

## **FORECAST ACTIVITY IN THE CONTEXT OF THE DYNAMICS OF ECONOMIC AND SOCIAL PROCESSES AND PHENOMENA**

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**ABSTRACT:** *Forecasts highlight all the ways of tackling the problems of the future and help countries to act accordingly to solve interdependent economic, social and environmental problems by developing their capacity to address these issues in an integrated manner and as much as possible in a global perspective, at a global level. "The forecasting activity is necessarily based on the multilateral and critical analysis of the dynamics of socio-economic processes and phenomena, as a continuous movement, subsumed to the relations between past, present and future". The tools used for financial planning and forecasting are the budgets of the enterprise". The Budget is the main element of forecast and planning utilized, which reflects the activity of the entity in terms of expenses and income.*

**KEY WORDS:** *Increasing the forecasting activity, influencing factors, changes, transformations to be anticipated, optimal decisions, coronavirus pandemic - major shock to savings, recession, inflation, financial crisis, anticipation of future actions, modern prospective society, budget, planning and forecasting element, modern prospective society, investigation of the future, categories of futures.*

**JEL CLASSIFICATION:** *H68, M29.*

### **1. INTRODUCTION**

Our age is characterized by a rapid system of changes that occur in various areas of society, influencing the evolution of activities in the sectors of economic and social life. These changes must be known in advance, even if this knowledge is relative, it offers the possibility to prepare solutions for adaptation to the transformations that need to be made in the future.

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Mainly, these changes affect the technologies used, the structure and basic characteristics of the products obtained, the way of organizing and managing the activities undertaken. It also influences employment and the duration of an occupation. At the same time, they change the habits and other living conditions of the members of the society. All these transformations must be anticipated, because they are alert and complex and they cannot be controlled without their conceptual advance, in order to make optimal decisions. In this context, the future viewed through the frame of prospective research, is not univocal, but is presented in the form of a wide range of possibilities, namely it is based on alternative futures. Each of these futures belongs to a system that has its own dynamics, with an evolution of the tree type, inside which each possible future state represents a generator of other future states.

We are currently witnessing a degradation of the "present, under the rule of a shock of the future", of rapid and profound changes, which must be anticipated, even in its fundamental main lines, in order to minimize the dangers lurking in human society. The coronavirus pandemic is a major shock to economies, both in the EU and worldwide, with very serious socio-economic consequences. Despite the rapid and comprehensive political response, both at EU and national level, the EU economy will experience a historic recession this year. According to the economic forecasts from 2020, in Romania, the GDP will decrease by 6% in 2020, and will increase by 4.2% in 2021. Inflation will reach 2.5% during 2020, being followed by a percentage 3.1% in 2021, while the unemployment rate will reach 6.5% in 2020 and 5.4% in 2021. The euro area economy will also see a record contraction of 7¾% in 2020, following that in 2021 to know an increase of 6.2%. The EU economy is expected to contract by 7½% in 2020 and grow by around 6% in 2021. The growth forecasts for the EU and the euro area have been revised downwards by about nine percentage points from the autumn of 2019 economic forecasts. The shock felt by the EU economy is symmetrical in that the pandemic hit all Member States, but both the decline in production in 2020 (from -4¼% in Poland to -9¾% in Greece) and the recovery capacity in 2021 follow to vary considerably from one country to another.

The economic recovery of each member state will depend not only on the evolution of the pandemic in that country, but also on the structure of the economy and the ability to respond through stabilization policies. Given the interdependence of EU economies, the recovery dynamics in each member state will also affect the recovery capacity of other member states.

„At this stage, we can only roughly measure the magnitude and severity of the shock caused by the coronavirus on our economies. The immediate consequences will be much more serious for the world economy than those of the financial crisis, but the magnitude of the impact will depend on the evolution of the pandemic, our ability to re-launch economic activity safely and to recover later. We are witnessing a symmetrical shock: all EU member states are affected and all are expected to experience a recession this year. The EU and the member states have already agreed on extraordinary measures to mitigate the impact. Our collective recovery will depend on maintaining strong and coordinated responses at EU and national level. Together we are stronger” said Valdis Dombrovskis, Executive Vice President for an Economy in the Citizens' Service.

