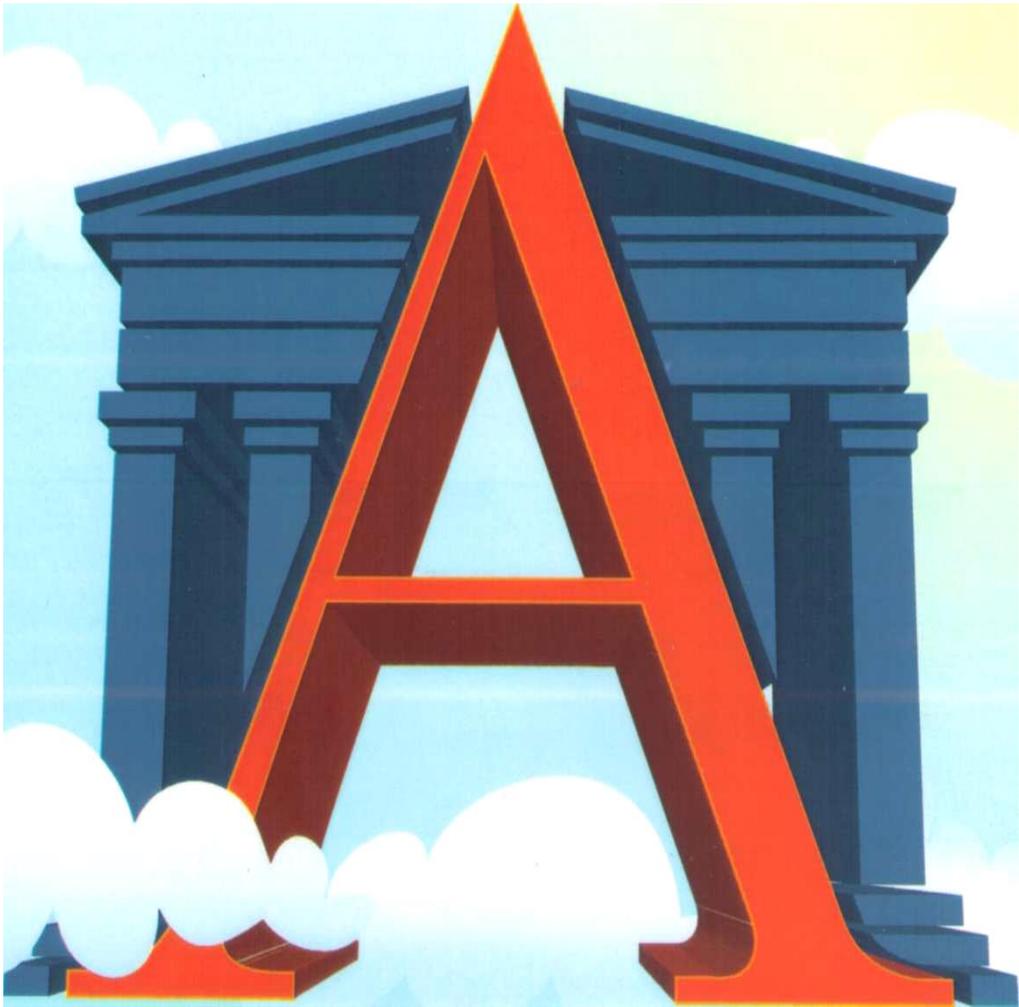


# INTERNAL AUDITING & RISK MANAGEMENT

ANUL XI, Nr.4(44), December 2016



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A T H E N A E U M

**& Centrul de Excelență în Managementul Financiar și Audit Intern**

# **INTERNAL AUDITING & RISK MANAGEMENT**

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## **YOUTHS AND THE LABOUR MARKET IN A CHANGING ECONOMY AND SOCIETY**

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### ***Abstract***

*Youths on labour market have particularities and specifics which distinguish them from all other vulnerable groups on labour market. However, at the same time, it could be mentioned that youths and the labour market for youths is a miniature reflection, but for few exceptions, of the situation faced by all vulnerable groups on labour market.*

*In order to understand the youths' labour market, and in particular, the situation they face in the transition from school to work, the demographic, psychological-social, and economic characteristics of this group should be analysed. To these is added the fact that they enter into a volatile labour market, undergoing a process of structural change under the intensified impact of the transformations triggered by the intensive digitalisation and automation of all sectors of activity leading to the destruction and disappearance of jobs much swifter than the developments of the entire economy and of the productive and services' sectors, etc. of creating and generating new jobs.*

*The paper presents a synthesis of the characteristics and particularities of labour market among the young generation.*

**Key-words:** *Y generation, vulnerabilities, characteristics, labour market segmentation*

**JEL Classification:** *J13, J21, J24, J42, J44, J82*

### **1. Introduction**

The youth labour market is one of the most concerning topics which is approached, from various perspectives, within all economic and social umbrella-structures: the International Labour Organisation, OECD, G-20, etc. all of them underpinning that the current situation of youths is one of the most difficult at world level. In this context, the relatively identical statements and the similarity regarding the pursued objectives at EU-28 and

G-20 level is noticeable when dealing with the situation of youths on labour market. A comparative analysis between the flagship initiatives of EU-28 included in the “Europe 2020” Strategy and the objectives aimed by regarding policies aimed directly at the young generation (1) highlights the imperative of intensifying actions pursuing a better integration of youths on labour market, but also attaining better performances with respect to youths’ employment.

In the specialised literature the current debate is increasingly more often about the generations of youths called generically the “Y generation”, who on medium- and long-term shall be one of the dominant components on labour market. This generational category includes the youths born by the end of the eighties and the beginning of the nineties. They are characterised, first of all, by the political, social and economic conditions in which they were born, spent their first school years, and attended the various educational levels, including those of vocational-professional training in an extremely fluid environment of vast political, economic, social and technological changes. They are the generation brought up and educated in period when, by and large, economic growth was recorded and supported at global level, Europe was in full process of political changes and of eastern expansion, of improved and intensified social actions aimed at eliminating discrimination and, especially, they are the generation who learned about and fully put to good use the opportunities provided by the new technologies of information and communication. Personal computers, internet, but also the applications used by industry, education and culture in increasingly more fields of the daily life contributed together with the other above-mentioned components to cultural and mentality changes of these generations. From this viewpoint, some of the changes that altered to a certain extent the characteristics of these generations are:

- i) an increased level of expectations and requirements regarding employers but also incomes and quality of the job (1);
- ii) an increased level of flexibility and higher availability towards changes in the environment, or of the conditions in which they develop their activity (2);
- iii) a higher willingness of exploring new possibilities and opportunities, which frequently is translated in the fact that they no longer consider as necessary, or even desirable to have the same employer, or work in the same activity sector for their entire life (3).

Nevertheless, conflict emerges from all these characteristics triggering a change of mentality and work culture in the case of youths, the realities on labour market on which they prepare to enter, and the dissonance between

this perspective horizon of the youths and the possibilities of accessing the necessary resources for changing this horizon into reality.

## **2. Particularities of the youths' labour market**

The labour market for the young generation is defined by its specificities, respectively that it is aimed at a relatively narrow segment of the population, the one of the population aged between 15 and 29 years of age. The phenomenon of population ageing faced by all European countries leaves its fingerprint on the population segment aged between 15 and 29 years of age, meaning that increasingly more diminished cohorts of youths are assimilated into the active population, including here the labour force. The demographic situation from each country reflects on the educational system and on the one of vocational-professional training, but also on the perspectives of economic growth, and on the long-term social and human development.

Moreover, a relatively narrow market, where the final decision is not necessarily the one of the employers but of those seeking employment regarding the attractiveness degree of the job, tends to feed such expectations: high-skilled and specialised labour markets in high-tech fields, with extended applications also in other fields, such as medicine or even agriculture.

Regarding the realities in the labour market on which the youths intend to enter after graduating a certain educational level, or obtaining a certain skill degree we deal with the other facet of the coin which reveals some of the "weaknesses" of the Y generation:

- the reticence of employers in hiring young labour force: the financial-economic crisis followed by the one of the "social debts" amplified the contradiction between the above-mentioned expectations and the employers' demand for labour;
- the difficult situations in which youths often find themselves determine them to agree to unstable and uncertain contractual formulas, to compromises that favour, more often than not in the absence of well-regulated industrial relations at institutional level, the employer. Moreover, these contracts on determined periods, or even part-time, are often the solutions pushing youths towards survival solutions for them and their families in the "grey" areas thus changing them into potential candidates to social exclusion;
- a difficult transition because the training provided by the educational, or vocational-professional training system is behind compared the competences and skills demanded on the market.

Due to the above-mentioned, a first delimitation of *the youths' labour market* might be operated between the two poles: i) youths with a

high-skilled training level, well-prepared for activities in high-skill and top fields, and ii) youths who did not succeed in taking advantage of the opportunities provided by the educational system, by the one of vocational-professional training which is placed at the opposite pole of low-skills, even inexistent skills.

The reasons for which at the low pole could not benefit by the advantages provided by the educational and training systems varies depending on the material and social condition of the family, on the youths' own material condition, on the conditions related to the intellectual capacity and on the ability to correctly assess his/her own possibilities and up to the circumstances determined by the external factors such as the institutional framework and its provisions for the employment of youths in the labour market (regulation degree, possibilities of access to information, orientation, training, continuing training, re-skilling, etc.) and for ensuring social protection according to the social development model adopted by each country.

Between these two poles, the majority of the entire Y generation youths can be embedded, for which solutions must be found on a labour market in full change at global, including European and national level.

*A second necessary delimitation* is given by the characteristics of the generation and of each individual regarding the approach towards labour market: the expectations faced with the immediate reality of identifying a job. In this context, for the vast majority is found the difference between labour demand and supply: the high expectations of the youths are faced, most often, with the expectations of the employer according to the labour demand triggered by the economic evolution on short-, and medium-term but also regarding the long-term perspective. Here, the achievement desire of the youths regarding the material and social aspect expressed, first of all in developing their career and expertise, differs completely from the demand of the employers: young and experienced.

*The third essential differentiation* is the one given between the development levels of the countries because labour markets are directly influenced by them: developed markets and economies, emerging markets and economies, and developing markets and economies. From this viewpoint, is found that most affected were advanced markets and economies where the redress of the youths' labour market is much slower with rather more "scarring" effects than in the case of emerging and developing markets. Thus, in OECD countries the unemployment rate for youths was particularly high in the period 2007- 2012 (the year regarded frequently as the year of exiting the crisis, even though this first post-crisis years and the subsequent ones can be characterised as an uncertain and volatile exit). The unemployment increase was, in average, for these two

years of reference between 7 and 10 percentage points for OECD countries, the average being of 17%, and for EU-28 of 23%, save for two countries that sent even more worrying signals, respectively Greece and Spain where, as result of the unemployment increase above this concern-raising average, over 50% of the young population continues to be unemployed.

Finally, *the last delimitation* between youths depends on the type of unemployment they find themselves in: voluntary or involuntary unemployment. The youths in voluntary unemployment are, most probably, in the youth category mentioned above as the Y generation, who have a high threshold of own expectations, who decide whether the available job is attractive enough from the viewpoint of the 'know-how', competences and specific high-skills they have. These youths are in transition from a previous job and in search of a new job but usually, due to the narrow supply on these markets, they will identify such a job in a short period of time (up to maximum within 60 days).

Those in involuntary unemployment are youths faced directly and immediately with the consequences of mismatches that might even intensify between labour demand and supply, as expressed on one hand by the demand of employers on labour market, and on the other hand by the outcomes (expressed in the number of graduates) provided by the educational systems adopted at national level.

Between these two categories of young unemployed, either in voluntary or involuntary unemployment, a specific niche emerged, the one of NEET youths (neither employed, or in education, or training), a heterogeneous and specific category which takes from the characteristics of both groups and who cover the entire range: from skills and competences that allow the employment in the labour market, to minimal skills and competences, or even inexistent ones; from the disinterest in seeking a job because the market does not seem sufficiently attractive or demanding, up to the discouragement after multiple failed attempts in identifying a stable job. This niche is the one giving raise to most debates and concerns, precisely due to its heterogeneous character, to the multitude of circumstances and conditions that led to its formation. The NEET definition itself is still in full process of being clarified, formulated and finished, because the NEET condition is diverse, variable, with complex reasons such as psychological, emotional, and including mental and physical health grounds, related to the work incapacity on short- or long-term, physical or mental disabilities, or to the fact that they dedicate themselves to caring for a family member in difficult medical circumstances, and even reasons of social and material nature.

The increase of the NEET percentage in the period 2007-2015 was dramatic, signalling the changes that the youth labour market will be

subjected to in the future, but also the fact that the economic recovery by leaving aside this category, despite the increasingly more frequent warning signals at the level of international and European institutions within the institutional arrangements aimed at the labour market brings with it severe political, economic and social risks.

Thus, if we analyse the youths' labour market from the viewpoint of the main characteristics of the labour market we find that, on a segmented labour market they are included in a niche subjected to even more higher segmentation and which is subjected to inherent rigidities.

The youths, in the augmented context of job polarisation, but also in the one of increased economic uncertainty as result of the successive financial crises are in a position that makes them extremely receptive to economic fluctuations (4).

Vulnerabilities of a structural nature are the outcome of the conditions in the personal and social environment: the status of the young individual is affected firstly by the family status. If the young individual comes from a poor family (either autochthonous or immigrant) with a low education level, then his/her "model" tends to keep with the evolution of the family, to finish schooling early and hence be apt only for jobs placed in the low part of the occupational grid, both from the viewpoint of skills, but also from the one of achieved wage or income, which results in "scarring" effects, but contributes also to prolonged periods of long-term unemployment and entering on trajectories lacking perspective.

Nevertheless, youths have also many of the characteristics which change them into the most dynamic segment: high mobility, as they are more flexible from this point of view, higher capacity of absorbing and learning the required and demanded skills of the new digital society.

**In conclusion**, it might be stated that the Y generation, the one of youths in the labour market or preparing to enter the labour market is caught in a true field of forces between institutional arrangements, the demand for labour of the public and private sector, and their own expectations about the attractiveness and quality of the job.

In the framework of this field of forces, on short-term, another particularity for this generation is the decrease of their negotiation power, that is they will accept unattractive wages and often much under their training level but, on the other hand, these wages will be linked to the next considerable compromise, respectively accepting jobs that do not reflect their educational and skills level.

Regarding the rather cyclical phenomenon of their unemployment, it is found that on short periods of recession these can be considered (from the viewpoint of the new requirements regarding the structural change of the

market) as an opportunity for improving and deepening their studies. However, the reverse is that, including the periods of recovering economic growth, they will remain in general with low negotiation power, continuing to agree to low wages, or labour contracts on determined periods of time, or even part-time labour contracts. Moreover, if the option is for new decreases in the labour force, due to unfavourable economic conditions, they shall be the first to be laid off without having benefitted (due to contracts on determined periods of time, part-time contracts, or other contractual forms of temporary employment) from the investments, even if only sporadic ones, of the employers in vocational-professional training. This shall lead to the depreciation of the human capital and to losses in the value added that otherwise valorised through training and improvement investments would have represented one of the most valuable resources of the company on long-term.

In Romania, these phenomena are even more acute, and the demographic component of permanent decrease in the young generation cohorts entering the educational or vocational-professional training system, is associated to other concern-raising phenomena, for instance the migration for jobs abroad. In this context, we might state that Romania is in a full “brain drain” process regarding high-skilled youths, as entire categories of tertiary well-trained and with excellent education youths (computer scientists, physicians) migrate for working abroad immediately after concluding their studies. The reasons of the young Romanians are of economic and social nature, the imperfections of the institutional framework specifically for youths, the attitude of employers in negotiating conditions and wages, the lack of career perspectives and in setting-up a family building-up as to be true push factors for emigrating, but also just as many reasons for the discouragement and disengagement of youths in the national labour market. The fact that youths migration continues to maintain a relatively low rate of youths’ unemployment at national level, as compared with other European countries, should be a real warning signal for all decision factors.

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## **ECONOMIC GROWTH AND JOBLESS RECOVERY AS INSTITUTIONAL ISSUE**

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### ***Abstract***

*The multiple crises of the period 2008-2012 increased the uncertainties and asymmetries on the labour market which were generated by the technological progress that triggered the undergoing gradual change of the entire economy. Jobless recovery may be associated with regional or national economic factors and with the specifics of the local market. The paper presents a brief analysis of the asymmetries and risks on the Romanian labour market from a comparative perspective with EU-28 by discussing over the necessity of innovative institutional approaches at national and European level.*

**Key words:** *institutions, institutional arrangements, labour market, employment rate, unemployment*

**JEL Classification:** *E24, J23, J65*

### **1. Introduction**

The period 2008-2013 was marked by the successive unfolding of multiple crises triggering the beginning of a period of in-depth changes of the global and European economy. If, in the case of the financial-economic crisis and in the one of the sovereign debts in-point solutions led frequently to imposing medium- and long-term policies (for instance, austerity policies), for the social crisis the answers continued to be elusive.

The main reason resides with the entire segments of active population identified as “captive” between technological progress and technological pressure. Hence, the current period corresponds with the image outlined by Keynes already in the thirties when he stated that at a given moment the rate of technological progress shall exceed the possibilities of any given economy to generate jobs (Frey and Osborne, apud Keynes 2013). This Keynesian statement generated in particular during the last decades an entire specialised literature and debates: from the ones debating about the relevance of institutions and of institutional frameworks/arrangements for

the economy and more specifically for the labour market and economic development, to the ones identifying, based on the technological progress the vanished or vanishing occupations, including those seen as disappearing during a foreseeable time-horizon.

At EU-28 level, the period of the last post-crisis years (2012-2015) was characterised by instability and uncertainties generated on one hand by the slow and hesitant growth of European economies, save for few exceptions, but which cannot but increase concerns as these increases rely almost exclusively on consumption (for instance, Romania), and on the other hand by its feature of a “jobless recovery”.

In this context, the above-mentioned debates, outlined for the last twenty years, focused increasingly more on the factors with impact on resuming economic growth and development and, especially, on those with impact on human capital and resources. The outcomes of international and European analyses lead to the conclusion that the current situation is determined by demographic, technological and institutional factors.

Thus, in the next period a determinant role will have the institutional factors with impact on labour market, as this market is the meeting point not only for labour supply and demand, but also for the development of the society in general, its structure, the forms it takes, express the degree of economic, social and cultural development.

The relationship between labour market and institutions is bi-univocal, and the current developments indicate the need for the technological progresses at the basis of the innovativeness in the primary, secondary and tertiary sectors of the economy to be reflected also at the level of institutions, of institutional frameworks/arrangements and of institutional mechanisms.

The hypothesis we build on is that both economic growth and development, in general, but also the developments on the labour market at European and national level, including here also the regions of development, are determined by the relatively disjunctive relationship generated by the interactions between economic development and institutional frameworks/arrangements.

Several examples and arguments support the importance of re-evaluating and possibly ‘reinventing’ institutions with economic and labour market impact. However, for the purposes of this paper we will restrict ourselves only to mentioning some of these.

A first convincing argument results from the recent European initiatives, among which is counted the one for developing European macro-regions. This already transposed initiative by means of implementing the European Union Strategy for the Danube Region (EUSDR) along with the one for the Baltic Region, and for the Adriatic and Ionic Basin, poses

several questions, the most important being related to the conditions in which transposition was agreed on, respectively the three “no” associated with the absence of own institutional structures, frameworks and arrangements, no new funding but the one already provided for by European funds, etc., accompanied by the three “yes” which stipulate the necessity of developing and building up these arrangements, including at the institutional level so as to achieve the objectives set by this strategy (European Commission, Committee of the Regions, 2013).

A second example, just as significant, is represented by the presence, or rather absence of institutional innovative approaches, with few exceptions, that meet the current stage of (re)shaping the labour market in the context of new emerging occupational profiles and forms as result of the transition to the knowledge economy characterised by digitalisation, automation and robots (Autor, D. et al. 2013).

Finally, a third argument was expressed in its essence by Acemoglu in his work “Why Nations Fail” as he attempted an explanation for the differences between two regions with the same geographical, climatic, human and material endowments, based on the differences in the historical path and institutional arrangements. Again, this could be regarded as an argument in either supporting or eliminating certain institutions and institutional frameworks/arrangements, including here the European context of the regions of development.

The above examples, including just as many arguments, show that the main institutions on labour market “employment”, “unemployment”, “minimum wage” and “industrial relations” need analysis, monitoring, evaluation and possible adjustments to meet the new realities determined mainly by demographic ageing, job polarisation, and changes occurred also with respect to the expectations of the two essential components of labour market: labour supply and demand.

