, by almost 400 million EUR less than in 2009.

The appreciation of the national currency versus EUR and USD that started in 2005, continued during 2006 and the first half of 2007, reaching the lowest level in July 2007 (3.13 RON/EUR) (-23% as to 2004) and reversing the trend, thus reaching 3.61 by the end of December (+15% in just 6 months), and 4.23 in December 2009. The exchange rate to USD followed a similar trend, with a minimum of 2.28 RON/USD in July 2007 (-30% as to 2003, the year of the highest exchange rate level), and up to 2.42 end December (just +3%), and 2.94 in December 2009. Although the average exchange rate for EUR decreased from 4.24 in 2009 to 4.21 in 2010, the USD exchange rate had an opposite trend, increasing from 3.05 to 3.18.

In terms of income policy, the increase in gross minimum wage was moderate in 2006: from RON 310 to RON 330 (that is from EUR 85 to 94) (table 1).

Table 1. Monthly minimum and average gross wage in 2005-2010

	2006	**2007**	**2008**	**2009**	**2010**
Minimum wage (RON)	330	390	540	600	600
Minimum wage (EUR)	94	117	147	142	141
Average wage (RON)	1155	1391	1694	1881	1868
Average wage (EUR)	328	417	460	444	440

Source: calculations using data from the National Institute for Statistics

However, the relevance of this measure to the whole economy wage dynamics is questionable, given that: (i) for the second year in succession,

the increase in gross minimum wage in the private sector – stipulated in the national collective labor agreement – was larger: from RON 370 to RON 400 (that is from EUR 105 to 120) and (ii) pay rises in the budgetary sector exceeded the whole-economy average. On the other hand, crisis countermeasures involved the start in wage reduction since august 2009, and a 25% cut of wages in the budgetary sector since July 2010, thus decreasing all wages in real terms.

During the last decade, Romania's economy continued to show a good performance in terms of disinflation and economic growth. The National Bank of Romania focused on the continuation of disinflation by consolidating the results of inflation targeting strategy. After 16 years of transition, finally the annual inflation rate went down to a one-digit figure starting December 2004, and disinflation continued in 2006 - 2007 (table 3). Yet, disinflation came to a stop in July 2007 (CPI=3.39), and started increasing again up to 6.66% (CPI December 2007 as to December 2006). The monthly average inflation rate decreased further: from 2.2% in 2001, to 1.4% in 2002, 0.7% in 2005, and 0.4% in 2009).

Despite that consumer price increased continuously in 2002-2005, the pace slowed down every year. Since 2005, the relatively high CPI for services resulted from significant increases in utilities prices (heating, electricity, gas, water, fuel) since their prices should align to the EU prices soon after accession.

Table 2. CPI in 2001-2009

	2004	**2005**	**2006**	**2007**	**2008**	**2009**
Total CPI - annual average (previous year=100)	111.9	109.0	106.6	104.8	107.9	105.6
Food goods CPI (previous year=100)	109.5	106.1	103.8	103.9	109.2	103.3

Source: National Institute of Statistics

The average inflation rate in the EU-27 varied between 2.0-2.3% in 2000-2007 and surged to 3.7% in 2008, thus half as in Romania, to drop at 1% in 2009. Nevertheless, the EU-member countries that registered in 2008 a higher inflation rate than in Romania are: Latvia (15.3%), Bulgaria (12.0%), Lithuania (11.1%), and Estonia (10.6%). The lowest inflation rates were registered in the Netherlands (2.2%), Portugal (2.7%) and Germany (2.8%).

The unemployment rate continued its decreasing trend started in 1999: in fact, the increased economic activity in the last few years accelerated the pace of unemployment reduction, consequently, in 2007 it halved as compared to 2002, going down to 4.0%, the lowest rate in the last decade. Registered unemployment rate started increasing again, to 4.4% in 2008, and 7.8% in December 2009. Yet, disparities all over the country are still strong.

THE AGRICULTURAL SECTOR - PARTICULAR DEVELOPMENTS

The period 2002-2010 registered major variation in crop output, due to extreme variations of weather conditions.

The unfavorable weather conditions hit the southeast Balkan and Danube-basin region, and were particularly extreme in Romania in summer 2003, when cereal production in Romania reached its lowest level in almost 40 years, as a result of both poor yields and shrinkage in the harvested area, reducing winter grain production to levels that turned the country into a net importer throughout the marketing year.

In 2004, an exceptionally good agricultural year, grain production was quite high, in fact more than double production figures from last year's drought-devastated crop. Therefore it covered the domestic demand and traders could start exporting again in the second half of the year.

While in early summer 2005 the production forecasts promised to be quite high as well, huge rainfalls produced floods that destroyed large cultivated areas, damaging also the road and railway infrastructure. Although the grain production was a little lower than in 2004, it still covered the domestic demand and provided some exportable surpluses.

