

The Influences of the Exchange Rate on the Performance of Romanian Trade

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Abstract

The unprecedented development of international trade relations has generated the possibility of obtaining a significant part of the GDP of the participating countries in foreign trade. As a result, the issue of competitiveness in international economy has become a major concern to authorities. In the category of factors which are influencing the competitiveness level is registered the volatility of the exchange rate. In this paper there were analyzed the aspects regarding the evolution of Romania's foreign trade and exchange rate, in the context of monetary policy measures. The conclusion is that the development plan of the national economy is determined by the action of a complex of economic, social and political factors, but measures taken by the monetary authorities in relation to the regime of exchange may generate visible effects at this level and thus to the volume of foreign trade relations.

Key words: competitiveness, exchange rate, trade

J.E.L. classification: F 13, F 31

1. Introduction

In general, the performance recorded in the activities is considered an important indicator for sizing the competitiveness of an economy. But what is competitiveness? The numerous debates and controversies on the subject have not resulted in a universally accepted definition. From the literature are distinguished a number of issues that relate more to how you can size the state of competitiveness and the levels of its analysis. Thus, on the macroeconomic plan, there is an orientation to analyze the overall economy in terms of its ability to provide both the necessary resources to meet the needs of the population and a degree of occupancy as high as possible (subject to the requirements of sustainable development) (Cristea et al, 2008) while at microeconomic level there is identified an analysis on the firms and in the competitive process plan. Obviously, the competitiveness is not confined to the internal market analysis, any economy is more or less performing compared to other states. Externally, there is a reference to the effectiveness of external trade operations. Basically, there is considered that the trade balance is an important indicator for analyzing the competitiveness of an economy (dimensioned with the capacity to produce more than it consumes, in the context of rational use of resources and obtaining products of a higher quality, comparable that of existing products on foreign markets). Currency balance ensure is basically influenced by the performance of foreign trade. But it is influenced by other factors, it has a particular significance the exchange rate, its fluctuations on different time exerting a direct influence on the volume of foreign trade operations. Taking into account the previous specifications, the paper aim to realize an analysis of the volume and structure of foreign trade operations in Romania in connection with exchange rate volatility is structured as follows: literature review; trends in the evolution of Romania's foreign trade under the impact of exchange rate fluctuations; conclusions and bibliography.

2. Literature review

The two issues (development of foreign trade and exchange rate volatility in the currency markets) were analyzed frequently, either individually or in conjunction, registering a variety of results. Foreign exchange has experienced faster growth in recent decades, registering significant changes in the traditional hierarchy. Thus, the emerging countries have become important players in foreign markets, to the detriment of developed countries, being estimated a significant percentage of their in the international trade to 70% in 2050 (Dadush and Shaw, 2011, p. 65).

Regarding to the influence of exchange rate on export volumes, we notice different opinions. Thus, on the one hand it is considered that currency depreciation has no effect on foreign trade (Yang and Ji, 2006) or, on the contrary, has a negative influence on exports and imports (Binatli and Sohrabji, 2009). On the other hand, it is considered to be only exercised influences on exports (Bernard and Jens, 2004; Lemmers and Vancauteran, 2009; Gherman et al, 2013, p. 49; Grier and Smallwood, 2007, p. 978) or only on imports (Aydin et. al., 2004). There were also highlighted situations that have demonstrated influence of the exchange rate only on some groups of exported goods being identified a positive correlation to aliments, transport equipment, fuels, capital goods and chemicals.