The present paper intends to analyse, in a brief analysis the main asymmetries and risks in Romania, and to discuss the necessity and/or opportunity of some institutional innovative solutions that would contribute to ensuring sustainability of the European and national, regional and local labour markets.

## **2. Institutions’ impact on employment at EU-28 level**

Institutions and institutional arrangements aiming the labour market have, first of all, a national character at the level of each of the European Union member-states. From this perspective, the first noticeable delimitation is between Old Member-States (OMS), former member-states of convergence and cohesion (FMSCC), and the New Member-States (NMS). This first broad delimitation, once refined leads to distributing these

countries irrespective of their geographical location, and more according to historical and cultural approaches, and as result another grouping may result, which brings closer some of the FMSCC and NMS due to comparable historical paths and share characteristics given by the former, which results also in comparable institutional path dependencies.

The main issues faced by these countries were comparable, related to the inexistence or weak essential infrastructures, centralised or planned economies, including a certain historical period in which these country were under one or the other type of dictatorship (Franco's nationalist, colonels, or communist regime), as these dictatorship periods contributed to distorting institutions, institutional arrangements, both formal and informal, including with respect to their capacity to organise economy and society, and regarding the way they were perceived by the population.

In Romania we encounter many particularities related to institutions, and their impact capacity, from among which we mention succinctly:

- (i) The communist period contributed to institutions' distortion, the labour market was practically inexistent, and "occulting" some of the defining institutions, such as the institution of "unemployment" was daily practice. The institution of unemployment was officially inexistent, and masked under various forms from developing 'patriotic, voluntary' activities which had nothing to do with the object of activity of the enterprises or institutions involved, to the refusal of the graduates to take the workplace attributed to them based on certain criteria, etc.
- (ii) The transition period was marked by two contradictory trends, respectively the plea for gradual and social transition on one hand (see Postolache-Plan), and the initiatives aimed at a swift transition to the market economy. The absence of facilitating arrangements and institutional frameworks, the lack of experience of the decision factors in managing a complex "capitalism-oriented" political, economic and social context and in adapting existing institutions and institutional arrangements of the communist period to meet the demands of the new stage had as immediate effect: the delay of the privatisation process, with "stop and go" bouts, respectively accelerated privatisation process "for one Leu" which all concurred in weakening the economy, failing to encourage autochthonous capital, and extending the period of economic decrease during the entire decade of the nineties, even if some short-lived economic growth periods could be noticed in the mid-nineties.
- (iii) The weakening of the national capacities for constituting the solid autochthonous capital lead implicitly to weakening the national

negotiation power and to increasingly more marked regional discrepancies.

- (iv) The emergence and perpetuation for almost two decades of a ‘grey labour market’, and
- (v) The strengthening of a social assistance system more of the reactive type than proactive regarding measures aimed at the labour force (unemployment assistance, benefits, early retirements, etc.).

This brief enumeration comes again to support the relevance of institutions and of their generated economic and social impact and which ensures either the positive or negative evolution of the economy as a whole, and of the labour market.

The main differentiations become even more visible while comparing the evolutions from the viewpoint of employment and unemployment, the effects and impact of institutions being currently, under the level of expectations, save for few exceptions, from among which we mention Germany and the Netherlands, both in OMS, FMSCC and NMS.

In order to reflect the institutional impact on the evolutions regarding employment and unemployment we selected as examples Germany for the OMS, which is regarded as the ‘engine’ for supporting EU-28 economies during the crisis; Spain and Greece as representatives of the FMSCC, as both countries share common features both regarding the historical and institutional path with the NMS Romania and Bulgaria.

Germany regarded itself as “the sick man of Europe” (Sinn, 2003) before the implementation of the Hartz reforms. The unemployment rate was of 10.5% and the youth unemployment rate was of 9.9%. The Hartz initiative aimed three main institutions of the labour market and were implemented in the context in which Germany shows some particularities against other industrialised countries: first of all, collective negotiations is realised for a share of about 80% of the labour force based on the corporatist mechanisms and by means of the representative industry branches, or at the predetermined sub-national or even regional levels (Tarifbezirke) by the corresponding employers’ and employees’ unions or associations thereof. One obvious outcome is the higher rigidity of wages not encountered in other industrialised and developed states, which again can be translated into 61% of labour contracts negotiated at industry branch level, 28% at firm level, and only 11% at individual level (Burda, 2008). Thus, by implementing the Hartz I and II reforms in January 2003 was facilitated the trend of increasing flexibility, which was noticed already in the nineties and which allowed for compromises such as “wage concessions against job safety” (Dustmann et al. 2014). Another approached initiative, such as the one of “work-time accounts” (Arbeitskonten), implemented since the nineties by which additional working hours could be ‘capitalised’ and used

thereafter as paid vacations, allowed for postponing layoffs during the recession. It results that the initiatives included in Hartz I and II approached, firstly, labour supply and impacted on wage negotiation and contributed to deregulating “mini-jobs” (Hartz I, the reform of the law regarding temporary work forms (Arbeitsnehmerüberlassungsgesetz), while by Hartz II it was aimed to remove the threshold regarding the restrictions and numbers thereof about working hours, thus approaching also the structure of labour demand.

The second type of reforms aimed to modernise employment intermediation agencies and offices by providing for their higher orientation towards service delivery for those seeking a job, while ensuring a certain ‘personalisation’ of delivered services meaning higher pressure of the employment agencies representatives on the unemployed. One of the outcomes with effects still felt today was an increase in the attractiveness of temporary jobs.

The reforms of Hartz I and II contained also innovative elements, and an innovation implemented by Hartz I in 2003 was the initiative “Ich-AG” (I-Inc.) which, even if it failed to deliver the expected outcomes and was repealed in 2006, is a good example of institutional innovation. By means of this initiative, unemployed were encouraged to invest 12 months worth of unemployment benefits into a grant for setting up a business (Burda, 2016).c

Finally, after the slight improvements implemented by Harz III and which strengthened and reorganised the employment agencies, Hartz IV frontally approached by radical initiatives the passive labour market measures, restructuring and reducing them decisively: first, the period of paying unemployment insurance and benefits was cut drastically (Arbeitslosengeld I și II), while unemployment benefits were merged with social assistance benefits and payment conditioned additionally by work requirement for those fit to work (Burda, 2016). Moreover, all the provisions are accompanied by sanctions for those who refuse repeatedly to take the jobs provided for by the employment agencies. Another provision with impact on wages but potentially negative effects on the real wage was the provision of in-work benefits (Aufstocken). However, it should be noticed that these initiatives all dealt with important institutions of the labour market – collective negotiation, employment and unemployment and the social safety net – and represented an innovative exercise, as proven not necessarily by the maintained components up to the year 2015, but by such initiatives like the “Ich-AG” exercise. The Hartz-framework designed and implemented in the period 2003-2005, is followed by the addition, for the first time in the German history, of the Law regarding minimum wage to be enforced as of January 2017. The reference framework for the minimum

wage shall be the tariff wage and this framework shall be subjected to yearly revisions and re-examination by a special commission.

In Greece and Spain, the reforms regarding the labour market had, like in France, a prolonged and difficult development, accompanied by unions' and street protests of the citizens. The explanation which requires further investigation resides, most probably, in the strong fingerprint of the fiscal component in the case of Greece, regarding wage expenditures, unemployment insurances and benefits, pensioning age, etc. The motivation has to do also with the high institutional rigidity, both in the formal and informal sense of these countries, due to the historical path pre- and post-second world war, including here the period of the post-war dictatorships (the Dictatorship of the Colonels, in Greece, the Franco Regime in Spain).

The recession period imposed unprecedented measures in Greece, all under the sign of a medium-term strategy for the period 2013-2016 based on Law 4093/2012 by which is approved the emergency implementation of this strategy and of the measures provided by Law 4046/2012 which amends drastically the retirement conditions, and provides for the diminishment of retirement amounts, of the minimum wage and of the compensation payments. The minimum statutory wage for the employees of the private sector is subject to a new law enforced as of April 2013. Moreover, Law 4152/2013 implemented a new system by which employees may file online all documents regarding labour contracts (new job, concluding, terminating or changing the contract, changes in the working time, vacations, etc.).

In Romania, the laws with impact on labour market still need to be reformed, the general trend being to encourage rather passive measures also for the future, as compared with other EU-28 countries, while the active measures were relatively neglected, including during the period of the recession, this trend continuing also in the post-crisis period.

To summarize, from this brief analysis of the types of intervention in the field of relevant institutions on the labour market, we find that most interventions regarding unemployment insurances and benefits were predominant in the period 2000-2014 in the NMS (39%) and less considered (5%) in the Anglo-Saxon economies (Ireland and the United Kingdom). Regarding the settlement of the levels and/or of the minimum wage again, most reforms were implemented in the NMS (47%) and the fewest (9%) in the same Anglo-Saxon area. Regarding labour market active policies, most measures were implemented for the European Union as a whole as of 2010 (37%) and fewest were addressing the issue of early retirement (2%). Another common feature is that the measures undertaken addressed the entire active age population and were not targeted at specific groups such as those exclusively for youths entering recently the labour market, or for those preparing for the transition from school to work.

In conclusion, the situation in the field of employment for the period preceding the crisis shows increases in employment up to and for the year 2008, when a peak is reached in the employment rate of 65.7% at EU-28(27) level, for individuals with ages between 15 and 64 years of age, according to EU Labour Force Survey. As result of the crisis, a diminishment by 1.6 pp of the employment rate was recorded up to 2010. However, more relevant is the stagnation at the values of 2010 for the period 2010-2013, when the employment rate varied around the value of 2010 for the employment rate 64.1%, and at most 64.2% (Eurostat data).

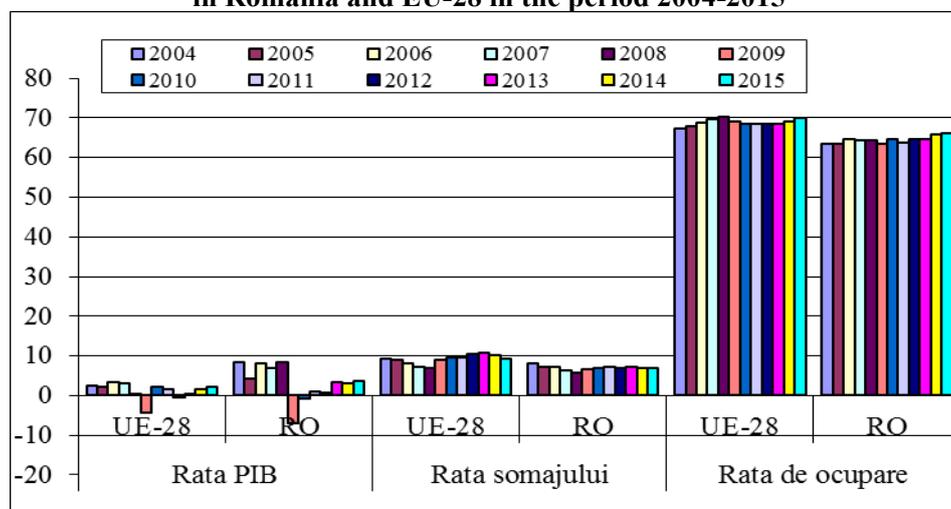
At the same time, the trends regarding unemployment are increasingly more comparable with the gap often invoked about northern, continental, southern and eastern countries of Europe the smallest unemployment rates being registered in Germany (4.5%), Czech R. (5.0%) and Malta (5.1%), and the highest in Greece (25.2% in June 2015) and Spain (22.2%) for the same period (Eurostat data), while in the NMS the highest rates of long-term unemployment were recorded in Croatia, with an unemployment rate of 6% in 2007, before the outbreak of the crisis, and with a rate of 10.1% for the age group 15 to 74 years of age in the year 2014. However, it should be taken into account that, in the case of Croatia, it might be assumed that this unemployment increase might be regarded also as an effect of transition, this country being the newest member of the European Union (EU-28, accession July 2013). Romania succeeded to maintain long-term unemployment at relatively reasonable levels, respectively 3.2% for the age group 15 go 74 years and decreasing to 2.8% in the year 2014, but followed by a 0.2 pp increase to 3.0% in the year 2015 (according to Eurostat statistics).

### **3. Labour market particularities in Romania**

In Romania, the labour market, actually the aggregated expression of regional and local labour markets evolution, is characterised by uncertainty, volatility and extreme situations expressed as “market mismatch”: from the lacking or deficit labour force according to market demanded competences and skills, to increased competitiveness and over-supply of labour force in fields which, eventually, are subjected also to the risks generated by diminishing labour demand, or even to vanishing demand in the next few decades (Osborne and Frey). Examples and situations vary from one region of development to the other, from one city regarded as pole of growth to the other. Moreover, all asymmetries on the Romanian labour market originate in the first decade post-1989 and in the weaknesses or even absence of some well-represented and sound institutions and/or institutional arrangements in the respective period.

Like all other Central and Eastern European countries, the first transition years in Romania were characterised by productivity decline, and the “transition recession”. Unlike the other countries, which began a process of recovery by the end of the nineties, Romania (and Bulgaria) registered delays almost up to the mid-2000. Romania’s recession peak was reached in 1992 when the economic growth decrease was of 25% for the year 1991, followed by a “peak of transition unemployment in the year 1994 (11.4%), and after an uncertain decrease in the period 1995-1997, unemployment increased again and the rates improved only in 2000, when increased attention began to be paid to the private sector, and the taxation and duties’ system were adjusted to the requirements of this sector (Figure 1).

**Fig. 1 Evolution of real GDP growth, of employment and unemployment rates in Romania and EU-28 in the period 2004-2015**



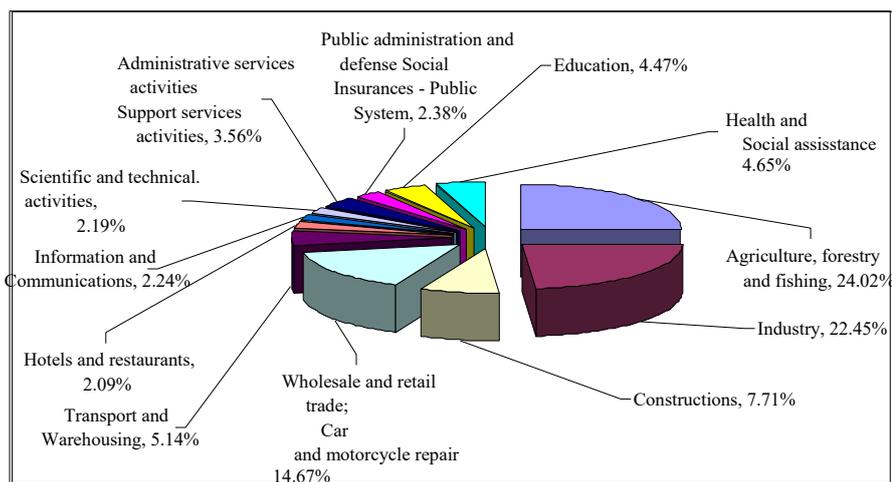
Data source: Eurostat statistics

The years 2000 were characterised as a sustained economic growth period, as the pursued aim was also to fulfil the accession criteria, and the provisions of the Maastricht Treaty. In this pre-accession stage, a year that should be remarked on is 2005, when unemployment stabilised a bit and began varying around and about 5.9%, in order to decrease in the subsequent period to about 4%.

However, for this period, as well as for the post-crisis period there are several elements contributing to asymmetries and considerable disparities on the Romanian labour market. Firstly, the change should be underpinned that occurred within the structure of the national economic activities, including the diminishing weight of industry and the increase in the services’ sector, but also the emergence of a strong migration wave for

jobs. Hence, we might notice that albeit the employment trend of the population on activities of the national economy is circumscribed to the general trend, there are fields where this fact, far from representing an advantage is rather a risk (Figure 2). From this viewpoint, the most concerning are the developments of employment in health, were in the last years after accession a constant and increasing deficit is registered for all levels and workers in the health-system (4.65%).

**Fig. 2 Population distribution on activities of the national economy 2015**



Data source: Tempo-online database – National Institute of Statistics, [www.insse.ro](http://www.insse.ro)

At the same time, this period is the one in which increasingly clearly can be identified the effects of the “trade-off” between economic growth, implicitly productivity, not only for the Central and Eastern-European countries, but also for the former member-states of convergence and cohesion and even for the old member-states (Dew-Becker and Gordon, 2008). This trade-off represented often a loss of jobs because of industrial sectors’ restructuring, but also because of pursuing economic growth by disregarding favourable actions aimed at the labour force.

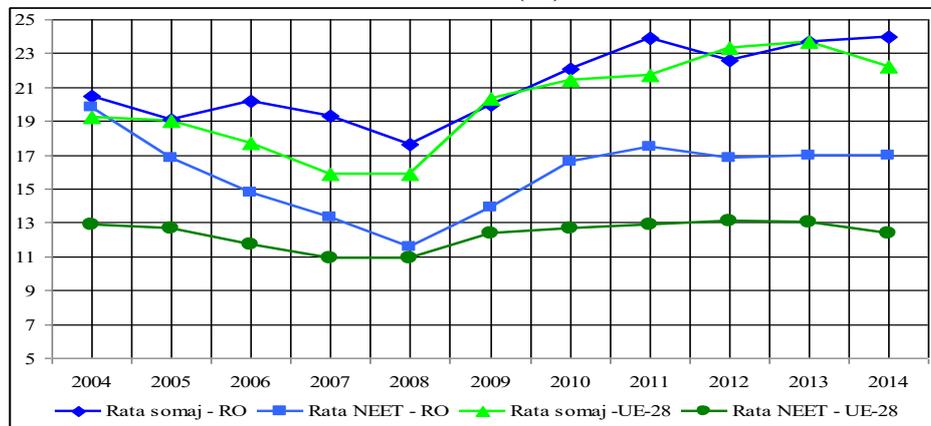
As a whole, from the comparative analysis of the employment rate distribution in Romania and in the EU member-states, in 2012, Romania had an employment rate for the individuals aged between 20 and 64 years of age of 63.8%, at 4.7 pp difference compared with the European average, respectively 68.5%. From among the industrialised countries included in the present paper, the same comparable situation and with relatively similar percentages is remarked also for Bulgaria and Poland, next to Italy, Portugal

and Hungary, while in an even more difficult situation are Greece and Spain.

Hence, three major influences can be deduced which shape a relatively disadvantageous image regarding employment at national level:

a. The influence of the educational and vocational-professional training system which did not succeed as of yet to (re)adjust to the requirements of the market after the turmoil of the nineties, when transition also meant initiating some still unfinished reforms of the system. The impact which was most difficult to absorb on the labour market was the one on the young generations who were faced with most problems. Additionally, the same period contributed to the emergence of a new generations who are now included in the general western trend of the NEET youths (Fig. 3).

**Fig. 3 Evolution of the unemployment rate and NEET rate in EU-28 and Romania (%)**



Data source: Eurostat statistics, (online data code: [une\_rt\_a], [yth\_empl\_160])

b. The influence exercised by the incapacity of the institutional systems to adjust swiftly to the changed national and European conditions on the labour market, especially regarding arrangements about labour contracts, working time, working hours, under the conditions in which part-time, and fractions of time labour contracts become very often, and in particular for OMS and in some FMSCC a viable option in the case of youths for managing, thereafter, the transition towards full-employment.

c. the influence exercised by persistent non-correlations between the actions of the public and private sector in undertaking joint actions for setting the directions and opportunities for employment growth, with particular emphasis on vulnerable individuals in the labour market, among which we find youths, next to representatives of ethnic minorities, and disabled people, while at the opposite pole are elderly on the labour market.

These influences were identified as such and mentioned in the National Strategy of Employment for the period 2014-2020 in accordance with the global objectives on short- and medium-term by which is provided for: ***improving the functioning of labour market*** (a) the reform of legislation in the field of labour relationships and social dialogue as the contained provisions might contribute directly also in attaining the following objectives related to combating undeclared work and extending the period of active life; this emerges as a necessity in the context of demographic ageing in Romania, and as outcome of missing an important segment of the labour force which migrated for work abroad; (b) ***facilitating transitions from unemployment and/or inactivity to employment***: changing the legal framework for stimulating labour force employment, outlining active employment measures, developing the institutional capacities of the Public Employment Office at national, regional and local level.

Both global objectives deal with the necessary reform of institutions and arrangements with impact on the labour market, which draws attention also on their relevance for the economic growth as a whole.