„Europe is facing an unprecedented economic shock since the Great Depression. Both the magnitude of the recession and the ability to recover will be uneven, conditioned by the speed with which isolation measures can be lifted, the importance of services such as tourism in each economy and the financial resources of each country. These differences pose a threat to the single market and the euro area, but they can be mitigated by joint and decisive action at European level. We must make every effort to meet this challenge” said Paolo Gentiloni, European Commissioner for Economy.

## **2. FORECAST AND FORECASTING ACTIVITY**

### **2.1. Forecast**

Forecast or prediction comes from the French "prevision" which means to anticipate the evolution and occurrence of events and processes based on known data from the past and present, as well as the study of objective laws in temporal and spatial context. It is largely recognized in the domain of anticipation and can be converted in Romanian in the term of provision (see in anticipation). But in practice it refers mainly to the anticipatory aspect and especially to the action of mentioning a clause (in a law or a treaty) and to prevent certain inconveniences through prudent, preventive, preventive and protective measures (for example, insurance is a precautionary measure against risks).

### **2.2. Forecasting activity - utility, necessity, possibility and factors of influence**

*„Knowing means forecasting in order to be able to do” (savoir par prévoir pour pouvoir)*, as stated by the founder of sociology as an autonomous scientific discipline, the philosopher Auguste Comte, foresight activity has always accompanied man's actions and initiatives as an expression of his natural way of behaving. The objective basis of the emergence and development of foresight is social work, carried out consciously. English futurist John Mc. Hale argues: "Man survives only by his ability to act in the present, based on past experience in terms of future consequences."

The past, the present and the future alternatives are intertwined in anticipation of future actions. Thus, it is concluded that the forecasting activity is necessarily based on the multilateral and critical analysis of the dynamics of socio-economic processes and phenomena, as a continuous movement, subsumed by the relations between past, present and future.

The complex character of the general evolution of the society determines the increase of the predictive activity, as an independent scientific field, being influenced by various strong factors such as:

a) The rapid pace of transformations, materialized by: the occurrence of unforeseen economic and social processes and phenomena (for instance, COVID pandemic - 19), with multiple consequences in the future; the duration of an activity, which is drastically shortened, many professions getting older in a few years; population, production of goods and services, urbanization, new products, the number

of scientific publications is doubling at a smaller and smaller interval; the habits and other living conditions of the members of the society change; the growth rate of scientific and technological activity is increasing compared to the population dynamics.

b) Emphasizing the power to transform living conditions, through the use of nuclear energy, computers and information systems, as well as through underground, underwater and space explorations, which greatly expand people's capacity for knowledge and action.

c) Increasing the distance between the past and the present at the same time as shortening the distance between the present and the future:

d) The amplification and diversification of the economic-social activities is realized at the impact with the dynamics of the technological and ecological processes, on national and international plan, influencing each other. This impact is realized through the activity of analysis and forecasting, which contributes to minimizing its negative consequences.

e) The more and more active affirmation of the *psychosocial component*, especially by reporting the man to tomorrow, to the care for the future; it appears in the consciousness of all peoples attracted in the circuit of modern civilization and manifests itself, in terms of expectations for the future, in: pessimistic and shocking feelings, of unrest towards the future changes, supposed to be damaging; optimistic feelings, of hope and trust in the future, supposed to positively affect the human species. Taking these factors into consideration leads to the conclusion that modern society, to which we also tend, is a prospective one (able to anticipate these transformations and act knowingly).

f) The need to reduce social entropy through the conscious activity of regulating the economy. Seen in themselves, independently and as spontaneous mechanisms, free from any constraint, economic phenomena and processes tend towards a maximum disorder, while the regulation mechanisms tend towards a maximum order. The regulation of the economy is therefore a means of action against social entropy, with a greater or lesser weight, depending on the degree of mutual compensation of the disruptive elements.