3. Trends in the development of foreign trade in Romania under the impact of exchange rate fluctuations

In conditions of centralized economy the currency market in Romania was practically nonexistent. In the last years of the communist regime, the policy of liquidation of foreign debt held by the party in power generated negative effects on the entire economy. Thus, drastically limiting imports and exports enabled to pay the external debt, but at the cost of maintaining old facilities, the specific competitive advantage cancellation of an economy with a high degree of technology. The transition to a market economy has forced the cancellation of the policies which were regulating the foreign trade, with direct impact on the trade balance, which has rapidly deteriorated. This situation was caused by the absence of currency markets. Lack thereof and the practice of maintaining a currency at an artificial level (21 lei / dollar, the official exchange rate in 1990) to which there was added the rapid consumption of the exchange reserve of about \$ 1.2 billion (as at the end of 1989) in less than 9 months, had an adverse effect in economically plan. Determination by the authority of a steady exchange of 33-35 lei/dollar, which depreciated to 40-45 lei/dollar towards the end of the year, in the context of, on the unofficial market, the rate reached 80-100 lei / dollar has not had the desired effect. Using a fixed exchange rate as anti-inflationary anchor was a totally inadequate measure. The deficient actions of the authorities, who aimed to stimulate imports (much cheaper) to buy time to revive the economy and reduce inflationary pressures, led to worsening of the external imbalance.

Thus, while exports experienced a significant decrease amid the realization of products with a lower quality level, the imports have continuously increased, due mainly to the intern demand which exceeded the intern supply. This aspect was passed in the trade deficit in coming years amid maintaining a fixed exchange rate of the leu against the dollar.

The period between 1998 and 2005, further market and currency exchange rate liberalization, there was characterized by relative stability amid the application of adjustment policies on trade. But the results were not as expected, and trade deficit widened (Table no. 1). It notes, however, a good evolution at the level of the indicator The openness of the economy (DOE), but, the interpretation should be conducted accordingly to the comparative situation between the growth rythm of the two components (higher for imports).

Tabel no. 1 The evolution of Romania's trade with EU countries during 1998-2005 (milions USD)

Year	Export	Import	Balance	Total trade	DOE
1998	5.356	6.825	-1.470	12.181	52,9
1999	5.573	6.275	-702	11.848	60,1
2000	6.618	7.388	-770	14.007	71
2001	7.720	8.918	-1.198	16.638	64

2002	9.301	10.423	-1.122	19.724	80,9
2003	11.932	14.627	-2.695	26.559	71
2004	15.678	19.013	-3.335	34.691	83,5
2005	18.754	25.167	-6.413	43.921	84

Source: www.bnr.ro

The trade balance recorded the highest deficits in 2007-2008 due to the expansion of imports from European Union and declining exports. In the same period the leu began to depreciate strongly against the euro. In the period 2012-2015, the volume of external trade operations grew, both in the export and import level, as it results in Tables 2.

Table no. 2 The evolution of Romania's exports and imports in the period 2012-2015(mil. euro)

Year	Export			Import		
	Intra UE	Extra UE	Total	Intra UE	Extra UE	Total
2012	31720,5	13349,1	45069,6	40260,5	14443,4	54703,9
2013	34505,4	15057,2	49562,6	41861,2	13403,3	55264,5
2014	37306,5	15153,2	58508,4	44107,1	14401,3	58508,4
2015	40242	14380,6	62967,7	48587,1	14380,6	62967,7

Source: www.insse.ro

Significant increases in external trade operations led to increase in the deficit (after a substantial reduction in 2013), from year to year. Thus, in 2015 there is an increase of 38% compared to the previous year (table no. 3).

Table no. 3 The trade balance in 2012-2015 (mil. EURO)

	2012	2013	2014	2015
Commerce intra UE28	-8540	-7335,8	-6800,6	-8345,1
Commerce extra UE28	-1094,3	1653,9	751,9	-24,3
Total	-9634,3	-5701,9	-6063	-8369,4

Source: www.insse.ro

In conclusion, the volume of foreign trade operations in Romania have developed significantly after switching to a market economy, amid the currency market development. To identify the influence of the exchange rate of Romania's foreign trade, there can be analyzed its trend between 2002- 2015 (table no. 4).