### **Conclusions**

The undertaking of some innovative and sustainable institutional reforms is a necessity as result of concurrent complex demographic, economic and social factors. Any reform or innovative institutional process must begin from the premises regarding the main factors and from the constants and variables included in these factors. The analysis, performance and implementation of innovative processes or of innovations at institutional level must include a detailed analysis of the following factors:

a. ***Demographic factors*** – the analysis must be grounded in the evolution of demographic constants and variables, related to the objectives and projections regarding labour force market. Thus a certainty, and at the same time a constant, included also as EU-28 objective in the Agenda 2020 is reaching a balance between the employment of men and women on the labour market, their share becoming equal or comparable to the one of men in the labour force; the demographic ageing process is amplified by the low birth-rates and even by negative natural growth in some member-states (Romania). The analysis of the means by which the demographic ageing process can be slowed down and attenuated at EU-28 level by corresponding means of economic and social nature, with stronger emphasis on the social component, as well. The institutions with double responsibilities, respectively regarding work regulation and in the social field, need to be reformed and (re)designed so as to support pro-active measures of encouraging the set up of families and higher birth-rates, by

providing solutions for women planning at the same time to satisfy their career and professional progress aspirations.

**b. Economic factors**, by diversifying the partnership forms between the public and the private sector, by developing and encouraging new forms of social economy, increasing the monitoring, evaluation and forecasting degree of the labour force demand for the main economic activities, while realising forecasts on short-, medium- and long-term also regarding the sectors with the highest potential of sustainable development. Increasing the cooperation degree between public and private employers and the education and vocational-professional training institutions, as well as developing programmes of the ‘second chance’-type for the human resources caught in the ‘trap’ between technological progress and technological pressure. This type of ‘trap’ is the one generating what we would call almost radical groupings at the two opposite poles: respectively low incomes and low skills, or high incomes and high-tech/cutting-edge skills. The ways in which this situation might be improved depend directly on institutions with functions and attributions in regulating the labour market regarding: labour contracts and their types, minimum wage and how it impacts on real wages, or how it might act in developed and/or developing economies, working time, integrated service packages, including ‘educational and/or free time packages’ (see the Hartz example), etc. At the same time, is necessary to formulate and draft new solutions, institutional frameworks and arrangements that would contribute to increasing social cohesion, to attenuating negative perceptions regarding migration forms within the EU-28 nowadays: work migration, refugees as result of the geopolitical context, etc., as well as encouraging the development of relationships that would exceed traditional institutional frameworks of intra- and interregional cooperation by promoting innovation opportunities at macro-regional level. The macro-regions represent by themselves an innovation platform as they need to develop own institutional structures based on developed projects, on obtained progresses and outcomes in the incipient implementation stages, and which contribute not only to improving macro-regional projects, but also institutional structures of interest for the European sustainable social and economic development.

**c. Social factors:** social and societal changes operate at the discreet level of the ‘social contract’ that was the backbone for the emergence of institutions since their beginnings. The society as a whole, in its functioning, determines its own institutional norms, and is the one generating the main arrangements at the level of informal institutions (traditions, mentalities, habits, etc.) which, due to the dynamics and gradual accumulations might be absorbed and transposed, at a given time, into formal institutions. It is obvious that the changes within the economy, as outcome of the new type of

economy in full process of development resulting from digitalisation and automation imposes adjustment efforts to the society, and these efforts might include also the generation of new informal institutions, some even with practical applicability for ensuring the coping mechanisms of the society to the shocks received from economy, but also from the geopolitical circumstances. Identifying, monitoring and ‘nudging’ towards the creation of this type of institutions might contribute also to increasing quality of life.

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## **ROMANIA'S CURRENT ACCOUNT DEFICIT IN 2016 ELECTIONYEAR**

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### ***Abstract***

*To correct the serious imbalances accumulated before the crisis from 2010 to 2014 there were a number of tough but necessary reforms that have resulted in today's macroeconomic situation.*

*The macroeconomic situation of the country is likely to weaken again because of legislative initiatives with electoral purposes that started in the middle of 2015. Enforcing them would pose a risk to financial stability or a danger to economic performance. One of the risks that could materialize in this case is the risk of the current account deficit.*

*The evolution of the current account deficit, however, drew attention because of the level reached at the end of last year. The revised data of the National Bank of Romania show a deficit of 2.662 billion euros in the first nine months of 2016.*

*National Commission for Prognosis (CNP) provides data on government bases its budget projections. For 2016 it is estimated a current account deficit of 3.75 billion euros, double the 2015 level.*

***Keywords:*** *risk, debt, trade deficit, current account deficit*

***JEL Classification:*** *H1, H12, H6, H62, H63.*

### **1. Introduction**

The convergence criteria (known as the Maastricht criteria) allow EU member states to enter the third stage of European Economic and Monetary Union (EMU), when they can adopt the euro. Maastricht criteria are considered a necessary precondition, but not sufficient for adopting the euro.

Romania meets all five criteria of the Maastricht: inflation, interest on long-term budget deficit, public debt and exchange rate stability.

Also, Romania along with Rep. Czech and Poland fulfills 13 of the 14 criteria contained in the so-called "Dashboard", it followed by EU. From EU Member States, fewer criteria than Romania are met by Germany, the Netherlands, Austria, Sweden, and Finland.

Romania is developing in an international context, so any improvement in macroeconomic parameters mean more funding but at smaller interests; any decreasing in macroeconomic parameters will cause investors to direct investment in other countries.

## **2. Dynamics of current account**

In 2015, trade flows and external financial developments in Romania have created pressures on financial stability.

The evolution of the current account deficit, however, drew attention because of the level reached at the end of last year. Improving export competitiveness of domestic and capacity in the medium and long Romanian companies to export, including through energy efficiency (which remains below the European average) remain important targets for keeping the external deficit at a manageable level and ensuring that the development durable.

The dynamics of the current account deficit of Romania in the period 2010-2020 is presented in annex 1 and 2.

As can be seen from the data presented in the two annexes in the analyzed period the current account deficit of Romania permanently displayed an upward trend except 2013-2015. For this period there will be a deeper analysis of official statistics published by National Commission for Prognosis (CNP).

In 2015, the current account deficit of the balance of payments was 1 944 million, representing 1.2 percent of GDP, compared to 0.7 percent of GDP last year.

The evolution of the current account in 2014 was favorably influenced by the 24.8% increase in services surplus and deficit reduction by 34.8% of primary income.

The current account deficit in 2015 was influenced by an increase of 84.3% and primary income deficit increased by 19.2% percent of the goods deficit. These were partially offset by higher income balance surplus by 65.8% secondary and net service revenue increased by 15.8%.

The trade balance deficit recorded in the period 2014-2015 increased by 20.1% and 6.6% compared to 2013 and 2014 to 6537 million euros and 7.795 billion euros. Exports rose by 6.7% and imports by 8.2%, the trade balance deficit to GDP remained unchanged at 4.4% for 2014.

In 2015, exports and imports increased by 6.7% and the trade balance deficit ratio to GDP remained unchanged 4.7%. The structure of the balance trade balance by groups of goods reveals deficits: chemicals, plastics, mineral products, base metals, textiles, footwear. The trade balance deficit was generated entirely by intra while the relationship with the markets outside its registered a surplus.

The coverage of imports by exports in the period 2014-2015 was 87.7% and the openness of the economy declined from 74.8% in 2013 to 63.84% in 2015.

Exports of goods in the years 2014-2015 amounted to 46 814 million, 49 909 million, up 6.7%, respectively 2935 million and 3.095 billion euros, amid strengthening external demand the European Union.

Compared to the years 2013-2014, the structure by groups of goods exported goods reflects increasing share of exports of machinery, equipment and means of transport of agricultural products and other goods.

Imports of goods in the period 2014-2015, totaled 53 351 million, EUR 56.894 billion increasing by 8.2% compared to 2013 and 6.6% compared to 2014. Increase in import value was 4029 million, respectively 3543 million. Structure of imports by commodity groups reflects the increased share of imports of base metals and the textile, clothing, footwear.

The surplus of the services balance in 2014 totaled 5868 million euros compared to 4700 million in 2013, following positions recorded increases: processing services, property owned by third parties, transport of goods (mainly cars), computer services and information, professional and managerial advisory services, civil engineering services.

In 2015 the surplus of the services balance amounted to 6796 million compared with 5868 million in 2014, strengthening it from increasing proceeds from: Road transport of goods, services, processing services assets owned by third parties, services.

Primary income deficit in 2014 totaled 2029 million euros, 34.8% higher value compared to 2013, mainly due to lower other investment income deficit, easing of interest payments on foreign loans and the increase in value European funds received in grants (European Agricultural Guarantee Fund).

2015 primary income deficit widened to 3739 million euros, 84.3% higher value compared to 2014 mainly due to income from direct investment and portfolio.

Secondary income account surplus in 2014 totaled 1685 million euros, down 37.3%, mainly due to lower volume of inflows of EU funds in the form of current transfers (in particular the European Social Fund ).

2015 secondary income balance surplus totaled 2793 million euros, up 65.8%, mainly due to a higher volume of inflows of EU funds such as current transfers (European Social Fund, the European Agriculture and Rural Development)

### 3. Risk of current account deficit of romania

The current account deficit of the balance of pay after an attenuation in the second quarter increased in the first nine months of 2016, (table 1) recording a deficit - an increase of two and a half times to 2.661 billion euros compared with a deficit of 1.099 billion of euros in the same period of 2015. This deficit increased mainly due to the deteriorating trade balance and strong growth in remittances by foreign investors, repatriation of dividends by foreign companies, according to BNR data.

Contrary to expectations, this deficit was recorded amid an economic advance accelerated to 4.3 percentage points in the first quarter and by 6 percentage points in the second quarter. The current account of balance of payments records the amounts received and the amounts paid by Romania in international economic relations with the other states. External component based heavily deficient contribute to increasing current account deficit.

Although the first three quarters of this year has seen a significant increase in GDP, given the significant increase of income, the deficit in trade in goods got wider from about 5 billion euros to 6.4 billion euros for the same period of year 2015.

Increasing current account deficit was due to trade in goods (88% of the increase in the deficit), the domestic industry is not able to take fast enough additional demand from the population, and not having external demand which offset the overall balance of goods.

Data published official statistics (annex 3) show that the balance of goods, as a part of the current account balance of payments deficit has increased this year to 6.93 billion euros. The trade deficit (calculated FOB / CIF) in the first nine months of this year was 25.1 percentage points higher compared to the same period of 2015.

The trade deficit (calculated FOF / FOB) in the first nine months of this year was 27.2 percentage points higher compared to the same period of 2015, reaching 6.4 billion euros. The difference between the two trade deficits as a way computing is mainly transportation cost.

**Table 1. Current account balance of pay**

Components	2015 (January to September) *			2016 (January to September) *		
	Credit	Flow	Hip	Credit	Flow	Hip
<b>1. CURRENT ACCOUNT</b>	55 162	56 262	<b>1099</b>	57 971	60 632	<b>2662</b>
<b>A. Bunuri and services</b>	49 068	49 081	<b>-11</b>	51 758	52 498	<b>-740</b>
<b>A.1. Goods</b>	36 879	41912	<b>5031</b>	38 736	45137	<b>6400</b>
<b>A.2. Servicii</b>	12 189	7168	<b>5021</b>	13 023	7366	<b>5659</b>

Processing services for goods owned by third parties	1864	124	<b>1741</b>	1924	145	<b>1778</b>
Transport services	3843	1336	<b>2508</b>	4039	1359	<b>2679</b>
Tourism / Travel	1158	1402	<b>-243</b>	1193	1440	<b>-246</b>
Other services	5323	4307	<b>1016</b>	5867	4420	<b>1447</b>
<b>B. Revenue primary</b>	2101	5059	<b>2957</b>	2194	5993	<b>3802</b>
<b>C. Secondary Income</b>	3992	2124	<b>1870</b>	4019	2141	<b>1880</b>

Note: According to the Handbook balance of payments and international investment position IMF-sixth edition (BPM6)

Data Source: National Institute of Statistics - International trade in goods; NBR calculations.

Imports FOB are calculated by the NBR based on coefficient CIF / FOB conversion of 1.0430 set by the NIS. 89

Reducing the deficit in the services balance was due to the increase by 13 percentage points from last year thus adjusting the deficit by 5.66 billion euros. The surplus recorded balance of services reached 5.66 billion increasing by 12.7 percentage points compared to the same period January-September 2015. The positive balance of services started to not cope with the negative of hip segment assets.

Primary income balance recorded a deficit of 28.5 percentage points more than in January-September 2015. This balance includes mainly dividends repatriated by investors and in the first nine months, a deficit of 3.8 billion euros of which 1 only billion in September.

Primary income deficit of 3801 million euros has increased because of its growth by 30 percentage points on primary income segment, mainly on account of direct investment income, portfolio recover money that is brought into the country in the form of profits transferred abroad -54 % of growth deficit (sum of 88% of trade in goods and 54% was mitigated by the positive impact of 41% service).

Secondary income balance recorded a surplus of 0.6 percentage points higher in the period January-September 2015 reached 1.88 billion euro. This balance also includes European funds received by Romania.

According to data published by official statistics, the current account deficit of the balance of payments kept growing trend in 2016. If in 2015 Romania's external deficit increased 2.5 times compared to 2014 reaching 1.83 billion euros in 2016 this increase - 2.5 times - has already been registered in the first nine months.

Growth was forced sore domestic consumption and an increase in imports. Current account share in GDP was recorded by official estimates already after the first three quarters.

The revised data of the National Bank of Romania show a deficit of 1.1 billion euros and 2.662 billion euros in the first nine months of 2015, and 2016.

### Conclusions

National Commission for Prognosis (CNP) provides data on government bases its budget projections. For 2016 it is estimated a current account deficit of 3.75 billion euros, double the level of 2015.

The central bank's financial stability reports contain a full analysis and risks that could severely damage the economic macro stability, financial stability.

To correct the serious imbalances accumulated before the crisis in the years 2010-2014 were taken a number of tough but necessary reforms that have resulted in today's macroeconomic situation. If the lessons of the crisis are ignored, forgotten all that has been achieved with so much effort, sacrifice will be lost, will be canceled. The macroeconomic situation of the country is likely to weaken again because of legislative initiatives with electoral purposes started in mid-2015.

Intensifying populist legislative initiatives on the line from the middle of last year until now, pose a risk to financial stability or a danger to economic performance. One of the risks that could materialize in this case is the risk of the current account deficit.

Romania is developing in an international context, so any improvement in macroeconomic parameters mean more funding and less expensive abundance and their deterioration will cause investors to direct investment in other countries.

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**Annex 1. Macroeconomic indicators 2010 - 2014**

<b>MACROECONOMIC INDICATORS 2010 - 2014 CURRENT ACCOUNT BALANCE OF PAYMENTS</b>					
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Current account</b>	<b>-5492</b>	<b>-5923</b>	<b>-5843</b>	<b>-1168</b>	<b>-1013</b>
Receipts	50 903	59 534	60659	65 158	68 768
Payment	56 395	65 457	66502	66 326	69 781
<b>1. The balance of goods and services</b>	<b>-7170</b>	<b>-7054</b>	<b>-6249</b>	<b>-743</b>	<b>-669</b>
Export	43 982	52 545	53 472	57 306	61 916
Import	51 152	59 599	59 721	58 049	62 585
<b>1.1 Trade Balance</b>	<b>-7575</b>	<b>-7394</b>	<b>-7379</b>	<b>-5443</b>	<b>-6537</b>
Export	37360	45 292	45070	43 879	46 814
Import	44 935	52 686	52449	49 322	53 351
<b>1.2 Balance of services</b>	<b>405</b>	<b>340</b>	<b>1129</b>	<b>4700</b>	<b>5868</b>
Export	6622	7253	8402	13427	15102
Import	6217	6913	7273	8727	9234
<b>2. Balance of primary income</b>	<b>-1916</b>	<b>-2207</b>	<b>-3025</b>	<b>-3112</b>	<b>-2029</b>
Export	923	1274	1380	2505	2300
Import	2839	3481	4405	5617	4329
<b>3. Secondary income balance</b>	<b>3594</b>	<b>3338</b>	<b>3431</b>	<b>2687</b>	<b>1685</b>
Receipts	5998	5715	5807	5347	4552
Payment	2404	2377	2376	2660	2867
<b>Current account / GDP%</b>	<b>-3.86</b>	<b>-4.41</b>	<b>-4.47</b>	<b>-0.94</b>	<b>-0.68</b>
<b>GDP billion. lei</b>	<b>637 456</b>	<b>595 367</b>	<b>565 097</b>	<b>533 881</b>	<b>667 577</b>
GDP billion. euro	142,140	134,434	130,819	124,599	148,943
course lei / euro	4.4847	4.4287	4.3197	4.2848	4.4821
<b>openness of ec.</b>	<b>57.90</b>	<b>72.88</b>	<b>74.55</b>	<b>74.80</b>	<b>67.25</b>

Note: National Commission for Prognosis, "Projection of main macroeconomic indicators for the period 2010-2014"

**Annex 2. Projection main macroeconomic indicators 2015 - 2020**

<b>PROJECTION MAIN MACROECONOMIC INDICATORS 2015 – 2020 CURRENT ACCOUNT BALANCE OF PAYMENTS</b>						
	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
<b>Current account</b>	<b>-1945</b>	<b>-3755</b>	<b>-4045</b>	<b>-4370</b>	<b>-4530</b>	<b>-4650</b>
Receipts	73 795	76120	81 185	86505	92 455	98 950
Payment	75 740	79 875	85230	90 875	96 985	103600
<b>1. The balance of goods and services</b>	<b>-999</b>	<b>-2080</b>	<b>-2670</b>	<b>-3280</b>	<b>-3565</b>	<b>-3680</b>
Export	65742	68 520	72 920	77 770	83 380	89 450
Import	66 741	70600	75 590	81050	86 945	93 130
<b>1.1 Trade Balance</b>	<b>-7795</b>	<b>-9380</b>	<b>-10 950</b>	<b>-12 630</b>	<b>-14 150</b>	<b>-15 570</b>
Export	49 099	51520	54600	58 050	62100	66550
Import	56 894	60900	65 550	70 680	76 250	82120
<b>1.2 Balance of services</b>	<b>6796</b>	<b>7300</b>	<b>8280</b>	<b>9350</b>	<b>10585</b>	<b>11890</b>
Export	16 643	17000	18320	19720	21280	22900
Import	9847	9700	10040	10370	10695	11010
<b>2. Balance of primary income</b>	<b>-3739</b>	<b>-4575</b>	<b>-4250</b>	<b>-4200</b>	<b>-4200</b>	<b>-4410</b>
Export	2353	2000	2250	2400	2500	2690
Import	6092	6575	6500	6600	6700	7100
<b>3. Secondary income balance</b>	<b>2793</b>	<b>2900</b>	<b>2875</b>	<b>3110</b>	<b>3235</b>	<b>3440</b>
Receipts	5700	5600	6015	6335	6575	6810
Payment	2907	2700	3140	3225	3340	3370
<b>Current account / GDP%</b>	<b>-1.23</b>	<b>-2.24</b>	<b>-2.24</b>	<b>-2.27</b>	<b>-2.21</b>	<b>-2.15</b>
<b>GDP billion. lei</b>	<b>712 800</b>	<b>758 500</b>	<b>807 400</b>	<b>861 600</b>	<b>916 600</b>	<b>977 200</b>
GDP billion. euro	157,543	167,303	180,659	192,588	204,717	216,602
course lei / euro	4.5245	4.5337	4.4692	4.4738	4.4774	4.5115
<b>openness to ec.</b>	<b>67.28</b>	<b>67.20</b>	<b>66.51</b>	<b>66.84</b>	<b>67.58</b>	<b>68.64</b>

Note: National Commission for Prognosis, "Projection of main macroeconomic indicators for the period 2016-2020

