

THE DYNAMICS OF THE MAIN ECONOMIC SECTORS IN ROMANIA THROUGH THE LENS OF THE UKRAINIAN WAR

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Abstract: *The negative effects of the war led to the degradation of the Romanian economy given the fact that it made it difficult to obtain raw materials, but also resources whose main suppliers were the two involved parties, respectively Russia and Ukraine. The automotive and construction sectors are the main areas affected by this conflict. Both the constructions and the automotive industry were and are affected by the increase in the prices of construction materials, raw materials and the increase in the price of energy, a situation that started since the beginning of the pandemic and continues to leave traces under the pressure of the war.*

Keywords: war, europe, pandemic, economic recovery, covid-19, economic sectors

JEL Classification Codes: G10, O10, O12,

1. INTRODUCTION

February 24, 2022, marked the beginning of the war between Ukraine and Russia. This led to a rapid acceleration in the increase in the prices of basic products worldwide, especially of fuels. On the European level, it caused insecurity regarding the ability to supply energy as well as state security, accentuated by Russia's decision to stop supplying gas to some of the members of the European Union.

Hoping to stop this conflict, the countries of the world have imposed sanctions on Russia: economic sanctions, individual sanctions, media restrictions, but also diplomatic measures. However, these measures did not stop Russia from continuing its oppression on Ukraine.

In March 2022, EU leaders agreed to phase out the EU's dependence on fossil fuel imports from Russia. In the extraordinary session of the European Commission in May 2022, leaders reviewed the progress made in increasing the EU's energy independence and called for greater diversification of energy sources, energy supply, accelerating the use of renewable energy and developing connectivity and communication in the energy network. They also called for effective international coordination to ensure a global response to food security challenges.

2. THE DYNAMICS OF THE MAIN ECONOMIC SECTORS IN ROMANIA THROUGH THE LENS OF THE UKRAINIAN WAR

After a period of decline in the Romanian economy due to COVID-19, with the month of May 2020, it began to register an accelerated recovery, approaching the percentages recorded before the pandemic.



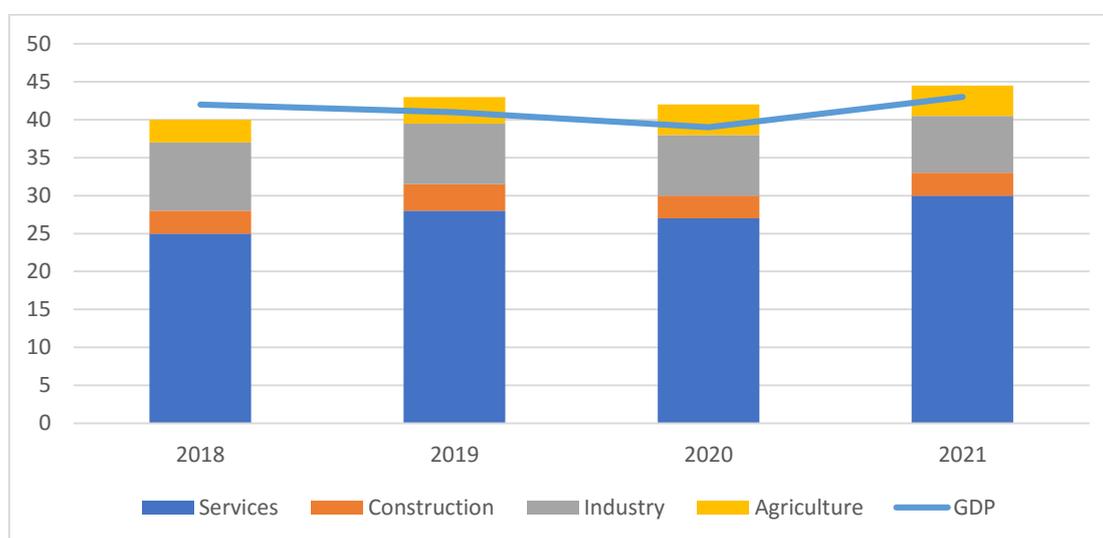
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The Gross Domestic Product (GDP) recorded in the first part of 2021, according to the NIS, an increase of 5.2% compared to the end of the year.