Taking these factors into consideration leads to the conclusion that we are moving towards a modern, forward-looking society capable of anticipating these transformations and acting knowingly.

### **2.3. Forecast, attribution of the modern management of the enterprise**

If we refer to the meaning of the saying "*to govern means to foresee*", the modern management of the enterprise has, as its first attribution, the forecast, and the financial forecast is, perhaps the most important planning activity. Unlike the balance sheet and the income statement, they are not intended for the general public, but for the internal needs of orientation towards the achievement of the proposed objective in the next financial year (increasing the performance, the value of the enterprise).

The budgets of the enterprise draw the trajectories to meet the proposed objective. Under the conditions of an intense competition, of a limitation of material

and human resources and of a demand for stabilized products and services, in order to survive, businesses need to anticipate.

### **3. BUDGET, FINANCIAL FORECAST INSTRUMENT OF THE ENTERPRISE**

#### **3.1. The notion and functions of the budget**

The establishment of future activity programs and the evaluation of the necessary efforts for their realization are made by the enterprise before the beginning of the forecast program. For this purpose, a financial forecast document was elaborated for a certain period of time, usually one year and broken down into quarters, with financial income and expenses ensuring a financial balance. The revenue and expenditure budget is the main planning and forecasting element used, which reflects the entity's activity in terms of expenditures and revenues. The role and functions of budgetary activity are planning and control, analysis, regulation and management. Thus, the elaboration of the budgets takes place periodically and represents an important stage in the functioning of the entity and is carried out in an adequate organizational framework, with the involvement of the management structures.

As a forecasting tool, the budget of revenues and expenditures plays a particularly important role in the activity of the enterprise, fulfilling the function of forecasting, the control function and the function of ensuring the financial balance of the enterprise.

*The forecasting function* is performed due to the fact that the revenue and expenditure budget forecasts a series of indicators such as: revenues, expenditures, production of manufactured goods, volume of investments, level of flows, receipts in foreign currency, and level of rate of return.

*The control function* through the budget of incomes and expenses, the incomes and expenses are distributed on profit centres, controlling the activities through the management of resources, through the budget the legislation in force regarding the profit destinations is observed, and through the forecasting of the indicators pursues their compliance with certain normal limits as well as their achievement compared to the provided levels, ensuring the financial balance of the enterprise.

#### **3.2. The B.V.C. role as financial forecast tool**

The forecast is the first objective of the management of the enterprise and the financial forecast is the most important activity in the realization of which a special role belongs to the budget of incomes and expenses, together with the balance sheet and the profit and loss account. Along with the financial forecast, another major concern of the modern enterprise management is the budgetary control of the implementation of the provisions in order to establish the deviations, their causes and the responsible persons, in order to take the necessary measures in order to eliminate them in the future.

### 3.3. The main budgets and financial forecast tools of the enterprise and the connections between them

There are several types of budgets in the management system of an enterprise, which can be classified according to several criteria, related to each other as follows:

a) Depending on their content:

- the financial budget is specific to the relations of distribution of financial resources, the revenues being dimensioned in their clarity by funds allocated for the financing of limited expenses; in these budgets the outputs are represented by expenses, and the inputs in the form of resource allocation (social action budgets, investment activity budgets);
- the economic budget is specific to the activities that form the object of the activity of the enterprise, which allows the comparison of the expenses necessary for the realization of the production with the incomes realized from its sale;
- cash budgets are specific to the company's cash flows and include cash inflows and outflows.

b) Depending on the object of the budget activity:

- organized budgets are those types of budgets in which revenues and expenditures are based on the organized subdivision of the enterprise (selections, factories, plants, etc.), including at its level;
- activity type budgets are characterized by the fact that revenues and expenditures are determined by activities (production activity, investment, repairs, etc.

c) Depending on the scope:

- general budgets which characterize the general activity of the enterprise;
- partial budgets which characterize parts of the enterprise (sections, factories, plants, etc.

d) Reported to the time factor:

- periodic budgets;
- continuous budgets.