According NCP – november 2016

**Annex 3.Current account balance of payments**

Components	2015 (January to September) *			2016 (January to September) *		
	Credit	Flow	Hip	Credit	Flow	Hip
<b>1. CURRENT ACCOUNT</b>	55 162	56 262	<b>1099</b>	57 971	60 632	<b>2662</b>
<b>A.Bunuri and services</b>	49 068	49 081	<b>-11</b>	51 758	52 498	<b>-740</b>
<b>A.1. Goods</b>	36 879	41 912	<b>5031</b>	38 736	45 137	<b>6400</b>
package freight	36 858	41 912	<b>5048</b>	38 741	45 137	<b>6393</b>
Merchanting - net export	20	-	<b>20</b>	-6	-	<b>-6</b>
Merchanting - goods purchased	-154	-	<b>-154</b>	-197	-	<b>-197</b>
Merchanting - goods sold	175	-	<b>175</b>	193	-	<b>193</b>
<b>A.2.Servicii</b>	12 189	7168	<b>5021</b>	13 023	7366	<b>5659</b>
Processing services for goods owned by third parties	1864	124	<b>1741</b>	1924	145	<b>1778</b>
Transport services	3843	1336	<b>2508</b>	4039	1359	<b>2679</b>
Tourism / Travel	1158	1402	<b>-243</b>	1193	1440	<b>-246</b>
Construction services	274	85	<b>186</b>	293	75	<b>219</b>
Insurance and pension funds	59	174	<b>-112</b>	52	173	<b>-122</b>
Financial services	180	199	<b>-21</b>	167	194	<b>-25</b>
Fees for use of intellectual property	58	522	<b>-468</b>	50	565	<b>-515</b>
Telecommunications, computer and information	1938	853	<b>1083</b>	2259	900	<b>1357</b>
Other business services	2495	2127	<b>369</b>	2717	2205	<b>513</b>
Personal, cultural and recreational	57	37	<b>20</b>	55	45	<b>11</b>
Goods and government services, nec	61	77	<b>-17</b>	58	84	<b>-25</b>
<b>B. Revenue primary</b>	2101	5059	<b>2957</b>	2194	5993	<b>3802</b>
Compensation of employees	444	30	<b>412</b>	513	45	<b>469</b>
Investment income	236	4930	<b>4694</b>	417	5789	<b>5376</b>
Direct investment income	-25	3248	<b>3271</b>	52	4152	<b>4098</b>
Portfolio investment income	81	781	<b>-697</b>	109	884	<b>-774</b>
Income from other investments	41	902	<b>-860</b>	31	756	<b>-725</b>
Income from reserve assets	135	-	<b>135</b>	223	-	<b>223</b>
Other primary income	1421	98	<b>1325</b>	1262	158	<b>1104</b>
<b>C. Secondary Income</b>	3992	2124	<b>1870</b>	4019	2141	<b>1880</b>
Public administration	1178	1259	<b>-83</b>	1442	1147	<b>296</b>
other sectors	2815	864	<b>1950</b>	2579	992	<b>1586</b>

**Note:** According to the Handbook balance of payments and international investment position IMF-sixth edition (BPM6)

**MANAGEMENT PROCESS OF SENSITIVE FUNCTIONS BY  
COMPONENT OF INTERNAL CONTROL MANAGEMENT IN  
PUBLIC INSTITUTIONS**

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***Abstract:***

*Secretary General of the Government Order No. 400/2015 of 16 standards cover all internal control management.*

*Managerial internal control standards define minimum rules management, which all public entities must follow.*

*The objective is to create a standard internal control management model uniform and consistent. At the same time, standards constitute a reference system relative they evaluate internal control systems, identify areas and directions change.*

*Standard - "Duties, functions, tasks" in Section (key - element) "control environment" (contains issues of organization, management human resources, ethics, ethics and integrity).*

*In describing the standard public entity management provides document preparation and updating of the mission to the public entity, internal regulations and job descriptions, which communicates to employees.*

*The general requirements of (determining directions in which you have acted to implement the standard) is precizeza that:*

- ✓ *sensitive functions and those considered to be at, especially, corruption can be attached to all activities concerning the management of human, financial and informational;*
- ✓ *management of the entity identifies the inventory of sensitive functions on the list of sensitive and employees who occupy these sensitive functions. If it decides to declare the existence of sensitive will develop a plan for staff rotation at intervals, usually at least 5 years. In the situation where the public entity decides not to declare certain sensitive functions, then, necessarily, implement control activities further or other measures flow that process so that the process of risk management effects on activities undertaken at the establishment be minimal.*

*Standard - "Duties, functions, tasks" raised a number of concerns in the public and thus tackles a new aspect of the regulatory framework in internal control management by detailing the duties and responsibilities of public entities in the implementation of this standard.*

**Keywords:** *internal control management, internal control system management, internal control standards management, sensitive functions, ethics and integrity, tasks, responsibilities*

**Clasificare JEL:** *H83*

### **1. General comments on the purpose and definition of managerial internal control standards**

Managerial internal control standards define minimum management rules that all public entities must follow.

Control Standards aim is to create a model of uniform and coherent internal control management, enabling comparisons between entities of the same kind or the same entity at different times, and make it possible to highlight the results of the entity and its evolution. Standards are a reference system relative to assessing internal control systems management, identify areas and directions of change.

Establish managerial system of internal control is the responsibility of each public entity and management must be based on internal control standards promoted by SGG under the law.

As their general wording was necessary to enable all drivers to apply, despite the significant differences between the various public entities. Internal control management systems should be developed taking into account the specific legal, organizational, personnel, funding etc. of each public entity basis.

The standards are grouped under the five key elements of internal control management:

- control environment. It groups the problems of organization, human resource management, ethics, ethics and integrity;
- performance and risk management. This key concerns management issues related to setting objectives, planning (annual planning), software (management plan) and performance (performance monitoring);
- control activities. Grouped standards in this key internal control management focuses on: documentation of procedures; continuity of operations; Recording exceptions (deviations from the procedures); separation of powers; supervision etc .;
- information and communication. In this section are grouped issues related to creating an adequate information system and a system of reports on implementation of the management plan, budget, resource use, and management of documents;
- evaluation and audit. The issues covered by this group of standards for the development of evaluation capacity of the internal control management in order to ensure continuity of the process to improve it.

Each standard control is divided into three components:

- Standard description - presents the defining features of domain management referred standard, the secured by its title;
- General requirements - has to be driven in determining directions in order to meet the standard;
- Main references - lists representative normative acts, which include regulations applicable standard, but not exhaustive.

List of internal control standards managerial public entities, includes:

a) Control environment:

- Standard 1 - Ethics and integrity
- Standard 2 - Powers, functions, tasks
- Standard 3 - Competence, performance

- Standard 4 – Structure
- b) Performance and risk management:
  - Standard 5 - Objectives
  - Standard 6 - Planning
  - Standard 7 - Monitoring performance
  - Standard 8 - Risk Management
- c) Control activities:
  - Standard 9 - Procedures
  - Standard 10 - Supervision
  - Standard 11 - Business Continuity
- d) Information and communication:
  - Standard 12 - Information and communication
  - Standard 13 - Document management
  - Standard 14 - accounting and financial reporting
- e) Evaluation and audit:
  - Standard 15 - Assessment of Internal Control Management
  - Standard 16 - Internal Audit

## **2. Content standard - "Duties, functions, tasks"**

### **● General requirements**

This component of the Standard 2 "Duties, functions, tasks" set the directions decisive action must be taken in order of application. Thus, the institution must ensure an appropriate level of professional and personal integrity of employees who are aware of the importance of the work they perform.

At the level of public entities are prepared: inventory of sensitive, list of employees that fill sensitive plan to ensure rotation of employees in sensitive positions, so if control measures are effective and are updated annually, an employee to act in such a depending on more than 5 years. Otherwise apply the rotation.

Reflected in the inventory of sensitive are usually those positions that present significant risk in relation to obiectivele. Rotația staff is done with minimal effect on the public entity's operations and employees. This measure is proposed only if necessary. The measure also applies separation of duties to prevent an employee to undergo significant risks to integrity. Avoid enforcement, exclusively individually to determine significant risk to operations integrity. Acting as a team, it avoids the risk of integrity through error, fraud, violation of laws and the risk of being unable to detect these problems.

Using risk factors identified in public institutions, are the functions that should be regarded as sensitive. Obviously, the more they appear more

risk factors related to a particular function, the higher the risk for the integrity and takes several measures to reduce identified risks. Each institution, depending on the circumstances specific risks. In general, the risk factors that need attention are:

- a) access to the material, financial and informational, without holding an authorization document;
- b) activities to be exercised under conditions of monopoly, exclusive or special rights;
- c) the delegation of powers;
- d) evaluation and counseling, which can involve serious consequences;
- e) procurement of goods / services / works, by evading legal regulations;
- f) failure or improper performance of workload duties;
- g) work directly related to citizens, politicians or third legal entities;
- h) the exclusive decision-making functions competently.

Depending on the nature and the estimated size of the identified risks associated functions sensitive, may apply other measures of internal control, specific standards 1 "ethics and integrity" Standard 11 - "Going Concern" Standard 12 - "Information and communication".

Rules of organization and functioning of the public entity includes full duties in a manner entity resulting from the enactment of organization and operation, as well as other laws and regulations; it is communicated to employees and published on the website of the public entity.

Each employee must know the mission entrusted entity, objectives and tasks of the department of public entity and part of its role in the compartment, set the job description and job objectives they occupy.

Leaders compartments public entity required to prepare and update, whenever appropriate job descriptions for their staff.

Tasks must be clearly formulated and closely related with job objectives, so as to achieve full compliance tasks between content and content objectives station.

Leaders compartments public entity must identify new and difficult tasks incumbent employees and assist them in achieving them.

Public entity management identify their sensitive functions and features deemed to be, especially on political corruption and establish an appropriate management personnel who fill those positions.

Sensitive functions and those considered to be at, especially, corruption can be attached to all activities concerning the management of human, financial and informational.

The management entity identifies the inventory of sensitive functions on the list of sensitive and employees who occupy these sensitive functions. If it decides to declare the existence of sensitive will develop a plan for staff rotation at intervals, usually at least 5 years. In the situation where the public entity decides not to declare certain sensitive functions, then, necessarily, implement control activities further or other measures flow that process so that the process of risk management effects on activities undertaken at the establishment be minimal.

**• Standard application - Duties, functions, tasks**

Entity level can be applied to a formalized procedure on the management of sensitive and considered especially vulnerable to corruption. In this regard, the risks associated functions belong, usually, but not exclusively, in the following fields and areas of risk:

- a. access to confidential / classified
- b. conducting public procurement of goods / services / works;
- c. management of resources is often, external funds, programs or projects;
- d. activities of recruitment and selection of personnel;
- e. the finding of compliance with legal standards;
- f. the sole decision-making authority;
- g. impact of major decisions / actions or inaction;
- h. activity is exercised under conditions of monopoly, exclusive or special rights;
- i. assessment and counseling (with major consequences in relation to the objectives structure);
- j. guaranteeing the rights / powers (staff or citizens);
- k. held position of supervisor of a sensitive functions
- l. activities with direct impact on service beneficiaries, citizens and economic operators.

In order to inventory and management of sensitive and considered especially vulnerable to corruption through public entity, generally the following steps:

- a. convening of the Monitoring Committee in identifying, ordering, classification and revaluation of sensitive and considered especially vulnerable to corruption;
- b. preparing the inventory of sensitive and considered especially vulnerable to corruption, according formalized procedure on the management function;
- c. List for employees that fill sensitive positions and those considered especially vulnerable to corruption;
- d. Development Plan to ensure risk reduction associated sensitive positions and those considered especially vulnerable to corruption.

The steps mentioned on the management of sensitive requires constant updating, depending on changing organizational structure, personnel policy, security policy and an annual review of sensitive positions.

Standard 2 included in the Self- Assessment Questionnaire refers to the definition of sensitive and considered especially vulnerable to corruption, which are the functions with a significant risk to the objectives of the public entity, we believe that there is a public entity to declare lack these features, supported by the National Anticorruption strategy.

Thus, on the approach of answers to question 2 and 3 related to self assessment questionnaire Standard 2, each compartment of the organizational structure identifies its sensitive functions and / or those considered especially vulnerable to corruption, taking into account the areas of activity and previously the named risk areas.

#### **• Implementation of sensitive functions**

Trying to respond to practical requirements, the present disclosure provides the opportunity entities effectively tackle the subject of sensitive positions. Being designed for general use, it has the character of uniform and practical instruction, related to the identification, establishment and management of sensitive and assigning responsibilities associated with them, thus contributing to the improvement of monitoring and control. In

short, this material is a support tool in the effort sensitive managerial management functions.

For each function sensitive, it requires a specific approach (own code of conduct / manual) which provides a method executable and safe, including working procedures that reduce risks and contribute to improve operational procedures or system and, ultimately, to fulfillment by persons in office, work tasks they have been assigned.

The aim is to ensure standard 2 as a prevention tool, a clear understanding, structured, transparent privacy and sensitive positions and reduce possible risks associated. In practice, it is recommended to include the contents and principles of the standard 2 in a concise guidebook, which should lead to:

- a) possibility of agreement structured, transparent, sensitive functions;
- b) clarity about who is responsible for what, about relevant policy, implementation and monitoring;
- c) practical instructions relating to the identification, organization and management and assigning responsibilities associated sensitive positions;
- d) clarity about security investigation (sponsor, investigator etc.);
- e) the procedure for establishing (and approval) of sensitive positions;
- f) ability to customize specific situations (with a statement compliance or explanation);
- g) a format for a "Record of sensitive positions" and a format for the plane of rotation, every 5 years;
- h) procedures for compulsory insurance of secret documents.

Depending on the organizational structure, a specific approach produces the best and tangible short-term results. Regarding the sensitive functions they going to examine the activities generating significant risks and vulnerabilities organizational and represents, above all, an investigative detention. Its purpose is to identify potential vulnerabilities in the organization and reduce future vulnerability, through various measures. It gives also the coordinator integrity, providing valuable assistance and useful by carrying out these tasks.

Moreover, such an approach offers the opportunity to remove any assumptions unreasonably in relation to that topic, and provide clarity and transparency related to the relevant responsibilities and duties of the authorizing officer.

### **3. Interpretation of sensitive by standard - Ethics and integrity**

Ethics, integrity and sensitive functions are interdependent and closely related topics. Governmental institutions, for example, issue licenses, collect fees, grant exemptions, oversee the rules and apply penalties or fines, if necessary. In general, this means that the manager and employees must have an appropriate degree of personal integrity and professional and be aware of the importance of the work they perform, regarding compliance with laws, regulations, rules and specific policies and respect the confidentiality of information. This would help to protect the public interest at large, but also risks, whose materialization would cause damage that can be made including national security.

It should be noted that the standard 1 " Ethics, integrity, " states that the public entity provides the necessary conditions for employees to know the regulations governing their behavior, prevention and reporting of fraud and irregularities. Ethical values are part of the organizational culture of the public institution. The public should have a formal code of conduct, written, to be a means of communicating ethical values uniformly to all employees. Component 1.2 "General requirements" This standard sets out the directions decisive action must be taken, for the purposes thereof, in relation to employees' personal and professional integrity. In addition, Strand 1.3 'gold standard' includes normative acts representative, containing provisions applicable subdomain management identified by the title of the standard, mainly those relating to: the regulations and code of conduct for civil servants, declaration and control of assets, ensure transparency in the exercise dignities and public functions, preventing, discovering and sanctioning corruption.

#### **4. Weaknesses / priorities of strategic intervention in the management of sensitive function**

Mutual evaluations made between public institutions have identified weaknesses that can represent milestones for the coming years, as follows:

- institutionalization response to similar incidents integrity management failure;
- need to strengthen prevention structures in the public institutions, as well as the internal control and audit, risk analysis along with specialized institutions;
- anti-corruption education is a major priority. There is a significant shortage of knowledge by employees and managers to the legal standards of integrity (protection of whistleblowers in the public interest, ethical advice, management of sensitive functions);
- claims management proceeds of crime, especially during the administration of seized assets and recovery of the seized;
- prevention of corruption in the political and identify outstanding formula transposition measures;
- intensify efforts to strengthen integrity in business, including public enterprises, especially by: implementing a plan of integrity, development and application of the code of ethics of the company, establishing mechanisms to protect whistleblowers in the public interest, preventive measures for functions sensitive and mechanisms for handling incidents of integrity;

#### **Conclusions**

Starting from the definition of sensitive, are those functions with a significant risk to the objectives of the public entity, it is considered that there is no public entity stating that lack of features, hypothesis supported by the National Anticorruption Strategy.

The management of sensitive approaches require constant updating, depending on changing organizational structure, personnel policy, security policy and an annual review of sensitive functions.

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1. Legea nr. 174/2015 pentru aprobarea Ordonanței de urgență a Guvernului nr. 86/2014 privind stabilirea unor măsuri de reorganizare la nivelul administrației publice centrale și pentru modificarea și completarea unor acte normative.
2. Ordinul secretarului general al Guvernului nr. 400/2015 pentru aprobarea Codului controlului intern managerial al entităților publice, modificat și completat.
3. Hotărâre nr. 583 din 10 august 2016 privind aprobarea Strategiei naționale anticorupție pe perioada 2016-2020, a seturilor de indicatori de performanță, a riscurilor asociate obiectivelor și măsurilor din strategie și a surselor de verificare, a inventarului măsurilor de transparență instituțională și de prevenire a corupției, a indicatorilor de evaluare, precum și a standardelor de publicare a informațiilor de interes public

## **DEMOGRAPHIC TRENDS – FACETES OF ROMANIAN MIGRATION**

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### ***Abstract***

*Since 1990 Romania has been confronted with the phenomenon of international migration, an aspect which has been debated lately by Romanian specialists in population issues, particularly due to its intensity, the european demographic context where it is manifesting, but also due to the emphasized demographic decline of the country. Although migration as a form of spatial mobility of people and labor remains a relatively complex multifactorial process, it is not in itself a novelty of the end and the beginning of the millennium. As a phenomenon, migration can be considered from the first moments of the men's existence on Earth. There were only the forms of manifestations, destinations, the movement of the the migration borders'centers that that suffered disruptions. There are transformations that are otherwise related to a number of favoring stimulus-factors of flows and migratory routes. From this perspective, how can we interpret the intensity of international migration from Romania? Are we on the edge of a demographic abyss as many specialists have not refrained to say? Or can we simply interpret the phenomenon in a context of a contextual-structural normality, specific to the Romanian society at the moment, temporarily boosted by a number of factors to which it is bound in some way to react? If so, which are these factors? What are the facets of Romanian migration and how they influence future demographic developments? This article comes with an answer that does not claim compliance with the principle of exhaustiveness. It seeks only to deliver a few pieces of a puzzle in progress. We can name them moving radiographs that probe a possible complementary support for the construction of a solid explanation.*

**Key-words:** *demographic decline, population dynamics, migration, immigration, demographic aging, space mobility, remission, static population.*

**JEL Classification:** *J1, J10*

### 1. Some aspects of a conceptual - contextual nature

When a population is pictured by considering the static distribution of variables that define the demographic structure (number, density and structure at a time), that description (snapshots) can be found in the specialty literature as the population's statics.<sup>1</sup> When on the contrary, it is proposed a presentation of the population in motion, where the variation in the two specific components: the external migration (immigration versus emigration) and population reproduction (birth vs mortality) have a decisive role, we are facing a description that is called population's dynamics.<sup>2</sup> Both vehicles bring a wealth of analytical information, necessary to the demographic projections of populations. This article is focused on the second form of description, with a particular focus on international migration (external). Există un avantaj mai larg prin care este definită migrația. There is a wide range of definitions regarding migration. Customizing on international migration, if the displacement of people (emigrants) beyond the state's borders (leaving home state) is known as a process of emigration, the entry of the persons concerned (immigrants) within the borders of another state is called the process of immigration.<sup>3</sup> It should be stressed in this context that both the country of origin (where the emergence of some stimuli is crucial) and the country of destination (where the existence of attraction factors is major) influence through the correlation of several factors (political, social, and economic) the phenomenon of international migration.<sup>4</sup> Perhaps, not coincidentally, for example, in the case of the refugee crisis in Europe, the confidence in the economic prosperity of the most developed EU countries, as well as the political stability that characterizes them, represented determinant attracting factors,

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<sup>1</sup> The population census is the best example, because it represents a precise snapshot of the stable population on groups of age and sex, at a certain moment in time.

<sup>2</sup> In demography, there are also used indicators of fertility and marriage.

<sup>3</sup> Academician Vladimir Trebici signaled in his work "Earth's population, world demography" (see Trebici Vladimir, *Populația Terrei, demografie mondială*, Editura științifică, București, 1991) that in the demographic evolution of a population, immigration had the same significance as the births and emigrations are nothing but losses. Probably Germany's opening regarding immigration policy was not a coincidence, as the German specialists forecast an inevitably demographic decline for Germany at the horizon of 2060, with an estimated reduction of the German population with approximately 8 to 18 million inhabitants and a reduction of domestic work force from 60% (currently) to 50%.