Regarding the composition of the GDP, in 2021, the largest share, of 67%, is held by the services sector. Compared to 2019, this sector recorded increases of approximately 5.9% in 2021 (Graph no. 1).

The construction sector represented 5% of GDP in 2021, registering increases of 5.5% in 2021 compared to 2019. Industry represented 20% of GDP in 2021. The industrial sector remains below the values recorded in 2019, registering decreases of -5.6% and -9.7% respectively in Q3 and Q4 of 2021 compared to those of 2019.

Agriculture accounts for 5% of GDP in 2021. The real annual growth rate of the segment was 26% in the third quarter of 2021 and contracted by -13.6% in the fourth quarter of 2021. Compared to the last quarters of 2021, the agricultural sector grew by 3.8% and contracted by -21.5%.



Graph no. 1 GDP dynamics on the main sectors

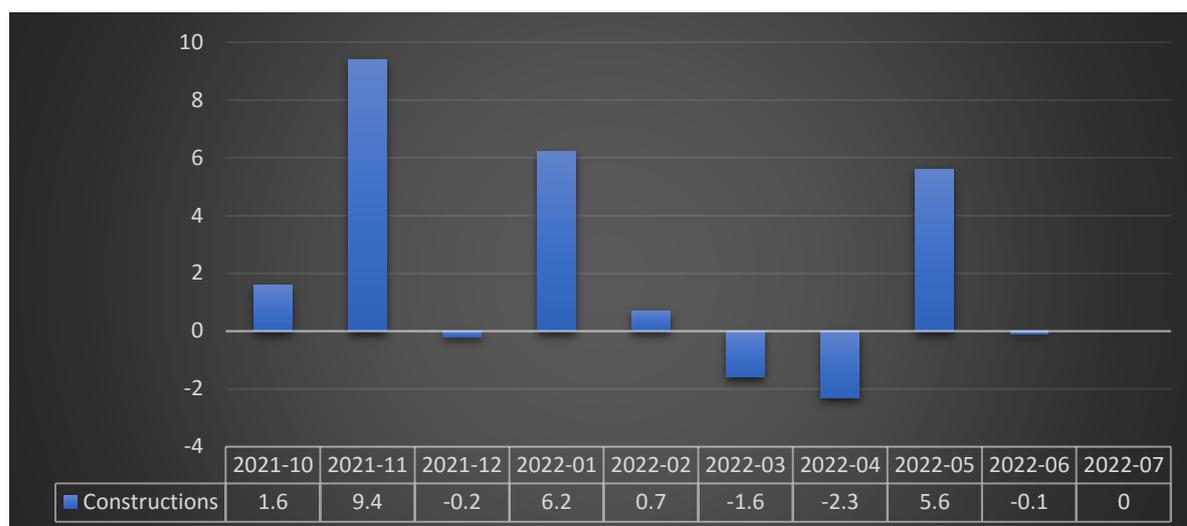
Source: INSSE

The outbreak of the war in Ukraine left its mark on the Romanian economy starting in February 2022, making it particularly difficult to access raw materials, as well as a series of more easily accessible resources from Eastern Europe (Ukraine, Russia). Dependence on this space is high (22%), with 6% of companies claiming to be completely financially dependent on it.

Within the Romanian economy viewed through the prism of economic sectors, the most affected sectors are those that are large consumers of energy, but also those that operate according to the way in which the consumer spends.