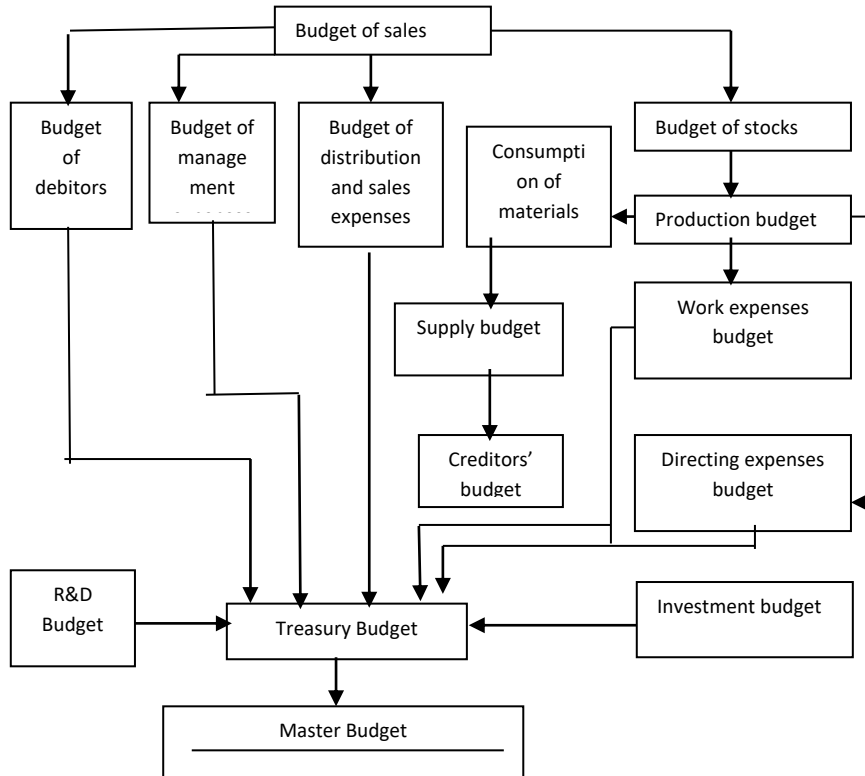
In our country, the main budgets established for companies, autonomous utilities or national companies are:

- general activity budget; production activity budget; the budget of the treasury activity; the budget of the activity of receipts and payments in foreign currency; the budget of the investment activity; state guaranteed loans; reserves; distribution of profit.

e) Based on their importance, there are:

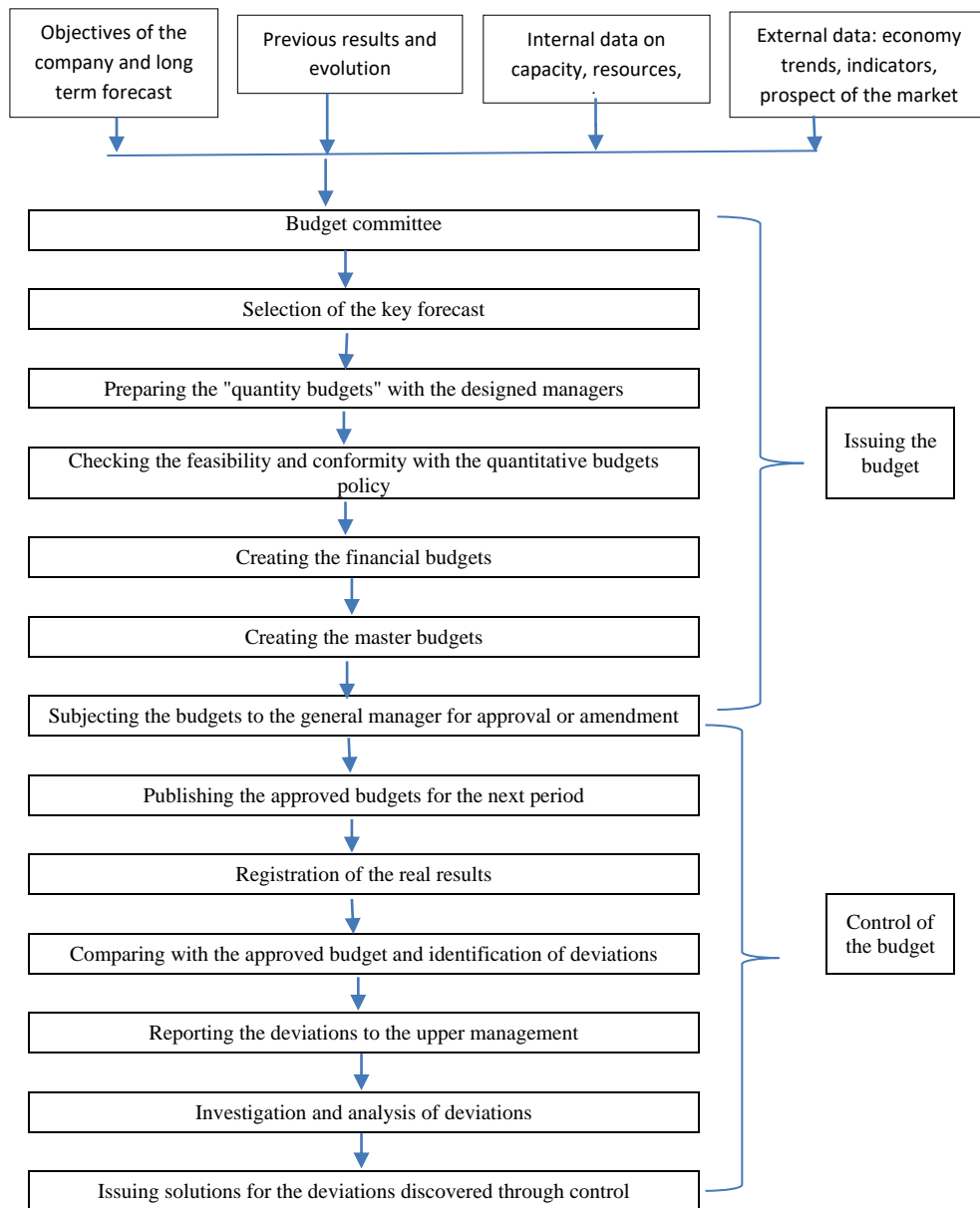
- basic budgets (production budget), usually elaborated for the production that forms the object of the company's activity;
- resulting budgets (supply budget, treasury budget, investment budget, etc.), the elaboration of which is done starting from the main or basic budget;
- general budget (master), which includes the assembly in a single budget of all the budgets elaborated on fields of activity. Budgets are linked to each other and a fact that determines their hierarchy. One can thus speak of a system of company budgets (figure1).

In practice, the number of budgets is much higher (there is a budget for each budget centre). The assembly of the issued budgets allows the establishment of a general budget (called also master budget), which includes the operating budget (reflected through the profit and loss account) and the balance form of the allocated budget.