<sup>4</sup> According to Professor Dumitru Sandu, in Romania's case for example "the external rural migration was largely a response to changes in the domestic migration, a decline in rural-urban commuting brought by industrial decline in the urban area and return to the migration from city to village", generally with "a tendency of autorecruiting the migrants to work temporarily abroad, especially from the villages with a high level of socio-human capital", see Sandu, Dumitru, *Dezvoltare comunitară – cercetare, practică*, ideologie, Polirom Publishing House, Iași, 2005, pag. 115, respectively 128.

indirect generators of massive dislocations of populations from the north of Africa and the Middle East to Europe. The phenomenon, however, needed continuous supply of fuel needed to migration flows (internal stimuli): conflicts, poverty, human rights abuses in their home countries. To this we can add a functional requirement complementary to the attraction factors: the use of international migration as a tool to alleviate labor market shortages and slow down/ lock aging populations.<sup>1</sup> Europe's population has been characterized for several decades by a slow but well-structured, demographic aging. It is moreover a phenomenon specific to the whole modern world. Changes in family structure, which have demographic implications, are the products of the modernization process. Improved quality of life accompanied by the increasing participation of women in the labor market are just two of the variables involved in the erosion of the old model family with several children, facilitating the transition to a model of one, maximum two children (to which it can be added the widespread use of contraception). The situation describes the dynamics of a population that has no ability to replace generations.

It means a population that can no longer reproduce. The process of industrialization leads to profound changes not only in terms of fertility (low birth rates). Improved quality of life is also responsible for the significant increase in average life expectancy, which advances as living conditions become increasingly better. In other words, on the one hand, current trends indicate major changes in the age structure of populations, raising the stock of passive population (especially the elderly) at the expense of the economically active population (persons of working age employment), an imbalance that has as a consequence both the inability of financial support of the inactive population by the active population and labor shortages amplification (due to low birth rates)<sup>2</sup>. On the other hand, it indicates a serious process of demographic decline.

As part of the European demographic trends, after 1990, Romanian population has also been confronted with the phenomenon of international migration which, due to the scale and unexpected intensity has further deepened the country's demographic decline. Statistics show that in 2013 the stable population (resident) of Romania was approximately equal to that of 1969, the decrease of which is in constant motion. Unfortunately

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<sup>1</sup> The demographic decline in many industrialized European countries is highlighted from the mid-twentieth century. History also records with this date the first waves of immigration from the Middle East. In fact, it tries to offset labor shortages by importing cheap labor from less developed countries.

<sup>2</sup> According to data from Eurostat, in March 2016, life expectancy at birth has increased on average in the last 50 years, at EU level, by about 10 years. In other words, an European who was born in 2014 was expected to live 80.9 years, on average.

backwards. It means passing a route that indicate a steady reduction of the stock of resident population every year.

## **2. International migration – contributor to the aging process of Romanian population**

According to Eurostat Regional Yearbook, at the beginning of 2015, on the EU-28 territory lived about 508.5 million people, with a stock of young population (0-19 years) of approximately 20.9% and working age population (20 -64 years) of 60.2%<sup>1</sup>. Persons older than 65 years (elderly people) accounted for about 18.9% of the population of the 28 European countries. It should be noted that in the period 1960-2015 the EU-28 population grew annually by an average of 0.4% (total increase of 101.7 million inhabitants). Starting with 1964, when it was reached the peak of natural demographic growth (3.6 million more births than deaths) the birth rate declines steadily, along with a gradual rise in average life expectancy. Forecasted by experts to be the "equinox" of natural population growth, year 2003 registers a balance, the birth rate being nearly equal to that of deaths (about 100,000 more births than deaths). Yet, after this year the birth rate and consequently, the natural population growth begin to rise again in many European countries, being slightly slowed by the financial and economic crisis in the period 2008-2013 (when natural demographic growth decreased from 578 000 to 82,000 in 2014, still being recorded a natural population increase of 191,000). In the period 01.01.2014 - 01.01.2015 the EU-28 population grew by 1.3 million (an increase of 2.5 to 1,000), resulting in a combined product of natural demographic change and net migration<sup>2</sup>. It should be added that in 2014 there were registered about 3.8 million immigrants, of which 1.6 million belonged to member countries, 1.3 million belonged to another EU Member State other than that of destination, about only 870,000 nationals and 12 400 stateless persons. Part of the EU-28, Romania's demographics undergo a variety of changes, some of which tend to become structural according to leading specialists in the population analysis (changes in age structure of the population).

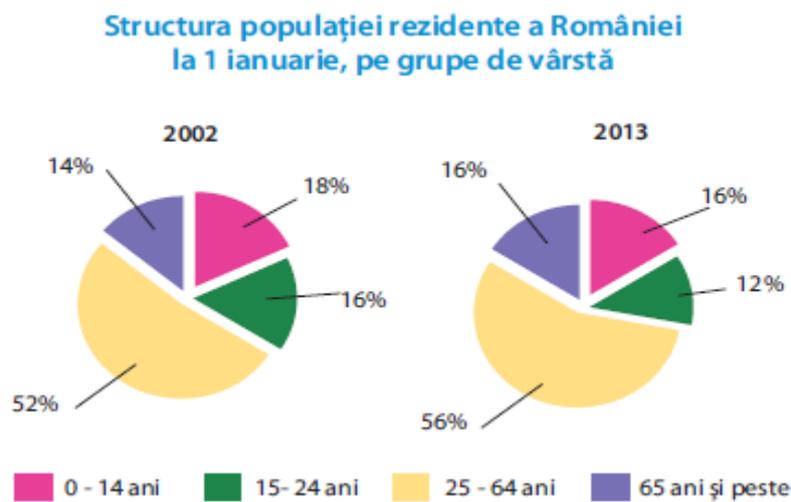
The whole complex problematic issue determined Professor Vasile Ghețău, director of the Center for Demographic Research of the Romanian Academy, to warn a few years ago on a possible major demographic crisis,

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<sup>1</sup> According to the data, from the working age population, 12.2% was between 20-35 years, 28.6% between 35-54 years and 12.8% between 55 to 64 years.

<sup>2</sup> According to Eurostat, in 2015, the population grew in 17 European countries (the highest growth rates: Luxembourg: 23.3 per 1,000 residents, Austria: 14.4 per 1,000 residents, Germany 11.8 1,000 residents), and in the other 11 it fell (the highest rates of decline: Lithuania: -11.3 per 1,000 residents, Latvia: -8.7 per 1,000 residents, Croatia: -8.2 per 1000 residents. For Romania, the weight was -5.6 per 1,000 residents).

generating profound changes in the population structure of Romania: "It's a European trend. Europe is demographically sick as a whole [...] There are signs that the current European civilization is diminishing. After 2015 the number of deaths in Europe will be higher than the number of births. It is a civilization that has completed its cargo of progress. What will happen to us? Imagine the 67-70 generations retiring after 2020 - 2030. There will be very long generations. They will have to be economically maintained. If fertility remains at the current level, here it's who will have to support them: those born after 1989, at half the previous ones"<sup>1</sup>.



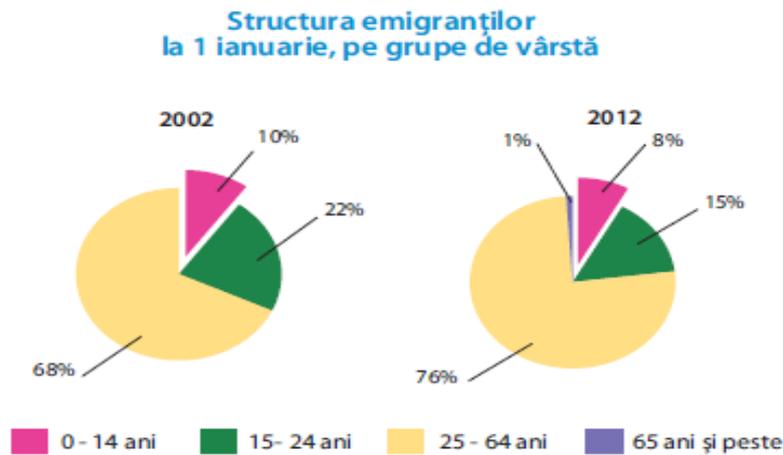
Source: Data from the study "International migration of Romania", INS, Bucharest, 2014<sup>2</sup>

Compared to the EU-28 area, the structure of the Romanian stable population (residents), by age, in 2013, does not outline a worrying picture at first glance, the data provided by the National Statistics Institute showing the above configuration. What worries is that in January 2013 Romania's stable population reached 20.01 million inhabitants, meaning a level approximately equal to the population of 1969. According to the National Statistics Institute, Romania's population grew by 26% from 1960 to 1990 and decreased by 14% in the period 1990-2015.

<sup>1</sup> See <http://cursdeguvernare.ro/vasile-ghe%C8%9Bau-directorul-centrului-pentru-cercetari-demografice-demografia-romaniei-e-iremediabil-compromisa.html> / Vasile Ghețău, sociolog, profesor universitar și directorul Centrului de Cercetare Demografică al Academiei Române.

<sup>2</sup> See [http://www.insse.ro/cms/files/publicatii/pliante%20statistice/Migratia\\_internationala\\_a\\_Romaniei\\_n.pdf](http://www.insse.ro/cms/files/publicatii/pliante%20statistice/Migratia_internationala_a_Romaniei_n.pdf)

Over the course of only 23 years (1989-2012) statistics show a reduction of about 3.1 million resident population (resident) in the country. Even though research shows that to this drastic reduction contributed high mortality rate (quite high after 1990) or specific family planning policies<sup>1</sup>, 77% of Romanian's resident population stock decrease was attributed to international migration. Only in 2007 (considered the peak of emigration) about 458 000 people left the country.<sup>2</sup> Data provided by the National Institute of Statistics show that international migration was accompanied by changes in the age of people who emigrate. Thus, during 2002-2012, for the age group between 25-64 years (working age population) the indicator increased from 68% to 76%.<sup>3</sup>



Source: Data from the study "International migration of Romania", INS, Bucharest 2014<sup>4</sup>

For the same period, it was recorded a sharp increase in the number of emigrants per thousand inhabitants (from 48.6 in 2002 to 116.5 in 2012).<sup>5</sup>

<sup>1</sup> According to the National Institute of Statistics, in 2013 it was registered a 51% decrease in the number of births, as compared to 1989.

<sup>2</sup> According to the National Institute of Statistics, in 2014 around 185 thousand Romanians emigrated, many of them choosing as destination UK, a state that was ranked in 2014 the 2nd place in the top destinations for emigration, after Italy.

<sup>3</sup> There is a decrease in the share of the following age segments: 0-14 years and 15-24 years, from 10% to 8% and from 22% to 15%.

<sup>4</sup> See

[http://www.insse.ro/cms/files/publicatii/pliante%20statistice/Migratia\\_internationala\\_a\\_Romaniei\\_n.pdf](http://www.insse.ro/cms/files/publicatii/pliante%20statistice/Migratia_internationala_a_Romaniei_n.pdf)

<sup>5</sup> It must be said that in 2012, according to the National Statistics Institute, there was a balance between the numbers of emigrants compared to the number of immigrants (a difference of just 3,000 people).

Statistically, since 1990, only due to international migration, the annual population of Romania decreased by approximately 104 200 people. Immigration of over three million Romanians, generally active working age people (young population), has contributed indirectly to the increase in the average age of the resident population (from 37.8 years in 2002 to 40.9 years in 2012) generating serious changes in the gender and age groups thereof.<sup>1</sup> Marking these changes in the demographic dynamics of the Romanian population entitles us to affirm that international migration contributed substantially to the beginning of the Romanian population's demographic decline and its accelerated aging process. The process was exacerbated by the sheer volume of people who left Romania in search for a job (young population, with women at fertility age). International migration is indeed an important contributor to Romanian's accelerated aging process of the stable population. It also contributes to some pessimistic scenarios, which predict that on a course relatively similar, at the horizon of 2060, it is expected that Romania's stable population will reach somewhere around 14 to 15 million inhabitants.<sup>2</sup>

### **3. International migration - a result of economic disparities**

The phenomenon of international migration in the European context remains circumscribed to the functionalist theories, which mostly start from the premise that as long as there are economic gaps between countries/regions, the propensity to emigrate will know no substantive changes. More specifically, it will not diminish and as a consequence, poorer countries / regions poorer (European or non-European) will continue to remain suppliers of workforce for the economies of industrialized countries. A Report from 2016 of the International Monetary Fund points out that given the differences still high between the Eastern and the Western Europe in terms of "standard of living", "guarantee human rights", "law enforcement" or "contracts", the phenomenon of international migration will continue with important consequences in terms steeper population decline, limiting

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<sup>1</sup> Since 2013, the number of women is higher than men for each age exceeding 50 years, although the birth of boys is higher than girls (a higher mortality rate in men than in women).

<sup>2</sup> "The least enjoyable phenomenon for Romania is the demographic decline. (...) It is very hard to get to balance some major imbalances that have emerged in the last 25 years in the structure of the population. (...) It is very hard to get to balance the age structures in a reasonable period. In my opinion, the big problem of Romania is not that we got from 23,200,000 in 1990 to 19,800,000. The major problem is that the population age structure radically changed. This is the problem that we will have to face in the next 20-30 years and if we go on pessimistic scenarios (...), we will probably reach 14-15000000 inhabitants in a period of 30-40 years, "Professor Tudorel Andrei, director of the National Institute of Statistics.

prospects for economic growth and slower income convergence of the Eastern resident population to the Western average income. The poorer Eastern Europe is likely to continue in the near future to remain the basin of labour recruitment to cover deficits which are specific to industrialized states, which will try to create optimal conditions for the eastern european immigrationists currents (given that, most of the studies have shown that the populations from the Est present skills and cultural values which ease integration and adaptation)<sup>1</sup>. From this perspective, given that, for example, in 2014, the GDP per capita in Romania averaged 7,500 EURO,<sup>2</sup> (27.300 EURO european average), we may say that there is a possibility that the volume of Romanian migration "raids" to the developed countries of the EU not to suffer modifications of substance.

Obviously, this will be possible in the context where in the equation (present scenario) there will not be room for another variable ("black swan") to fundamentally change the current Romanian/ EU socio-economic context. This is because although the pace of recovery is quite high (between 2004-2014 the GDP per capita in Romania increased 2.6 times from 2,900 EUR 7,500 EUR), representing the largest increase in the EU-28 area, mathematically speaking, only in 2031 Romania can reach the European average, while maintaining growth indices both at home and in the EU-28<sup>3</sup> (yet, it's only a pure mathematical calculus). Moreover, another variable (internal stimulus) does not help building an optimistic scenario: Romania is a country of wide disparities (disparity index is the difference between the national and regional level).<sup>4</sup>

The data that the National Prognosis Commission bring forward in this respect is not encouraging. If in 2016 the GDP per capita is estimated to exceed EUR 10,000 in Bucharest and other five counties (Ilfov, Timis, Cluj, Brasov and Constanta), equally, other 5 counties will not exceed EUR 5,000 (three are from North - East / Neamt, Botosani, Vaslui, plus Mehedinti and

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<sup>1</sup> During 1990-2012 five states were "hosts" (destinations) of 73% of the emigrant population of Eastern Europe - Germany (41%), Italy (11%), USA (9%), Spain (8%) and Austria (4%).

<sup>2</sup> According to the National Prognosis Commission, in Bucharest, in 2014 the GDP per capita was 19 711 EURO

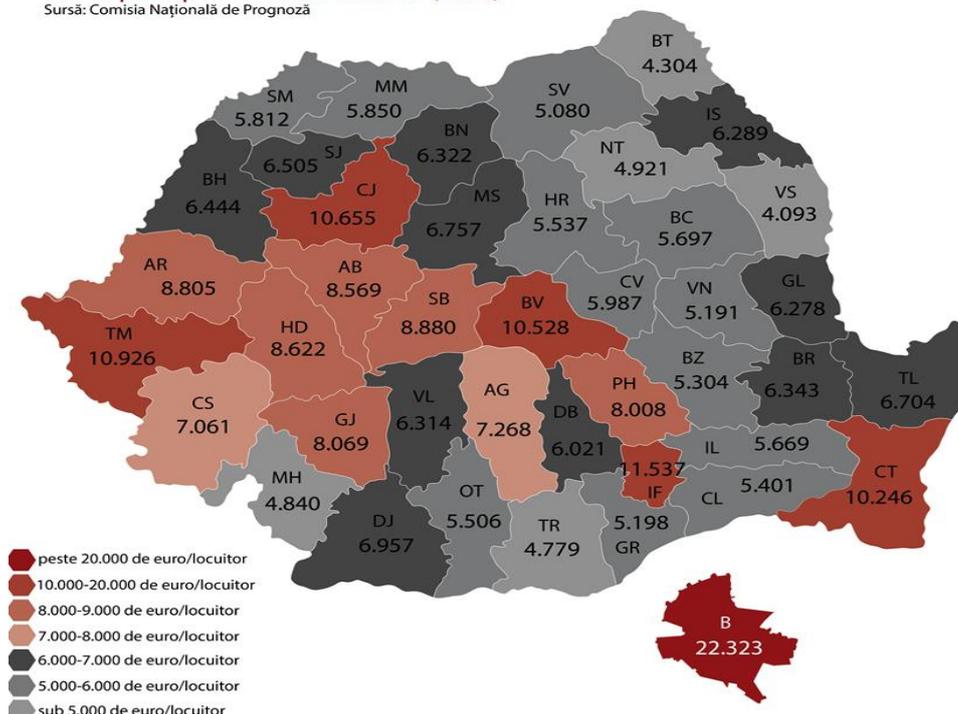
<sup>3</sup> Average GDP per capita in the EU-28 for the same period increased from EUR 22,300 to EUR 27,300.

<sup>4</sup> According to data provided by the National Commission for Prognosis if the disparity index in 2012 was 62.7%, in terms of GDP per capita, the latest estimates showed that in 2017 the index would be 62.2%.

Teleorman counties). In Bucharest, in 2016, the GDP per capita is expected to reach 22 323 EURO.<sup>1</sup>

#### PIB-ul pe cap de locuitor în 2016 (euro)

Sursă: Comisia Națională de Prognoză



Source: National Commission for Prognosis<sup>2</sup>

But yet, neither the 2004 scenarios did not forecast the rhythm that Romania had to impose in the ten years that followed (recovery of GDP per capita as compared to advanced countries of the EU and particularly against the neighbors - from 2.8 times lower in 2004 to 1.4 times lower in 2014, compared to Hungary; from 1.9 times to 1.4 times lower than in Poland, etc.). Yet increasingly more professionally prepared categories are already in the antechamber of new immigration frontiers.<sup>3</sup> Keeping regional disparities seem to support a migration flow already installed: from east to west.

<sup>1</sup> According to the National Bank of Romania's Governor, Mugur Isarescu, Bucharest could enter the euro zone at any time, given the present level of development similar to that of Lisbon and Berlin.

<sup>2</sup> See <http://cursdeguvernare.ro/prognostic-in-profil-teritorial-cum-va-arata-economia-fiecarui-judet-in-2016.html>

<sup>3</sup> According to Professor Dumitru Sandu, after 2007 "there has been a reduction in the departure of medium- skilled workforce, in favor of low-skilled or high- skilled workers", interview conducted on 11.05.2010 by Mirela Ciucur: see " De ce au migrat românii " [www.universulromanesc.com](http://www.universulromanesc.com)

#### 4. International migration - the result of a failed transition process

Many studies undertaken so far have stressed that the experiment itself, largely unsuccessful, of socio-economical transition has generated a strong centrifugal force, pushing for international migration, a phenomenon interpreted as a correct reaction to the economic recession and that worsened the economico-social situation of many Romanian families<sup>1</sup>. The intensity of this process, noticed especially after 1997<sup>2</sup>, involves, according to the specialists' vision, a complex causal chain, according to which two were strong variables: rebound of optimism that was often very high in the early 90s (disappointment with the new political-economic system in place after 1990) and the emergence of a symptom that force work in Romania was not confronted until 1989: unemployment. The sudden disappearance of about 40% of jobs, loss of respect in certain professions, generally liberal, the powerful inflationary movements of national currency, have practically marked the beginning of a "irregular" migration process, which largely maintains until today. We do not possess so far sociological research that give us reliable data about the curriculum matrix (human capital) of those who were willing to leave Romania in search of a job in the early years of international migration and decided to remain permanently abroad. What we know is that the intensity of the final abandonment of Romania, comprising in the international migration equation factors completely different from the current specific migration<sup>3</sup>, tempered, international migration representing today mostly temporary positions on the European labor market.<sup>4</sup> Certainly, the start of the exod was spurred largely by the scarcity of jobs in Romania. But the fall of respect for many professions and the absence of public policies perspectives, did nothing to increase the phenomenon. Warn

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<sup>1</sup> Ibidem

<sup>2</sup> Year 1997 is representative from a demographic perspective, representing the time frontier, which changes the major direction of the internal migration, from city to village (for the first time, the number of those leaving the city for the village exceeds that of those leaving the village for the city).