„Among the most vulnerable sectors to the conflict near Romania's border is the construction sector, with the real estate market being heavily affected. This sector is affected on the one hand due to sustained price increases for construction materials as well as energy, outlined since the pandemic and amplified in the context of war and labor shortages “. (Botea, 2022)

As for the construction sector, the conflict in Ukraine has indirectly affected it through several factors such as rising costs, interest rates and inflation. Costs were already on an accelerated growth in 2021, with an average of 25% above that of 2020. Thus, because of import difficulties, global developments, construction costs will increase, and the new investments will decrease.



Graph no. 2. Evolution of the construction production index

Source: Eurostat

The end of the second quarter of 2022, marked the lowest returns of the telecommunications and information technology sectors, while the real estate and raw materials sectors had very high levels.

The analysis is based on financial data published by public companies at the end of the second quarter of 2022 for 10 industries: consumer goods, energy, financial services, medical services, industrial products, technical information, raw materials, real estate and telecommunications services. Financial multiples are flat across most sectors, but analysts see declines in consumer staples, energy, healthcare, and real estate.

Exports of services in the first six months increased by 25%, up to 15 billion euros. Imports of services grew even faster, 32% in the first half of 2022 and 32% in the first half of 2021. The first half of 2021 reaches 10.8 billion EUR. Transport services, IT&C and business services topped the list of sectors with the highest export volumes. In the first half of 2022, the services trade surplus was €4.7 billion, representing only 30% of the €15.4 billion goods trade deficit.

According to the National Bank, Romania exported services worth 15.6 billion euros in the first six months of 2022, up 25 percent compared to the same period last year. In the same period, imports of services were 10.8 billion euros, up 32% compared to the first half of 2021. As a result, the international trade surplus in services reached 4.7 billion euros, up with almost 500 million euros compared to the same period last year.

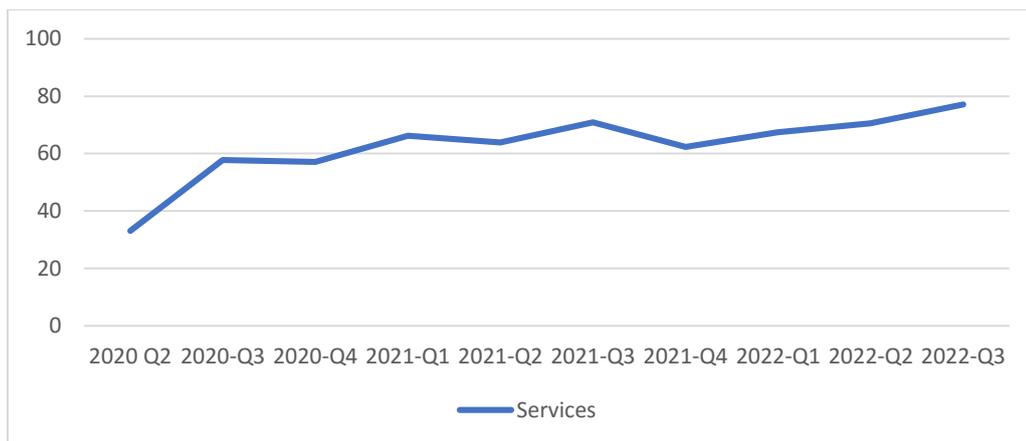
The trade surplus with services in the first half of 2022 was 4.7 billion euros. Although it increased, it represented only 30% of the €15.4 billion deficit in goods trade in the first six months of the year. The services trade surplus of 4.7 billion euros in the first half of 2022, although growing, represents only 30% of the goods trade deficit of 15.4 billion euros in the first six months, according to the National Bank and the National Bureau of Statistics.