**Figure 1. Main budgets and connections between them**

The global budget is elaborated, which includes the master (main) budget and the partial budgets, which are submitted to the approval of the general manager, in its final form. After approval, it becomes mandatory and indicates, for each budget centre, the activity program and the level of expenditures. From the approval of the global budget, budget monitoring becomes part of the manager's activity, given its quality, both as a tool for forecasting and control, as well as a tool to align the achievements to the provided objectives. Periodically, reports are prepared, called budget control reports in which statements are made on the implementation of the budget. The financial forecast must be accompanied by the budgetary control of the achievements against the forecasts, of the causes of the deviations, in order to modify, as the case may be. The key elements to be presented and followed in the report are: the level of expenditures and revenues the actual (actual) level of expenses and income in the respective period or year; deviations between predicted and actual levels, as well as trends in these deviations; establishing the relevant ones and, if possible, analysing and presenting the methods for keeping them under control.



**Figure 2. The process of issuing and controlling the budget**

The analysis of deviations, based on the data from the Budgetary Control Report (table 1) is imposed as an objective necessity in the case of applying management through budgets. Deviations must be analysed and justified taking into account their nature. There are normal, positive, or exceptional deviations. For example, if an overrun of the budget for raw materials and materials is found, this may be justified by the achievement of a higher production than that established by the partial budget.



**Table 1. Budget control report**

Budget centre ... Date issued ...  
 Budget responsible ... Forecasted level of activity ...  
 Relation of the report ... Effective level of activity ...  
 Management period ...

**Budgetary control report model**

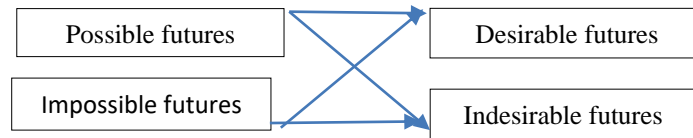
Budget Article		Current period			Cumulated year			Deviation trend	Relevance
Code	Description	Budget	Effective	Deviation	Budget	Effective	Deviation	—/—	Yes/No

The deviation can be interpreted as normal in this case. Deepening the analysis of each deviation by factors and causes, which determined it contributes to the identification of the causes and compartments that should solve them. In order for each executor within the company to be informed about the budgeting process, it is necessary to draw up a Budget Manual, which does not contain actual budgets for a certain period, but information and instructions related to the operation of budgeting in the company. The key elements to be presented and followed in the report are: the level of expenditures and revenues foreseen for the respective period or year; the actual (actual) level of expenses and income in the respective period or year; deviations between predicted and actual levels, as well as trends in these deviations; establishing the relevant deviations and, if possible, analysing and presenting the methods for keeping them under control.

**4. RESEARCH AND STRUCTURE OF THE FUTURE**

The research of the future must start from the consideration that it is the result of the evolution of processes or phenomena, based on objective and subjective conditions. The objectives are the expression of the existence of legitimacies that can be known and used. For example, nature manifests itself according to its specific laws and as a result its characteristic phenomena take place within the limits imposed by those laws. At the same time, the future existence is the consequence of the way in which the society intervenes on the development of the phenomena and processes according to the aims pursued by it. In this context, the future seen through the prospective research is not unequivocal, but presents itself as a system with its own dynamics, with a tree-like evolution, within which each possible future state represents a generator of other future states. In the combined study of the futures belonging to a system, several categories can be separated such as: possible and impossible futures, respectively desirable and undesirable. Therefore, the investigation of the future refers to the possibility of knowing possible and desirable degree of pollution) and impossible but desirable, such as the desire of people to make large-scale space travel, but which cannot be done in the current conditions.

Categories of futures and the relationships between them are presented as such:



**Figure 3. Structure of the future**

From all these categories of futures, the main attention must be directed to the possible and desirable ones, because their knowledge offers the possibility to enunciate variants of future situations, which can become necessary elements to substantiate some decisions. The future is not subject to the necessary investigations. The future is presented in terms of possibility, its study acquires a triple characteristic: it is multilateral and probabilistic, it highlights trends or directions of evolution and alternative states. From a point of view of the reference time, there is an absolute future and a relative future. In the first case, the future is not related to the time axis, while the relative future is a result of the subdivision of that axis. This creates the possibility of establishing certain stages of the investigation, which use their specific methods.

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