<sup>3</sup> The fall of the communist regime had no way to permanently stop the emigration already installed well before 1989. The data provided by the UN High Commissioner for Refugees show, for example, that the number of Romanian citizens who had applied for refugee status in Western European countries, grown between 1980-1990 with 500%. Furthermore, according to Professor Dumitru Sandu, only in 1990 we noticed a permanent emigration of 60,000 Germans, representing about 60% of the total emigration of that year. He stresses, however, that since 1998, only about 11,000 persons have permanently left Romania per year ("Riscuri și inechități sociale " Report to the Presidential Administration in September, 2009).

<sup>4</sup> Sandu, D., 2000a, „Migrația circulatorie ca strategie de viață”, *Sociologie Românească*, 2, pp. 5-29 și 2000b, „Migrația transnațională a românilor din perspectiva unui recensământ comunitar”, *Sociologie Românească*, 3-4, pp. 5-50.

of possible impoverishment, amid closure of large companies and massive restructuring, lacking professional horizon, in terms of a transition process addressed mostly through an aggressive pseudo-professionalism, a significant part of the population in Romania did not hesitate to use very quickly the book of opportunities and the existing opportunities of the legislation, living and working conditions from many western European countries (especially Italy and Spain), giving a start to the demographic decline of the Romanian population.<sup>1</sup>

### **5. International migration – financial remittances and social differentiation. Role in economic development vs. consumption development**

According to a World Bank report, in 2015 the total value of remittances worldwide was 582 billion dollars (the total amount sent by immigrants to relatives in their country of origin).<sup>2</sup>

Even if the report shows a decrease of 2% as compared to the previous year (first after 2009, the year when the global crisis emerged), the amount is double as compared to that of 2005.

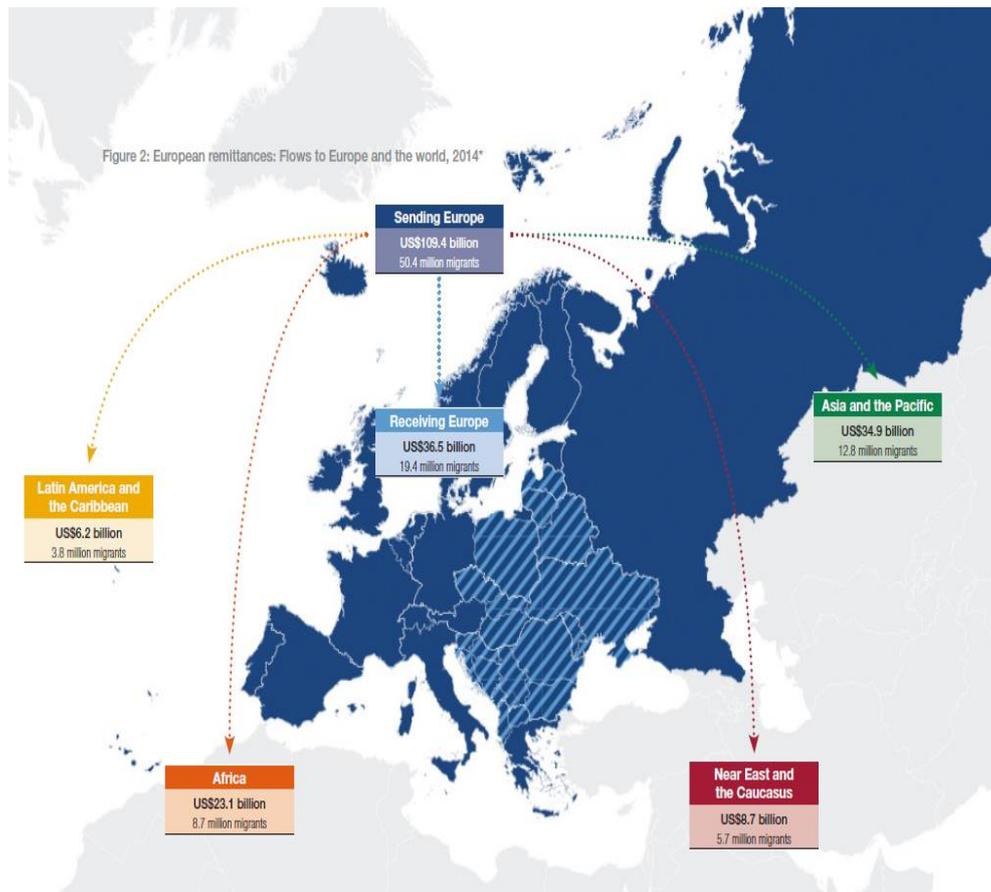
Being directly correlated with the number of immigrants, the amount of remittances indicates an increase in their number from about 191 million in 2005 to about 243 million in 2015. Approximately 3% of the world population is currently outside the country of origin.<sup>3</sup>

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<sup>1</sup> Dumitru Sandu highlights that beyond social discontent specific to the post-revolutionary period, and the openings launched by some Western countries to the labor market from Romania, changes in internal migration had a significant role, an important segment of the population that was actually forced to leave from city to village could be found among the group of the first waves of mass emigration after 2000.

<sup>2</sup> Of these, \$ 109.4 billion belong to the EU; to the EU is returning, in the form of remittances, approximately \$ 36.5 billion, see "Sending Money Home: Flows and European markets"

<sup>3</sup> For comparison, over 16% of Romania's population of 1990 is currently abroad.



Source: Study IFAD (International Fund for Agricultural Development), 2015 - "Sending Money Home: Flows and European markets"<sup>1</sup>

On average, each immigrant sends annually to its family in the country about 240 \$. Remittances of workers outside their home countries represent important parts of the global economy. They describe on the one hand, the areas of great financial flows and, on the other hand, the main poles of international migration, which are true barometers of wealth/poverty installed at one time, globally. Regarding the EU-28, according to Eurostat, on the 1st of January 2015, the number of third country nationals residing in the EU-28 was 19.8 million, while the number of people born outside the EU, but living in EU-28 was 34.3 million. The number of people born in another EU Member State than that of their residence, which also included the Romanian immigrant cohort, was 18.5 million on the 1st of

<sup>1</sup> See [https://www.ifad.org/documents/10180/3594696/money\\_europe.pdf/5ac7733f-39e6-4b1b-a1dc-f7038b5caa0b?version=1.2](https://www.ifad.org/documents/10180/3594696/money_europe.pdf/5ac7733f-39e6-4b1b-a1dc-f7038b5caa0b?version=1.2)

January 2015.<sup>1</sup> According to the latest data from the National Statistics Institute within the EU-28 territory there are working and living around 2.35 million Romanians and outside Europe there are more than 200,000 (US, Israel, Canada, etc.). Their number is certainly much higher.<sup>2</sup>

According to the World Bank Report<sup>3</sup> the value of remittances to Romania varied year by year, as the number of Romanian immigrants increased, the peak being reached in 2008, when in the country officially entered approximately \$ 7.58 billion (later the crisis has tempered the value of remittances: 2009 / \$ 4.198 billion; 2010 / \$ 3,238,000,000; 2011 / \$ 3.055 billion).

After a slight increase, starting with 2013, the value of remittances came back to a downward trend: 2013 / \$ 3,519,000,000; 2014 / \$ 3,381,000,000; 2015 / \$ 2.933 billion<sup>4</sup> (the figures are certainly much higher as in many cases Romanians used informal money transfer routes to send money to their families, thus avoiding transfer fees).



Source: World Bank / Data World Bank, 2015<sup>5</sup>

<sup>1</sup> See [http://ec.europa.eu/eurostat/statistics-explained/index.php/Migration\\_and\\_migrant\\_population\\_statistics](http://ec.europa.eu/eurostat/statistics-explained/index.php/Migration_and_migrant_population_statistics)

<sup>2</sup> A report of the World Bank shows a total number of 2,769.1 emigrants in 2010. See <http://siteresources.worldbank.org/INTECA/Resources/Romania.pdf>

<sup>3</sup> See <http://siteresources.worldbank.org/INTECA/Resources/Romania.pdf>

<sup>4</sup> See

<http://databank.worldbank.org/data/reports.aspx?source=2&series=BX.TRF.PWKR.CD.DT&country=ROU>

<sup>5</sup> See <http://data.worldbank.org/indicator>

Interestingly, in 2014, according to World Bank data, from Romania left in the form of remittances about 638 million dollars, which indicated the presence of a cohort of immigrants already quite large (Filipinos and Indians in particular). According to World Bank data, the structure of remittances is as follows: about 87% come from the EU, 9% from North America (US and Canada) and 4% from other countries (estimates show that a ranking of remittances would sit on the podium Italy, Spain, Germany and Hungary, where can be found most of the Romanian immigrants).

### **Conclusion**

- A static representation (number, structure and geographic distribution) of demographic phenomena from EU-28 area (including Romania) describes a population shaped by multiple disparities, where international migration seems to be the independent variable that fundamentally influenced the current demographic context, being responsible both for the population decline in 11 states ("departures") as well as the natural growth of the other 17 ("arrivals");

- Statistically, however, during the past 55 years, the EU-28 population grew annually by an average of 0.4%, resulting in a total increase of 101.7 million inhabitants, this being a combined product of natural demographic change and net migration;

- There is a certainty that developed European states will seek in the future to cover the deficit of labor/ to stop the aging process, leaving the valves opened for immigration;

- In the future it is possible that as the disparities between certain countries and regions in the EU-28 will disappear, the Eastern Europe, currently in a race of recovering the gaps, will alter the current direction of migration flows eastward;

- The demographic future of Europe will probably decide on how will be dealt the tension created around two variables that will need to work together: assuming modernity versus international migration (considering the other person, the alien immigrant, as a contributor and part of the European economic and social destiny);

- As part of the EU-28, Romania is currently in the midst of a profound demographic crisis, as after 1990, it became the leading provider of workforce for the industrialized states (mostly in the European area);

- As compared to 1990, 16% of Romania's population is currently outside the country's borders (annually, Romania's resident population is shrinking by about 100,000 people);

- Following strictly the birth dynamics, it may be considered that it follows the current European trends and it can be observed serious

deviations regarding reproductive behavior (increased number of births among population with an average age under 15), the high rate of infant mortality ( 9 to 1000 births, as compared to the European average which is 4.1), and especially in regard to the changing age structure of the population (the latter creates the premise that at the 2030s' horizon, the social insurance system will collapse);

- Most of the research call for major reflections on the current demographic crisis, emphasizing the importance of state policies that support birth rate increases; according to The National Statistics Institute, the birth rates of Romanians that live abroad is one third higher than in the country (12.5 to 1000 / 9.1 to 1000), and in recent years, over 14% of those who emigrated were aged less than 15 years old (a sign of family reunification and permanent establishment abroad);

- Policies supporting the birth rate increase are necessary, but not sufficient, because within the matrix generating international migration interect more factors (stimuli): low living standards, lack of guarantee of human rights and freedoms, violation of law or contracts, breach of professions etc.;

- The key to slowing emigration waves that fundamentally eroded the present age structure of the population and stimulated profound deviations from the expected demographic behavior, might be the reshape of the current socio-economic model adopted by Romania in last 27 years;

- Sterilization of policies that target interventions to halt the demographic decline determined by international migration, cannot solve the structural problems of the Romanian population.

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## **DEALINGS WITH THE PRESENT STAGE OF THE EGYPTIAN ECONOMIC SYSTEM**

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### ***Abstract***

*This article aims to put into the light the actual stage of Egyptian economy and tries to find an analytical conclusion how to deal with the economic problems trend. Our research begins with a time description of this part of the global economy and diagnoses for future amelioration of the Egyptian situation. The idea developed throughout is a better understanding of the economic trend, with a view from inside, as any Egyptian citizen is interested to achieve one of the best way for his life and how to manage within our days' transition period. Therefore, our article present a form of how to manage to analyze the economic situation and is looking for a suitable answer on this matter.*

**Key words:** *Egyptian economy, global economic analysis, Zakat mission, Islam economy*

**JEL Classification:** *M410*

### **1. Introduction**

Egypt's economy is the second largest economy in the Arab region after Saudi Arabia, with a GDP of 500.9 billion dollars (2010), and the second in the Africa region, after South Africa and the tenth in the Middle East in terms of per capita income.

Egypt's economy is characterized as one of the most versatile economies of the Middle East countries, where agriculture, industry, tourism and services sectors involved very close proportions in the Egyptian

economy. The number of workforce in Egypt, about 26.1 million (2010) is distributed in the public services (51%) and the agricultural sector (32%) and the industrial sector (17%). So, the Egypt's economy depends mainly on agriculture, and since it has entered within the Suez Canal, the increasing revenues are coming from tourism and cultural production, oil and remittances from foreign workers, as more than three million Egyptians working abroad, mainly in Saudi Arabia, and the Gulf region such as the United Arab Emirates and Kuwait as well as the cash remittances resource coming from Egyptian workers in the United States, Australia and Europe.

## **2. Economic reports about economic growth in Egypt**

The reports issued for the economic growth in Egypt, whether local or international are not so clear and unitary for everybody understanding. This misleading seems to be caused on different views of the growth sources, where ones are focused on paying tribute to the growth in absolute terms rates and the others not.

The first source of this growth, which was mostly marginal or rentier, at a time when declining the relative importance of the productive base, whether industrial or agricultural Egyptian economy, so that Egypt currently lacks to become a production base commensurate with the having resources, especially the human resource. The former regime, drew its attention to the service sectors and the production sectors, an attention directed to housing luxury, and the development of beaches and the construction of resorts at the time were imported by Egypt a large part of consumer goods, machinery and equipment and food, which is reflected in the huge deficit in the Egyptian trade balance.

The second problem is the distribution of this growth, or rather who benefited from this growth? This growth has been on the supposed expense of justice in the distribution of income between different citizen's categories, not for much of the Egyptian people in the former regime, which took over the class, and a too wide gap became between high groups and poor groups, as has been recognized by international institutions such as the IMF reports. According the IMF reports the economic growth in Egypt were not accurate, because they are focused on the growth rates in absolute terms, without considering the distribution of standards or justice arising from this growth considerations.

On the financial level, Egypt is facing another challenge linked to the deficit in the public budget, which in some cases up to 9% of GDP, a very high percentage, and impose on Egypt, in light of the weakness of the tax by Al-Qaeda to resort to borrowing, whether local or foreign, no doubt that this deficit continued to progressively means that the current growth in public debt local whether or external will not be sustainable, and expects

that this deficit tends to be a clear rise in the period after the revolution. Before that Egypt were working to raising public revenues and rationalize expenditures to control the growth in the general budget. Despite the very extensive tax structure that is being within Egypt, but the revenue tax are low in general, does not exceed 15% of GDP, which in this form is less than the level achieved in most countries of the developed world, including the developing, which reflects the fact that taxes are not recovered by payment, concluding that there is tax evasion practiced widely in the State by financiers and with the help of the government apparatus, which imposes and gets the tax, therefore we cannot find a tax efficient and appropriate effectiveness.

On the other hand, Egypt is facing a traditionally sustained deficit, aggravated by the balance of payments, particularly in the trade balance (exports of goods and imports of goods), where the system is unable compensate by foreign exchange earnings from exports so that to cover the needs of Egypt's imports from abroad. And even though the balance of transactions dealing with imports and exports of services is on surplus, but this surplus, unfortunately, is not enough to cover imports in the trade balance gap, so Egypt resort has to borrow on an ongoing basis to cover the deficit in the balance of payments.

Due to the limited production base Egypt, have been and is still, for long periods of widespread inflationary pressures widely, which helped to deepen the weakness of the general revenues of the state and that caused the continuing shortfall in the state budget, which is being partly funded through the new monetary issuance base, which feeds the inflationary pressures.

In view of the exceptional circumstances experienced by Egypt it is expected to deepen the pressure even more in the next phase, and unfortunately the fight against inflation in this particular time will be the task extremely difficult, given the domestic and international economy, where food prices are rising globally and locally are alarming.

### **3. Business environment**

Facing the business environment in Egypt we consider a serious obstacle the spread of corruption which became widely negative and affect the allocation of resources and how they are distributed among the various parties in the state operations, as corruption has become a threaten for investors' appetite for investment in Egypt, particularly within the foreign investment. According to reports issued by Transparency International in order to decline in Egypt and the World Order in the fight against corruption, which, no doubt, is one of the most important challenges facing Egypt in the future is how to win the battle against corruption in depth in all parts of the

state administration. We have to consider here, especially with the low salary level earned by workers in the state and ignoring the former regime for these real ongoing basis, nobody thinks about their work hard or how to think to improve the conditions of these workers, since these workers should have a living measure somehow, so it seems to be natural that bribery and other forms of administrative corruption has spread on a large scale.

Not at least, we found as an issue the poor infrastructure, poor level of a most serious challenges facing Egypt in order to raise the standards of production and competitiveness. Areas, such as health, education, water, electricity, roads, transport, communications, airports and ports (and so on), are in need of dramatic improvement upgradation now too.

There is no doubt that Egypt needs to invest in the infrastructure but its intention is at weak level, a task that will require huge budgets may not Egypt can meet by itself at the moment, so Egypt needs to be helped by international and regional financial institutions to increase its ability to invest in the infrastructure required for growth, and that remains in the Egyptian economy one of the most important constraints on its progress and growth and raise competitiveness levels.

This is the main facing Egypt now, and undoubtedly there are other urgent problems, such as widespread poverty, and the spread of the culture of profit and quick gain and the proliferation of bureaucratic and centralized decision-making and other that shackle the Egyptian economy and prevent the launch forward to become Egypt in the ranks of emerging countries in the world such as Malaysia, North Korea, in terms of resources and possibilities, but the basic problem facing the Egyptian economy is in poor targeting of resources and management process.

#### **4. Unemployment present and future challenges**

One of the most serious challenges facing Egypt now and in the future, is high unemployment, for many reasons, such as lack adequate current education strategy to the requirements of the labor market, particularly university education. On the other hand, the investment operations that currently take place in the Egyptian economy is not creating enough jobs for new entrants to the labor market, and that was supposed to investment strategies focus on intensive use of the element of work activities.

Many new entrants to the labor market from all sources currently spend long periods in the event of unemployment in search of work, who do not find very often, and in front of these pressures forced many young people either to emigrate abroad or to accept jobs that do not comply with their qualifications and skills, or work in the informal sector of the Egyptian

economy, which represents a huge waste of resources spent by the state on rehabilitation operations.

The problem faced by policy makers in Egypt is that the proportion of the young people is too high, and year after year the number of new entrants rises to the labor market, and all the process of creating an additional function requires the need for spending an investment depends on what it is called in economics labs, marginal capital/labor, any required level of capital spending to create additional jobs. Taking into account the current levels of unemployment, dealing with the problem of unemployment in the future will require the need for huge investments which exceed the possibilities of the Egyptian economy therefore is, no doubt, that the stability of Egypt's economic future will require a need to create a sufficient number of productive jobs for millions of unemployed now, and entrants new to the labor market, no doubt that this task will not be easy, and requires a fee of integrated development plans in the various productive sectors of the Egyptian economy accompanied by effective policies to attract foreign investment in the intensive use of labor component industries.

### **5. Islamic investments in markets**

Islamic investments in global markets are volatile from day to day, however they are subject to no less than \$ 10 trillion of funds, no less Arab investments to global markets for \$ 6 trillion, and this figure does not interfere with it the money that had been smuggled from Egypt or Algeria or Libya, knowing the heads of these countries and their leaders, as they say that the Arabs have lost about five trillion dollars in the global financial crisis in 2008 are instruments and stocks and bonds in the international companies that have collapsed because of the crisis. The global financial crisis have been affected also the Islamic banks, but in less than others, mainly because Islamic banks do not work with a usury system and paper assets but works with real assets. Not at all, even some Islamic banks already suffered some depression because of the crisis, such as commercial banks because they are part of the global market.

However, Islamic banks are not adversely affected by such as banks usurious because the real financial dealings Islamic banks are buying real assets and sells real assets and invests in real investments and projects, not paper next to its entry in the posts of investment.