The 2003 draught did not affect too much the oilseeds production, rather due to good yields, the production increased as compared to 2002, the same for vegetables. On the contrary, the excessive moisture and the floods in 2005 and 2006 affected the potato and vegetables production, since in the small households which are the main producers, these crops are generally located closer to rivers. Yet, prolonged draught affected all crops in 2007.

Winterkill in January 2006 and floods in spring affected roughly 100,000 ha, resulting in a decrease in area under grains as well as lower yields. On the other hand, warm and dry weather favored oilseeds,

sugarbeets, potatoes and vegetables, which gave higher productions as to 2005, due both to increase of areas and higher yields.

The unusual and extremely mild and dry winter, together with severe lack of precipitation in the spring generated a high water soil deficit, resulting in poor plant development and low yields. Even rapeseed, which covered an area four times higher than in 2006, produced only 65% of the expected output. For the autumn-harvested crops (sunflower, maize, sugarbeet, potatoes, vegetables etc.), the extremely hot and dry summer worsened the vegetation conditions, resulting in even more severe production losses. Wheat production reached in 2007 about 3 million tons (for a yield of 1.6 t/ha, which is less than half of the multiannual-average yield). Despite the fact that wheat quality has been good, the total wheat production was not enough to cover the domestic consumption needs, thus forcing wheat imports in 2007 and 2008.

The year 2007 has been one of the worse agricultural years in the last 20 years. In 2005 the floods and excessive rainfalls diminished significantly the output of the major crops (-70% for maize; -17% for potatoes, -25% for sunflower), thus agriculture contributed negatively to the GDP formation. In 2006, the avian flu had a negative impact upon the livestock production, while the crop production diminished mainly due to a 13% reduction in cultivated areas. The extremely mild and dry winter as well as lack of precipitation in the spring of 2007 generated a high water soil deficit leading to inadequate plant development and low yields. Thus, the output for major crops has been severely diminished, as compared to 2006: -45% for wheat, -35% for barley, -65% for maize, sunflower and rapeseed.

The year 2008 was better for grains, but rather less favorable for sugarbeet and potatoes. The crop variations are generally not due to any extreme weather conditions, but more likely to variations in area harvested and yields.

The year 2010 has been better than previous year for crops (table 3).

The agricultural production in 2009 was generally satisfactory for spring crops (maize, sunflower), but saw lower yields for winter crops (wheat, rapeseed) due to a relatively dry spring.

Low output of coarse grains, barley, oats, but mostly maize resulted in increased prices and insufficient supply for animal feeds. Frequently,

farmers harvested maize early, in order to feed their animals and reduce the losses due to extreme drought.

Table 3. Variation in major crop production in 2005-2009 (previous year=100%)

	2005	2006	2007	2008	2009	2010
Total grains, *of which:*	- 20.9	-18.5	-50.4	+115.3	-11.2	+11.4
- wheat	- 5.1	-24.7	-44.9	+135.9	-27.5	+7.3
Total coarse grains, *of which:*	- 28.3	-14.7	-54.1	+104.0	+0.7	+13.1
- barley & two- row barley	- 18.2	-27.1	-31.2	+127.6	-2.2	+11.7
- maize	- 29.1	-13.5	-57.1	+103.7	+2.4	+14.1
Oilseeds	- 7.0	+13.7	-48.9	+85.6	-9.7	+29.8
Sugarbeet	12.1	+57.9	-35.0	-5.6	-3.1	+4.4
Potatoes	- 8.4	+7.4	-7.6	- 1.7	+9.9	-17.5
Vegetables	- 32.1	+14.2	-24.7	+22.5	-1.5	-7.8

Source: calculations using data from the National Institute for Statistics

In 2002-2003 the animal inventories showed a generally increasing trend, while in 2004 the numbers have slightly decreased. For 2005, the changes have been insignificant, except for sheep and goats, for which the inventories increased by 6.2%. In 2006, inventories increased slightly, by 2.5% for cattle, 2.8% for pigs, 5% for sows, 1.3% for sheep and goats. The poultry inventories decreased slightly, by 1.8%, due to some emergency slaughtering imposed by the occurrence of several contagion centers of Avian influenza. By the end of 2007, there was a slight decrease in animal inventories, due to combined factors: pig slaughters increased as well as to 2006 due both to increased demand, less available and more expensive feed. In poultry inventories, the occurrence of several contagion centers of Avian influenza (although far less than in 2006) imposed again emergency slaughtering. In 2008 and 2009, cattle (mostly dairy cows) and pig inventories continued their downward trend, while positive trends continued for sheep, goats and poultry inventories. In 2010, all inventories seem to have stopped their downward trend.