Table no. 1 The evolution of services in the period 2020-2022

- quarterly-

Year	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2023 Q1	2022 Q2	2022 Q3
Services	33,1	57,8	57,1	66,2	63,9	70,9	62,3	67,4	70,5	77,1

Source: Eurostat



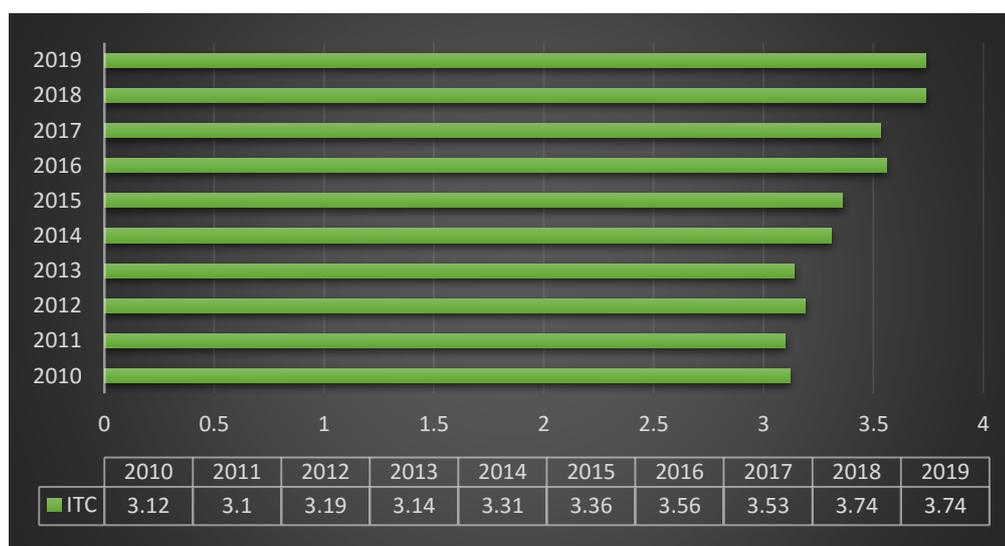
Graph no. 3. The evolution of services in the period 2020 - 2022

Source: made by the author based on table 1

Romania is one of the countries in the world with the most certified specialists in IT, with a density rate per 1000 inhabitants, higher than in the USA or Russia, being the leader in Europe and in sixth place in the world. In the first part of 2021, the IT sector received credit for its contribution to the country's GDP, being one of the only sectors to bring it close to its pre-pandemic level. The cumulative turnover was more than 78 billion lei, having a weight of 4.9% in the total turnover of the companies carrying out their economic activity.

This sector has seen an accelerated and balanced growth, and in the future is likely to become the most important contributor to the country's GDP in the medium and long term. The market size (measured by revenue) of the Romanian software development industry is worth EUR 3.2 billion in 2022.

„As of February 2022, the tech industry market share made up 6% of the country's GDP. However, according to the ANIS Romania, in 2025, this figure is going to reach 10%. Local authorities are making efforts to boost the growth of the Romanian IT sector. Since the country entered the EU in 2007, they have been implementing reforms to create a favorable environment for business funding and improve the quality of CS education. As a result, over the last 6 years, the foreign capital investments in Romania have reached \$1.9B”. (Khort, 2022)



Graph no. 4 Share of the IT sector in GDP

Source: Eurostat

CONCLUSIONS

Thus, the most affected industries are expected to be cyclical and energy-intensive, such as petrochemicals, transportation, automotive, paper, textiles and clothing, and agri-food. The analysis shows that the most resistant sectors will be the media (the ICT sector), the specialty chemical sector and the pharmaceutical industry.

Industries that were struggling before the crisis could also be hit hard by further shocks in the future. The textile and automobile industries have already been affected by this shock. Additionally, for most industries, there will be a huge influence and separation of industry/company locations in the supply chain based on their upstream or downstream position. Geographical, compositional, and operational dynamics within the same sector also play a major role in the effects of war.

In the long term, consumer and business habits are gradually adapting (energy savings, switching from wheat flour to alternatives), as well as changes in the organization of the supply chain. The latter will certainly have an impact on global supply chains. For example, important rail freight routes between Europe and China are currently being developed outside of Russia via intermediate corridors.

Like the impact of the COVID crisis on global industry trends, this new shock is likely to catalyze a major shift in supply chain organization and consumer habits.

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