With the growing success of Islamic banks the future will be for the banks and there are many indications that confirm this, including the direction of the United Arab Emirates to transform banking institutions to Islamic banks and the decision of the French Legislative Assembly, the establishment of Islamic banks next to the Islamic banking experience in Britain, Germany and the United States of America. Islamic funds invest in

all fields and every state is different from the other in the areas of investment funds, for example, Gaddafi Libyan assets invested in gas stations, and Saudi Arabia, for example, invests in several areas such as food and agricultural land, as in Toshka, Egypt, and Kuwait to invest in the construction of airports as in Marsa Alam in Egypt or in Europe villages tourist. Unfortunately, despite the abundance of Arab money they do not have a specific policy to serve the Arab issues, just as the Jews did in their investments in the United States, but the Arabs do not invest their money according to specific policy, but for all financial profits. Most Islamic banks' investments are invested in Islamic countries because investment methods respond to the majority of Muslims, and even Western countries when they opened Islamic banks do not think they have succeeded, such as the success of Islamic banks in Muslim countries since Islamic environment keep pace with the objectives and principles of Islamic banks, and therefore there are a lot of people putting their money in Islamic banks.

#### **6. Proposal to solve the economic problem**

Theoretically, the Islamic economics could solve all the economic problems plaguing Egypt now, but this did not take place except for the absence of Islamic economics and not to apply it.

If Islamic economics is applied in Egypt, this not means that there would be no poor, and there would be no unemployment and what has suffered Egypt's monopoly, injustice and corruption. Because the principles of Islamic economics is fighting with all these problems, that no means that Islamic economics came to show these problems. For example the problem of poverty did not appear in the nation applying Islamic economics because of the principles of the Islamic Zakat legislated by Allah Almighty to enrich the people, then is not a mission to give to the poor money consumed in a day or a month or even a year, but the task of Zakat man sings a whole lifetime, it is the issues raised in Islamic thought what they give to the poor, you give out the adequacy of the year or give out the adequacy of the age and opinion is right and correct in this is to give the poor the adequacy of life in the sense that the poor if you take Zakat time will not come back to take them again unless an exception because the rich are also exhibition of poverty. Therefore, the basic principle is that the poor who took Zakat time will not come back to taken but will attend to pay. The question is can Islam through Zakat to provide capital to use for the poor people.

In the book of Imam al-Nawawi is written: The Zakat mission is to enrich people adequacy of old, where he says: Aattiyān (e.g. the poor and in need people) from poverty to riches, Fbaia herbs (any vendor horseradish and parsley) gives ten dirhams (with a dram in his day he bought a sheep), and vendor gems gives one hundred thousand dirhams or more, and was

mourning or a carpenter or a merchant gives his or her tools as the capital of his trade. That way, the poor rich, but not the money, but of his work and his effort, and this is for people who know the different crafts, but who was clumsy (i.e. does not have the ability to learn any profession is not known craft) said Imam al-Nawawi : buy a stake in menial or menial old enough for him and the whole yield stopped him and allow him to sell, this is the treatment of Islam to the problem of poverty, and therefore there cannot be poor in light of Islamic economics as may apply Umar ibn al-Khattab for workers Zakat, but in the current circumstances can the poor become rich by finding the work to him, whether in a factory or a farm, even if not the owner of the two through the establishment of the state to build factories and hire people in.

Standard differentiation between people in Islam is the work, not over the possession of the funds, caliph Omar bin al-Khattab said: It is like a man length and width, ask parents craft? If it is said not to look down, and the Prophet Muhammad, peace be upon him say: "What never eat a good food to eat from the work of his hand, but God's prophet David was eating from his hand". In our times, no one Zakat application properly applied as legislated by Islam, but in the early Islamic period there was not poor because Zakat were enough people and overflowing their need, and the public in Nowadays no country applies Zakat system except only two states. Sudan Malaysia and Saudi Arabia have their own system of Zakat in terms of demanding rich by determining the value they pay Zakat and take them and leave them half of the other half of Zakat to increase their knowledge to those who know of the poor, in the sense that 50% of the funds paid Zakat of the state, and 50% paid by the rich who want the por. In Egypt are large sums of money Zakat collection already, but these amounts are not organized and are not spent on society as a whole.

Must be Zakat relationship between the state and citizens so that the State collects zakat from the rich to spend on projects that mobility of the poor to the rich level, it is possible that this will be achieved through the establishment of a Zakat in all Islamic and Arab country. If the collection of Zakat funds from both are obliged to use the proceeds to build agricultural, industrial and commercial projects that serve the poor of these countries are making them able to earn enough money for their needs, and this method applied by the State of Qatar through the Zakat Fund, which is a good example of the application of Zakat proper and useful manner, and most countries Zakat system applied to have involved regardless of Zakat funds in legitimate recipients institutions.

### Conclusions

If the Islamic economics solve all Egyptian economic problems is just a question. Only to give Islam a chance to apply that does not means the problems are solved. Reminding after the January Egypt revolution it seems that this idea already floated many factional demands and strikes of teachers, doctors and drivers of public transport. And all of these, because they have an Islamic thought but have no patient even to improve the country's economic conditions, especially if the are given promises and program timetable to increase salaries and achieve their demands, noting that the salary increase is not through borrowing by the state from different countries and institutions, but by increasing production.

Islamic economic strategy it seems to be a solution, and Egypt can through the application of the principles and parameters of Islamic economics to solve its economic problems, as the Egyptian people already passed over all forms of the economy from socialism to capitalism, to a mixed economy and all failed in the face of their problems, why not give a chance for Islamic Economy to apply its rules to address the economic problems of Egypt, where the economy has all the Islamic ingredients that achieve economic growth and social justice. It remains as a question for a future reality applicability.

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## **E-GOVERNANCE AND E-GOVERNMENT: HOW IT CAN BE THIS RELATIONSHIP?**

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### ***Abstract:***

*Nowadays, the transformation of reinvet governmental system that offers efficient services due to efficiency of time and cost; is considered as a big challenge for governments around the world, since that is related to investment and knowledge of information and communication technologies to reach e-government. In addition, the tools of the Global Business have been developed due to the several factors, and the advanced implement of IT has an essential role in the development of these tools. Surely beside that, the issued governance mechanisms after each financial conflict change continuously the business environment. The article try to attract more attention over the E-Governance and E-Government since the sensibility of this topic is currently shown up as a new management style that based on web and network online space to provide citizens free access to governmental services in the light of transparency and accountancy besides assuring democracy.*

***Key-Words:*** *E-Government, E-Governance, E-citizens, E-Business, Triangle Relationship.*

***JEL Classification:*** *M4, M2, M11*

### **1. Introduction**

The term of e-government is rising up through public organizations and institutions, in this direction, many governments are using information and communication technologies in order to offer their services to their citizens in a free-access mode and in a democracy environment. Thus, the first shape of e-government has been taken by public organizations through using online services and websites, to gain experiences that accumulated to service the government through reaching e-government at advanced level (Jim Melitski; 2001).

Till nowadays, there is no a single definition about governance, a few institutions such as the International Finance Corporation (IFC) defines it as the system that help executives to manage and control their companies. Besides that, The Organization for Economic Cooperation and Development (OECD) defines corporate governance is as mechanisms that connect between several parties; executives, management council and boards, shareholders and others. In the light of that, corporate governance is about the run-method of the corporation and about mechanisms that deal with stakeholders in order to achieve the objectives of these stakeholders.

In according with the general perspective, governance refers to the existence of certain systems that control the relationship among stakeholders especially the board of directors, executive council and shareholders in order to achieve transparency, justice and reduce corruption in the firm, also, it ensures accountancy over directors' activities to make sure that the corporation is going to achieve its objectives and strategies in the long term and to reach sustainability.

The appearance of corporate governance in the last few decades is due to financial crises and economic collapses in the twenty century certainly in Eastern Asia and former communist countries besides United States of America and Europe. The first crisis occurred in the Eastern Asia; Japan, Korea and Malaysia in 1997 and at that time, huge corporation had a serious problem with liquidity and faced a high risk of collapsing. Due to that, certain governance standards were issued to assure the right of all stakeholders besides the rights of shareholders. The importance of governance standards are increased when several countries adopt a free market and switch to capitalism and that is based on big corporations in order to achieve a continued growth in economy. The free market encourages the capital mobilization among countries and that leads to increase the corporations' volume and its turn lead to separate the management from the equity. That separation generates certain important issues presented in the weakness of monitoring system and controlling tools over the managers and executives. That reflects clearly throughout corporations' corruption and financial crisis such as Enron scandal which was directly related to the lack of accuracy of financial reports and in the light of that Sarbanes-Oxley Act was issued in 2002.

## **2. E-Government**

The online services is a generic term that is considered the base for online government services and public agencies, therefore, the information technology serves the objectives of government to meet the interests of stakeholders online. That combination proposes a new term called "e-government" (Sharma & Gupta; 2003, Sharma; 2004). The World Bank

define e-government: the term used to describe the government uses online agencies to offer its services and to have the ability to deliver these services widely freely to all citizens to encourage them to involve more in the government structure and in the meantime to assure democracy and transparency and for sure to reduce corruption and failures of traditional government (AOEMA report; [www.worldbank.org](http://www.worldbank.org)).

In addition, the United Nation ([www.unpan.org](http://www.unpan.org)) defines the e-government as internet utilization and using network for sharing publicly government information. There are many defines of e-governments issued by important agencies and organization but the common base is that information technology and online application are employed by government to deliver its services to all citizens in a democracy and efficient way to facilitate the stakeholders to meet their needs. Even though, the e-government is still at the beginning and needs more time and comprehensive experiences to be adapted in the long term in order to be implemented correctly and achieve its objectives. The truth is about the need to restructure governments due to the online mode and business cloud to deliver governmental services and to strength the relationship among government and citizens (Fraga; 2002 & Leitner; 2003).

### **3. E-Governance**

The term of e-governance refers directly to electronic governance that uses technologies to inform and communicate with stakeholders at all levels of the government in order to assure governance (Bedi, Singh and Srivastava; 2001). In the light of that, e-governance is defined by Keohane and Nye (2000): *“Governance implies the processes and institutions, both formal and informal, that guide and restrain the collective activities of a group, Government is the subset that acts with authority and creates formal obligations. Governance need not necessarily be conducted exclusively by government. Private firms, association with governmental bodies, to create governance; sometimes without governmental authority”*.

E-governance requests none limited space in the public sector in order to achieve its objectives and the interests of stakeholders since it involves in the internal policies and strategies in both public and private sectors. E-governance uses the information of public sector and communication technologies to improve the quality of delivered services and encouraging transparent and that means, it involves in a new style of leadership which assures firstly accountancy and transparency after various investments in technologies and education for an easy access to the needs of citizens (UNESCO, [www.unesco.org](http://www.unesco.org)).

Due to that, e-democracy bases on e-governance to improve the democracy level for citizens in certain forums that respect the governmental regulations. That deals with three important areas: the relationship between governmental institutions and civil society, the relationship between governmental regulations and democracy orders, and e-governance and corporate governance mechanisms. Due to Sheridan and Riely (2006), e-governance is a concept that is considered as broader deals with all these relationships, instructions and networks within government about using information technologies and business cloud applications.

#### **4. The relationship: E-governance and government**

The concept of governance has been discussed widely in the business world especially it becomes as a practical solution for the financial scandals which affect huge international corporations' performance. In generally, this concept includes several relationships in a certain corporation that systemically monitor and control the general performances and the executives' behaviors in order to propose a provision of an integrated system to defining the performances and measurement standards. In according with that, corporations employ the internal and the external tools of corporate governance to provide harmonies among their entities to ensure a high quality performance, consequently, IT governance in a certain corporation concerns on that IT strategy will match the corporation general strategy, and it offers procedures and codes that ensure the general strategy is well respected. Besides that, IT governance cares on creating and organizing channels between the IT products and the final users in the meantime, the information management business focused on the internal procedures and performances of the corporation to prepare IT systems that meet the needs of the general corporation strategy.

Through generalizing the concept of corporate governance and moving to a macro level, the corporate governance reaches the central government, in the light of that, governments implement governance tools in order to offer their services on public, and that presents what is called E-governance at the highest level in the business world due to the various services offered by different online governments. The experience of corporate governance and governments has been costly and failed in some situations since the monitoring tools are absent or deactivated. Besides that, the vision of e-government is still under process especially, who are in the charge, do not have a comprehensive vision about e-government and how far can be developed in order to service the interests of stakeholders including the government's interests.

Accordingly, the importance of applying corporate governance at the government level highlights certain points that are not discussed widely as the following:

- 1- The framework of designing and implementing e-services control.
- 2- Commitment the public departments and ministries to respect the issued plans by the authorities which are in charge on the e-governance.
- 3- Issuing standards that must be respected by government and public departments in the light of e-governance.
- 4- The quality of provided services and determining; if these services meet the users' needs and perspectives.

Therefore, adopting the e-government without a clear vision leads to difficulties in the administrative body of government and that comes over the account of offering transparency to stakeholders. In order to respond to this challenge, the implementing of corporate governance and e-governance is essentially needed as an effective tool to ensure that e-government services meet the interests of stakeholders and increase the quality of government performance. In accordance with that, e-governance has certain objectives presented as the following:

- Offer quick services with less cost for the stakeholders.
- Enable citizens to practice democracy through free access to all governmental issues related to their lifestyle and daily issues.
- Reduce the handling time of public transactions.
- Create an effective communication channel among government's entities and administrative institutions.
- Auditing the behavior of executives by stakeholders and auditing committee.
- Achieve transparency and accountancy.

These objectives generate several important benefits such as economical benefits through saving money, time and efforts of stakeholders when they achieve their interests, besides that, e-governance brings together all the efforts to achieve the general visions instead of the traditional government which separates between entities and loss efforts in certain areas that do not bring valuable benefits due to their costs. In addition, it opens a new commercial channel in the global business world and encourages implementing the business cloud application. The managerial benefits also are generated through developing a new concept of e-management in order to organize operations that improve the quality of governmental performance.

That means the bureaucracy of the traditional government is eliminated, besides, reducing the chain of administrative pyramid and the time of finalizing transactions. In the light of that, it provides an effective monitoring system and ensures transparency and accountancy. Overall, the social benefits becomes as a result through encouraging citizens to use the e-governance application, and in its turn, that means the IT background of citizens is increased for and developed, accordingly, the social activities can be increased and these activities implement online applications to establish e-social activities.

Overall, an important question is put on the table that what is the advantage and disadvantages of e-government. The main goal of e-government is to offer efficiently governmental services to all citizens, therefore, transparency is ensured with e-government besides accountancy over the state's executives in front of citizens; and that is an important advantage. Implementing e-government will bring the hard copy system to an efficient level certainly in time and cost which needs before a huge invest in the IT and educational systems, and that will establish an accessible channel between government and business, which will increase the business opportunities and encourage international investment. The disadvantage of e-governance bases on the lack of governmental quality information especially hidden objectives of government may be addressed online, besides that, e-governance and e government depend totally on internet and business cloud where governments have a poor experiences even they are already online.

In accordance with that, certain challenges can be titled as the following:

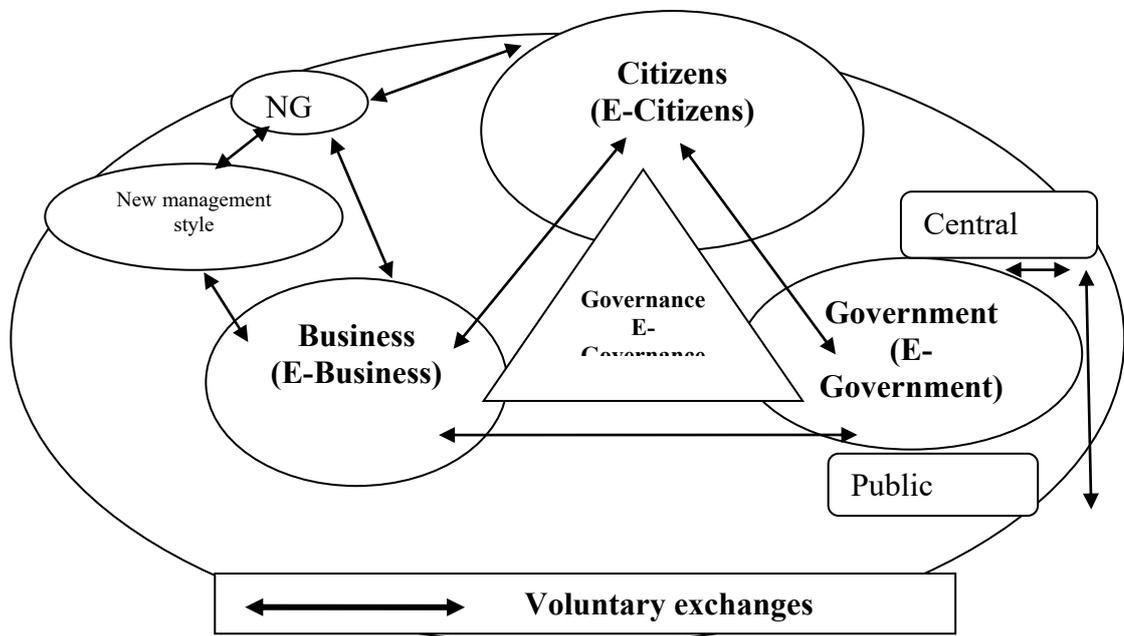
<b>Technology</b>	<b>Privacy</b>
	Security
	Lack of qualified team
<b>Organizational</b>	Top management support
	Lack of efficient management
<b>Social</b>	Culture
	Using online applications
<b>Financial</b>	High cost investment
	A long term investment

Over all, that paves to the relationship between Government, Citizens and Business.

**5. The Triangle Relationship; Government, Citizens and Business:**

Due to the definition of e-government, the relationship between government, citizens and business can be set. This triangle relationship focus about the partnership between the central government and its subsidiaries institutions and that has a strong effect on the e-government structure since it identifies the relationship among public sector employees, and government and others public institutions. Besides that, the relationship among business and government is high considered in this relationship through the aspect that relates e-business and e-government to identify the markets and set a channel between the private sector and the public sector. In their turn, the citizens focus on the procedures and structures that organize the relationship between government and civil society to identify their needs and when they use the online network, the e-citizens is issued besides e-government and e-business.

This relationship is illustrated by the following diagram:



**The Triangle relationship among government, citizens, business**

**Soruce:** Chief Executives Group on Information Management and Technology; 1999 and developed by the author

### Conclusion

Bringing citizens and business closer to local governments is considered as an essential aspect of e-government in order to gain their trust and attract new investors. In the light of that, the movement toward e-governments basically is more about changing the thinking model of citizens and business interacting with government and that means e-government provides a huge potential through new way using information and communication technologies to deliver the governmental regulations and objectives to citizens correctly. Definitely, that requests a strong effort from government in the long term to adapt the educational systems and let citizens to practice freely democracy online, accordingly, that strengths the accountancy and transparency. The triangle relationship will be discussed on the tables in public and privates tables to develop a certain vision that satisfy all the stakeholders including citizens and government.

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## **MAKING DATA FLEXIBLE FOR APPLICATIONS THAT USE DATABASES FOR BUSINESSES**

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### ***Abstract***

*The paper presents methods of making data flexible for applications that use databases for businesses in the competitive environment where the exchange of data and the forecasts are making the decision processes much easier. A star warehouse model for business is flexible at the physical level in the sense that offer the possibility to add new dimensions or new measures and at the presentation level permits to build numerous reports that can reflect different scenarios by simply changing some key values and give other perspectives to the decision maker. An information system for business has a physical architecture that mirrors all the main components, from supply chain to sales and also has an interaction layer that may be possible to evaluate a before situation and also to build scenarios that make possible future production that indicate the growth. An information system that uses databases are very flexible and offers many advantages such as controlling flows between the main components of a company such as Supply, Production, Products, Accounting, Financial, Sales, Marketing, HR and Fact business. In a company there are exchanges of informations between the main departments and a database can record all these informations and may be used later in different types of queries. To a business company the choice of a database application designed and implemented as data warehouse star model, helps in analyzing and the surveillance of the main information flows such as financial and operational.*

**Keywords:** *Database for business, business intelligence tools, business model and data warehouse star model, SQL queries and reports, rollup and drill down objects.*

**JEL Classification:** C63, C68, C88, C81, C87, C83, C80

## **1. Introduction**

In an economic system an information system connects both driving directions between an system manager and executive or decision-making system. Any economic system requires certain operational components can be any system of production of goods or services.

Led system provides system-specific activities to achieve the overall objective for which it was created. Led system consists of all those involved in operational undertaking and uses information contained in the information system or use of information system rules of behavior. The leader provides forecast command, organization, coordination and control their activities to achieve the objectives sistemului. It consists of all actors that secure and adapt objectives and business strategy using information contained in the information system. The driver information system intervenes in order to adapt to the objectives and business strategy, changing nature of information and rules of behavior [2], [4].

Given the dynamic nature of the economic system, objectively an information system must be in continuous adaptation and improvement. Elements of the economic system may represent interference system information but it is a database system there is the possibility of adapting and consistent operation of the two systems. Information system regarded as a reverse connection cybernetic system are decisions to maintaining economic system as a whole or decisions taken by the management information subsystem for the proper functioning and improve it.