The meat production showed an upward trend in 2001-2003, then diminished significantly - mostly pork and poultry (by 12%, and 14% respectively) in 2004 as compared to 2003, most probably due to the severe drought in the summer of 2003, which dramatically raised feed prices. The

production started recovering in 2005, due to higher feed supply and production subsidies.

The unfavorable weather conditions seemed not to have much of an influence on the total milk farm production (dairy cows, buffalo cows and sheep), which increased continuously since 2000. Yet, the number of cows and heifers producing milk for the quota is expected to half until 2013, along with a substantial productivity gain.

AGRI-FOOD PRODUCTS PRICES

In the first year of membership, there was a general upward trend (+8%) of agri-food products prices, as reported by other new member states in their first year after EU accession. As compared to December previous year, the CPI for food products in December 2007 was 109.1, higher then total CPI (106.6), thus proving the fact that food products influenced the most the upward trend of prices, significantly more than non-food products or services.

In 2007, vegetables and oils had registered the highest price increase (+40.7% and respectively +36.7%). On the contrary, prices for products such as sugar and eggs decreased significantly (-23% and respectively -6%), while products such as potatoes and fruits showed a moderate price change (+15.4% respectively 16.1%). Surprisingly, meat and meat products prices remained virtually unchanged, while prices for staple food such as bread and milk showed a small change in prices price increase (+7.1% respectively 3.1%).

If one analyzes evolution of the agri-food prices for a longer period (2002-2007), it is to be noticed the volatility – large fluctuations - for potatoes and vegetables, and, at a lesser extent, eggs. The other agro-food products prices moved less, mostly below the level of overall CPI. In 2006, the last pre-accession year, prices for overall food products did not increase (CPI for food products was almost equal to 100). Very good vegetables yields resulted in significant lower prices as compared to 2005. Lower wheat production resulted in higher prices for bread and bakery products. Higher prices for energy contributed as well, but mostly in sugar prices, which increased significantly (+26%), given the high share of energy in the sugar cost.

Although price remains the main underlying factor in shaping their behavior, domestic consumers are shifting to higher quality products. As a consequence, about 40% of locally produced poultry meat is sold chilled, rather than frozen. Important investments have been made in branding and better packaging the products.

The low wheat and barley productions in 2002, 2003 and 2006 are reflected in the prices paid to farmers by processors or wholesalers. Early 2004, the prices for grains were almost double as compared to 2002 prices, reason for which the state put on the market grains from the state reserve to stop the prices from rising. Nevertheless, the low grain and oilseeds yields of 2007, together with an increased demand from the biofuels industry pushed up the prices, doubling them as compared to 2006.

The annual price pattern for raw milk for processing shows strong appreciation in fall and winter and depreciation in summer. Nonetheless, farm-gate prices constantly increased from one year to the next. The farmers claim that these prices are very low, and there is no too much of an incentive to increase the raw milk sales to processors. On the other hand, processors incur high collection costs, since most of the supplying farms are small-sized, with poor hygienic and cooling conditions and facilities and scattered in the territory.

In 2006, there was a general increasing trend of the livestock products prices, while in 2007-2008, surprisingly, the trend reversed, more significantly for sheep and poultry meat.

CONCLUDING REMARKS

The main changes in the agricultural policy occurred in 2007-2010 were focused on the setup and start of activity of the main common market institutions and organizations, destined to disburse the CAP support, together with the support from the national budget.

In 2007, only support from the national budget have been disbursed; from the CAP budget, just support for the winegrowing started to be distributed to farmers, all the other measures of support started in 2008.

The National Rural Development Program for 2008-2013 has been approved in Brussels in late February 2008 only; therefore disbursements could start only in 2009.

In the past years Romania saw an exceptionally economic growth, of more than +5% yearly, most likely the highest in Central and Eastern Europe, in an international context of economic contraction. The crisis hit the Romanian economy a bit later than the other EU countries.

Agricultural output contributed largely to the economic growth, due to good outputs in several years, but also diminished its contribution to the general growth trends in exceptionally bad years. A more clear definition of support policies, together with longer-time application and higher amounts of support had as well a positive impact.

From the perspective of the continuing economic growth, the financial policies tried to stimulate savings, investments and exports. The general fiscal level decreased significantly, by the introduction of the flat tax rate, thus stimulating the private investments, new SME-s emerged. Important FDI entered Romania in the last 7 years, and modern retailing exploded. Private consumption and consumption credit boomed as well. Unfortunately, in mid-2010, the Government imposed higher taxes (e.g. VAT increased from 19 to 24%) and severe budgetary cuts, as measures aiming to counteract the economic crisis and mostly the huge budgetary deficit.

There is much more to do, mostly in agricultural sector in terms of institutional building for CAP implementation, but huge efforts of on-going adaption are currently made in all the areas of the Romanian economy.

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