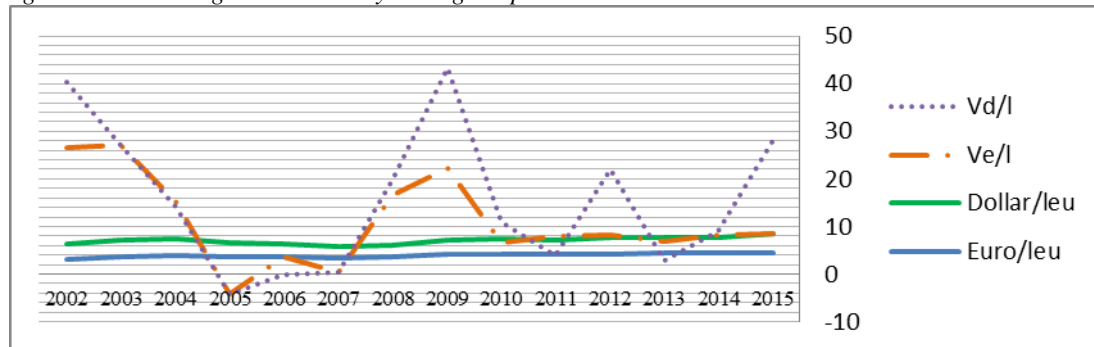
Table no 4 Exchange rate and its volatility during the period 2002-2015

Years	Exchange rate euro/leu	Exchange rate dolar/leu	Volatility of exchange rate euro/leu	Volatility of exchange rate dolar/leu
2002	3,1255	3,3055	20,09	13,74
2003	3,7555	3,300	20,15	-0,17
2004	4,0532	3,2636	7,93	-1,1
2005	3,6234	2,9137	-10,6	-0,11
2006	3,5245	2,8030	-2,73	-3,59
2007	3,3373	2,4383	-5,31	-0,13
2008	3,6827	2,5189	10,35	3,31
2009	4,2373	3,0493	15,06	21,06
2010	4,2099	3,1779	-0,65	4,22
2011	4,2379	3,0486	0,66	-4,07
2012	4,4560	3,4682	5,14	13,76
2013	4,4190	3,3279	-0,83	-4,04
2014	4,4446	3,3492	0,57	0,64
2015	4,4450	4,0057	0,01	19,60

Source: www.bnr.ro, own calculations

From the presented data there may be noted that in the period 2010 -2015 there was a greater volatility for dollar/leu exchange rate versus euro/leu. In the analyzed period exchange rate trend can be followed Figure 1. The exchange rate fluctuations transmit their influence on developments of different macroeconomic indicators. The influence exerted by exchange rate volatility on exports is difficult to quantify because the economic, political and social particularities from different countries do not permit the application of uniform models. However, it is known, that a significant appreciation of the domestic currency discourages exports

Figure no 1 Exchange rate volatility during the period 2002-2015



Source: own processing based on data from Table 4

Exchange rate volatility transmits its influence on imports in case of there is an appreciation of the currency against the euro. In this respect, the situation in Romania is conclusive. The leu's depreciation against the euro in 2012 led to increase exports and reduce imports, the direct consequence being -9.6343 trillion deficit reduction from EURO to -5.7019 trillion EURO. Subsequently, the appreciation in 2013 has stimulated imports in 2014 at a rate higher than exports, a trend that continued in 2015 (even if in the years 2014 to 2015 there was registered a significant depreciation compared with 2013, contracts have contributed to this situation). In conclusion, imports are boosted by the appreciation of the leu (while exports subtracted) but evolution is not immediate but occurs with a gap.

4. Conclusions

Exchange rate fluctuations transmit the influence on registered developments in different macroeconomic indicators. Its impact on the balance of external payments is not only directly on the size, but also indirectly through trade balance components. Thus, numerous studies have shown the influences of exchange rate depreciation or appreciation on exports and imports. The results were extremely diversified, which proves once again that their economic, political and social particularities of different countries do not permit the application of uniform models or respect certain rules and principles imposed. Analyzing the data presented it is observed that transmit foreign exchange policy measures influence on foreign trade, with some gaps. They are not visible to the true level, especially if we take into account the fact that Romania is intended for imports of inputs for export goods, leading to an overall reduction of the effect of exchange rate on exports. Also, we must not forget that on the exchange rate is exerted influence by a number of factors, most important being the external sector, political instability, economic situation, bank capital.

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