Feedback is achieved through the necessary economic information management system for both economic decision making and for monitoring their effects. Information system has autoregulation capacity so that it is always consistent with it and reflects the economic system. Forecasting functions, organization, coordination and control of the system attributes ruler in modern society become increasingly more complicated. Therefore there is a need in the management methods which allow information flows to and from the dominion led system, which enables management and notification of problems that may occur in the future. The enterprise is put in a position to process all these information flows and to choose their own path of much more options that you have available. These complex possibilities of action translates into a higher level of information flows entering and leaving the undertaking, streams to be analyzed and controlled by company management. Decisions must underpin developed outlining several options simultaneously evolving to include criteria of time, money and performance [1], [5].

## **2. The specification of database information systems and the design of elements**

From the definition of information system shows that the overall objective pursued is the treatment and recovery of information at all levels in the system that creates and develops.

Methods, means and techniques used in achieving the objective of characterizing the processing of data. We have a processing manual, automatic or interactive.

Although at first calculatorele electronics were used exclusively for calculations technical-scientific, since the seventh decade of our century, they are used on a larger scale for automated processing of data on economic processes and phenomena; solve automated means of problems arising in decision making. Automatic Data Processing has emerged with the use of computers for information in making electronic processes. Computer system is introduced for defining a set of three definitions universally accepted, but focusing on one or the other traits, complementing each other. When using computers in the information system electronics prevails, says that he is a computer system [3], [6].

- A system can be defined as a set of technical and organizational automation of the collection and processing of information for deployment management process in order to ensure the greatest possible efficiency respective economic and social activity.

- The component information system that ensures, based on use computers and the first electronic computers, rational treatment of data and information, with increased efficiency, is a computer system.

The computer system is associated with an information system and is required subordinate decision-making. By treating data computing errors are eliminated information that negatively affects the quality of their activities. The computer system as part of the information system should be structured as a system with two control loops. The main loop adjustment reflects the main influences of the environment: linkages with banks, beneficiaries, etc. Secondary loop is self-regulating loops which deal mainly internal disturbances in the system. System structure with two control loops of the computer system is necessary and sufficient for the system to be used as a tool of management.

Under a market-orientated activity, business strategy may change substantially depending on the economic circumstances have arisen. If due to some disturbance of this kind, the leader reassess its decision primary (original plan), may envisage a modified form of the initial target. In this case, when during the implementation of the decision, both initial and final shape have changed, we can speak about the computer system as a bivariate system.

The computer system consists essentially of the following categories elements:

- Computers and other equipment;
- Methods and techniques for treating data and information;
- Organized collections of data;
- Procedures and data processing programs;
- Specialized staff;

Within systems, electronic computer becomes a factor support analysis and decision of the utmost importance by solving optimization problems, both in the development of work programs, and during their execution. A computer system is designed through collaboration between specialists in related fields and the achievement of an information system is a complex, lengthy and activities that require specific analysis, design, programming and implementation. The information system should become, by introducing the system, instrument control and self-regulation of the economic system. The overall objective is to increase economic system reliability study [1], [4].

From the practical work of making systems emerge the following principles for achieving systems.

1. The system user, which implies:
  - Permanent user participation in all stages of the system;
  - Providing user-oriented documentation in a language accessible to him;
  - Approval of all proposals made by the user in the project;
  - Responsible for the implementation of the future user, the accuracy of data used for staff training necessary system operation;
2. The key issue is the people not the equipment, and in particular systems analysts, designers, professionals who have a decisive influence on how to achieve systems.
3. Computer systems must be justified in terms of quantity and quality, as it represents significant investment.
4. Making information system is an iterative process, which means that only the general must first set, then gradually detailing being done in several iterations.
5. When we can not plan something that we can do the right thing, principle applies not only in computer science. By virtue of this principle must be constantly monitored and updated planning system to achieve initial measure. Also, special attention should be paid to how staging works and size steps that we want to achieve.
6. Procedures manuals are as important as the programs, depending on the duration of their correct design implementation and operation of system.

7. The transition from the old system to the new system is itself a system and should therefore be treated with caution. The system designer has actually faced three systems: the old, the new and the one who makes the transition from the old to the new way of working.

8. The system must have good documentation at all stages of implementation.

Systems database informations are characterized by a life cycle that begins with the decision to undertake a fresh SI to better meet new user requirements and ends with the decision to replace the existing SI with a new, more efficient. The life cycle takes place in stages within each phase being defined and specific activities.

From the beginning we mention that regardless of historical or methodological step, the systems are approached through their life cycle.

They appear develops and decreasing perish, or a new cycle improves, giving rise to another version or a new system. Changes in technology and methods of information systems approach were reflected in the systems development life cycle, either by changing its stages, either by changing their optical scroll. For example, object-oriented approaches with systems were launched new models of the life cycle. By going through the literature, it appears that the number of phases / stages ranging from three (analysis, design, implementation) to over twenty. There are several models of the life cycle, many of them knowing evolving over time. For example, the waterfall model provides several stages of the life cycle sequentially down menus but was allowed to return to the stage previously browsed need to remove the shortcomings identified in the higher stages of the life cycle [2], [4]. Life cycle stages of a cascade system in the model are:

1. Analysis and definition of requirements - defined goals, services and restrictions that must meet the computer system, presented in a way that can be understood by both staff and users of the system design.

2. The system and software - establishing the requirements for hardware, software and overall system architecture development. The functions of the information system will be represented so that it can be transformed into one or more executable programs.

3. Implementation and unit testing program - designing software from the previous step is translated into a lot of programs or program modules and ensuring that each program or module meets its specification.

4. Integration and system testing - integration and testing programs and software modules as a complete system to ensure that the information requirements are met. After testing the system it is delivered to the user.

5. Operation and maintenance of the system - is the phase where the computer systems is actually used by the beneficiary and are discovered and

resolved any errors and omissions in the design and programming of initial data requirements.

Operations are performed on data from the moment of their appearance, to generate meaningful information relevant and are referenced together by the notion of cycle processing, which comprises five stages: data collection, data preparation, data processing, maintenance files and getting information out.

Data collection phase comprises two fundamental activities:

- Observing the environment that generates the data or by a human observer, or by the various equipment;
- Recording data, either by writing them in the source documents, either by capturing their different forms with special equipment.

Data preparation stage consists of a number of operations performed on the data to facilitate further processing, namely:

- Data classification, involving assigning identification codes (account symbol, code section, etc.) so that data to be included in relevant subsets;
- The grouping of data that is accumulating similar inputs to be processed group;
- Verification of data encompasses a variety of procedures to control the accuracy of data before they are processed;
- Sorting the data by which data groups are arranged in groups of records, ordering numerical criteria, alphabetical or alphanumeric time;
- Coupling two or more batches of records into one;
- Transmission of data from one point to another;
- Transcribing data from one form to another, so as to make the transition from handwriting in the documents typed or written in specific environments.

Phase data processing may include activities such as:

- Calculations include some forms of mathematical treatment of data;
- Subject to examination simultaneous comparison of two or more types of data including a logical link (ex. The final balance and the final);
- Synthesis is an important activity which merge the information;
- Filtering is another operation that extracted data to be amenable to the next;
- Restoration, which are made in-memory data in a form accessible to man, for further processing human or a computer readable form all.

In the maintenance phase of files there are several activities, among which:

- Memorizing (storing) data for use in future;
- Updating the data stored so as to surprise the latest events;
- Indexing data to facilitate an easy retrieval them;

- Protection of stored data, comprising a wide variety of procedures and techniques for preventing destruction or unauthorized access.

The last phase of the cycle of data processing of output information is obtained. Output information can be found in one of three forms: documents, reports, answers to questions. Most times, no data are passed through all activities and some of them can not pass through all five phases.

Database systems are integrated systems that create and maintain a single database of primary documents, which will then be engineered for specific customer situations.

Database information system involves the following four components: the areas of management, data models, rules management.

Management areas correspond to activities within the firm: personal activity, production activity, trade, financial and accounting, research and development. The data represents the raw material to be processed in the computer system to obtain the necessary information to take decisions at all levels of management: operational, tactical and strategic. Management models grouped domain-specific procedures and management rules define the processes that are performed on the data and use information in accordance with the objectives of the system. Management information system brings together information subsystems specialized fields between which manifests specific interactions. Each sub-group is defined processes homogenous information specific to a certain area.

In each subsystem will be defined distinct applications corresponding to these activities. In turn applications consist of procedures decompose into modules representing the code sequences by which it is independent of the procedure. A procedure for the update operation will decompose in the following modules:

- Coordinator of the update function module;
- Module to perform the function of adding recordings;
- Delete function module records;
- Module for editing by records from the database.

Methodologies are sequences of individual steps which help to achieve the final product, in our case the computer system. The methodologies involve the use of several techniques such as direct observation and interviews with old information system users.

The techniques are procedures applied in order to ensure completeness and intelligibility of a work for other team members.

Making information systems is a complex endeavor that combines a large number of activities: analysis, design, implementation, operation. In addition, it claims human, material and financial large, a considerable period of time. The effective use of these resources in order to obtain a computer system imposed ordering this complex process in a succession of

phases and sub-phases well established and the use of appropriate methods and techniques. These observations led to the outlining methodologies for achieving systems [1], [3].

Between the various stages of implementation of information systems there is an unbreakable bond, bond reflected that logically and practically quality carrying out certain activities in previous stages and phases decisively influences the quality of the activities of the following step.

### **3. Developing an informatics system based on a relational database for production designed as a data warehouse**

A business model for a data warehouse implies the description of the main components such as: Supply, Production, Products, Accounting, Financial, Sales, Marketing, HR and Fact business. In building a data warehouse is based on the analysis of data. Extract information in order to obtain information for decision making. Basically there are two steps: designing and populating data. Design is the stage where the data warehouse model is chosen, depending on the complexity of the system real user requirements and data structure existing in the company such as databases, Excel spreadsheets and so on [3], [5].

Building a data warehouse there are three models: type star, snowflake patterns type and constellation type models. Conceptual models are multidimensional and designed to organize data necessary decision-making process on issues. The models may change depending on the context, presenting the data in a structure bed, easily designed and accessible to end users.

In such a model is highlighted:

- quantitative data centralized called measures of activity
- quantitative criteria for centralized aggregation, referred sizes
- relational table that stores the measures identified by the facts dimensions is called table
- Tables where aggregation criteria has explicit codes, called type tables list. Facts associated table.

The star is the type of aggregation criteria when codes are explained in type tables list. Using data from lists, star type structure enables higher levels of aggregation on the initial size [4], [6].

#### **Data warehouse star**

The constellation type contains several schemes that use the same type star catalogs. The advantage is that the same warehouse can store different facts that have certain common coordinates and therefore share the same lists.

### Deposit constellation

The type is snowflake if any alternative classifications for the same code by integrating undersize and alternative dimensions. To analyze the evolution of the value of Supplies Company based on several criteria required of users, you can define a data warehouse type star.

In figure 1 is described a star warehouse model for a business:

In such a model the dimensions have a corresponding key in the fact tables (ex. Id\_financial – primary key from Financial has a corresponding key in Fact business – foreign key). This model permits to create complex query by simply choose the attributes from dimensions and a measure from the fact table. It also is possible to create graphics based on queries that contain attributes from dimension tables and measures from the fact table. Inserting data into dimensions can be made through an insert SQL command:

```
INSERT INTO MARKETING (ID_MARKETING,
MARKETING_CAMPAIGN, MARKETING_TARGET,
CAMPAIGN_START_DATE, CAMPAIGN_STOP_DATE) VALUES (1,
‘CAMPAIGN 1’, ‘CAMPAIGN TARGET 1’, ‘11/1/2016’, ‘11/24/2016’);
```

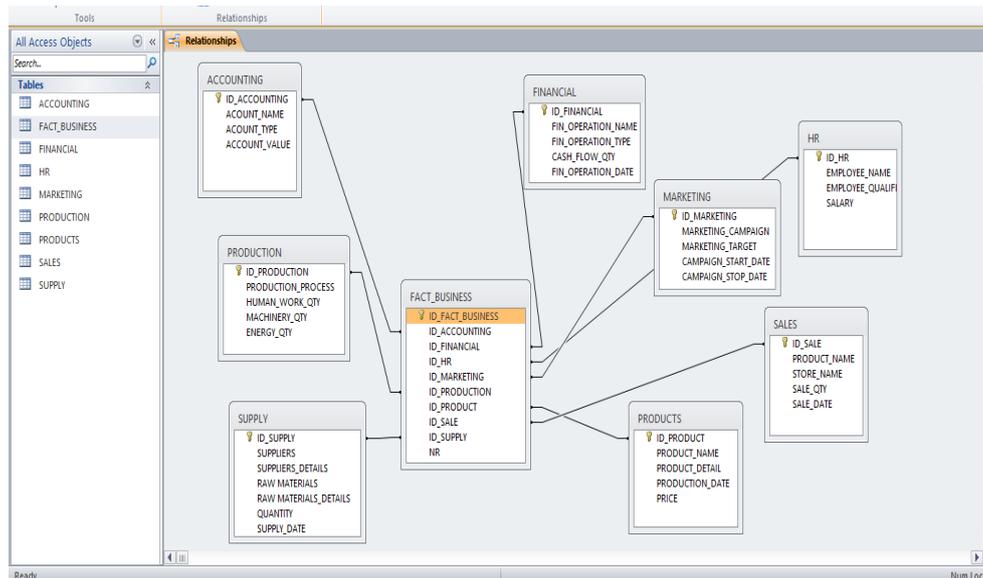


Figure 1 – A star warehouse model for business

Inserting data into the fact table is made also through an insert SQL command based on a trigger fired when inserted data into dimensions is:

```
INSERT INTO FACT_BUSINESS (ID_FACT_BUSINESS, ID_ACCOUNTING,
ID_FINANCIAL, ID_HR, ID_MARKETING, ID_PRODUCTION, ID_PRODUCT,
ID_SALE, ID_SUPPLY, NR) VALUES (1, 1, 4, 5, 3, 1, 2, 5, 4, 1);
```

Creating a query into a star model warehouse:

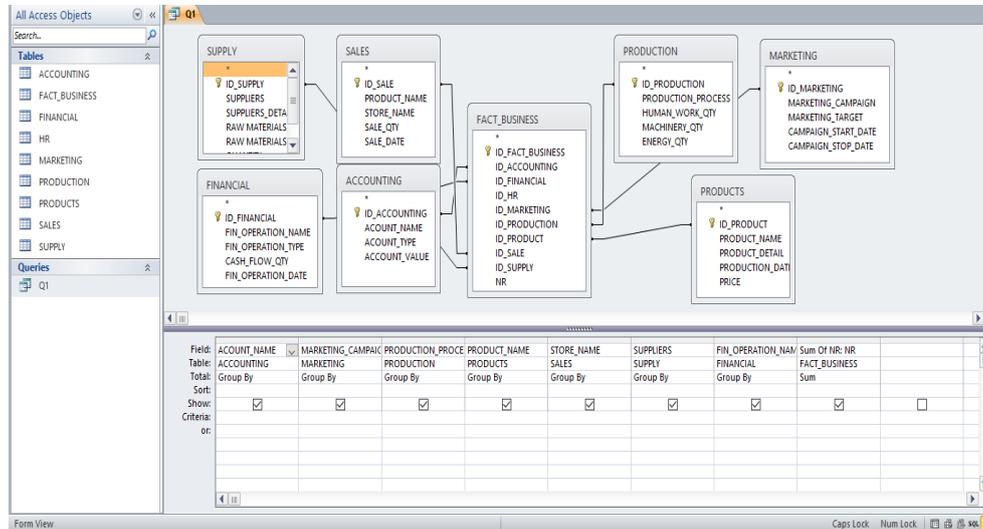


Figure 2 – Building a query in a star warehouse model for business

The query code:

```
SELECT DISTINCTROW ACCOUNTING.ACCOUNT_NAME,
MARKETING.MARKETING_CAMPAIGN, PRODUCTION.PRODUCTION_PROCESS,
PRODUCTS.PRODUCT_NAME, SALES.STORE_NAME, SUPPLY.SUPPLIERS,
FINANCIAL.FIN_OPERATION_NAME, Sum(FACT_BUSINESS.NR) AS [Sum
Of NR]
FROM SUPPLY INNER JOIN (SALES INNER JOIN (PRODUCTS INNER JOIN
(PRODUCTION INNER JOIN (MARKETING INNER JOIN (FINANCIAL INNER
JOIN (ACCOUNTING INNER JOIN FACT_BUSINESS ON
ACCOUNTING.[ID_ACCOUNTING] = FACT_BUSINESS.[ID_ACCOUNTING])
ON FINANCIAL.[ID_FINANCIAL] = FACT_BUSINESS.[ID_FINANCIAL])
ON MARKETING.[ID_MARKETING] = FACT_BUSINESS.[ID_MARKETING])
ON PRODUCTION.[ID_PRODUCTION] = FACT_BUSINESS.[ID_PRODUCTION])
ON PRODUCTS.[ID_PRODUCT] = FACT_BUSINESS.[ID_PRODUCT]) ON
SALES.[ID_SALE] = FACT_BUSINESS.[ID_SALE]) ON
SUPPLY.[ID_SUPPLY] = FACT_BUSINESS.[ID_SUPPLY]
GROUP BY ACCOUNTING.ACCOUNT_NAME, MARKETING.MARKETING_CAMPAIGN,
PRODUCTION.PRODUCTION_PROCESS, PRODUCTS.PRODUCT_NAME,
SALES.STORE_NAME, SUPPLY.SUPPLIERS,
FINANCIAL.FIN_OPERATION_NAME;
```

Based on the queries it can be built reports that helps the decision makers to choose what direction should have their actions. An example of a report based on the query above is represented in the image bellow:

MARKETING_CAMPAIGN	ACCOUNT_NAME	PRODUCTION_PROCESS	STORE_NAME	SUPPLIERS	FIN_OPERATION_NAME
<b>CAMPAIGN 1</b>					
<b>PRODUCT 1</b>					
	ACCOUNT 3	PRODUCTION_PROCESS 3	STORE 1	SUPPLIER 2	FIN_OPERATION 1
	ACCOUNT 1	PRODUCTION_PROCESS 1	STORE 1	SUPPLIER 1	FIN_OPERATION 1
Summary for 'PRODUCT_NAME' = PRODUCT 1 (2 detail records)					
Sum					
<b>PRODUCT 3</b>					
	ACCOUNT 4	PRODUCTION_PROCESS 3	STORE 3	SUPPLIER 3	FIN_OPERATION 2
Summary for 'PRODUCT_NAME' = PRODUCT 3 (1 detail record)					
Sum					
Summary for 'MARKETING_CAMPAIGN' = CAMPAIGN 1 (3 detail records)					
Sum					
<b>CAMPAIGN 2</b>					
<b>PRODUCT 2</b>					
	ACCOUNT 2	PRODUCTION_PROCESS 2	STORE 2	SUPPLIER 2	FIN_OPERATION 2
Summary for 'PRODUCT_NAME' = PRODUCT 2 (1 detail record)					

Figure 3 – A report based on a query in a star warehouse model for business

This kind of warehouse for business can improve the information flows between the main components of a company such as Supply, Production, Products, Accounting, Financial, Sales, Marketing, HR and Fact business. The outputs from one module may be the inputs for another and so the cash flows and the operational flows are under control and the business manager can have a general idea about the connections made inside his company. This flexibility is offered by the business intelligence tools in obtaining various results and create many types of reports for choosing the proper solution [4], [6].

### Conclusions

An information system that uses databases are very flexible and offers many advantages such as controlling the flows between the main components of a company such as Supply, Production, Products, Accounting, Financial, Sales, Marketing, HR and Fact business. In a company there are exchanges of informations between the main departments and a database can record all these informations and may be used later in different types of queries [1], [3]. A good management relies on store data in large databases shaped as data warehouses that contain dimension tables and fact tables that have measures available for complex queries and reports. A star warehouse model for business is flexible at the

physical level in the sense that offer the possibility to add new dimensions or new measures and at the presentation level permits to build numerous reports that can reflect different scenarios by simply changing some key values and give other perspectives to the decision maker. An information system for business has a physical architecture that mirrors all the main components, from supply chain to sales and also has an interaction layer that may be possible to evaluate an before situation and also to build scenarios that make possible future production that indicate the growth. [2], [5]. In the competitive environment of business the companies that have data stored in information systems based on databases have advantages in knowing the inside the exchange of data between the main departments and so it can improve the disfunctions that may appear.

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