

## ROMANIA AND INTERNATIONAL FINANCIAL DEPRESSION

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**Abstract:** *The economic depression works in all countries, but in a different way for each of them. For some countries, the effects are hardly marking all the fields of economy, as long as for other countries there are affected just certain fields, with not so hard impact, so is easier to struggle against. That's why, the anti-depression rules are partly common and partly specific, differing from a country to another, or from a group of states to another one. We can say that the general aspect is the scarcity of cash, the stopping or slowing down granting loans by banks, with a bad effect on people and business environment. The worriest thing is not the lowering of development rate, but the fact that many countries are crossing a period of economic uncertainty and there are no available predictions about how long this period will be. The economic depression in Romania is mainly a home-induced one, generated by a mistaken mix of macroeconomic policy during several years.*

*The main cause for depression is an excessive consumption by indebted. So, we have an over-consumption depression. To surpass it means: to eliminate the wastes, to make investments in infrastructure, to make a real fiscal reform that not be neutral, by implementing structural reforms.*

**Key words:** *global economic crises, Romania*

**JEL Classification:** *G01*

### 1. ECONOMIC DEPRESSION AND THE EFFECT OF ECONOMIC GLOBALIZATION.

The economic depression works in all countries, but in a different way for each of them. For some countries, the effects are hardly marking all the fields of economy, as long as for other countries there are affected just certain fields, with not so hard impact, so is easier to struggle against. That's why, the anti-depression rules are partly common and partly specific, differing from a country to another, or from a group of states to another one. We can say that the general aspect is the scarcity of cash, the stopping or slowing down granting loans by banks, with a bad effect on people and business environment. The worriest thing is not the lowering of development rate, but the fact that many countries are crossing a period of economic uncertainty and there are no available predictions about how long this period will be.

#### 1.1. The Global impact of Depression

The economic depression occurred at first in the USA and expanded very fast to entire World Economy.

The globalisation of depression imposed the need of a meeting of the most economic powers leaders to find solutions. The leaders of the most 20 powerful economic countries, meaning 75% of the World Economy, established an agreement upon anti-depression measures. Although the measures are different from a country to another, the common conclusion is that the state should imply in economy. So, the state support will be given to banks and some industries, with the purpose to minimize the consequences of depression upon population. At the same time, it was established to increase the role of International Monetary Fund and World Bank in helping countries with less financial possibilities to support some fields of their economies.

Inside the European Union it was decided a set of common measures, the most important of them aiming consumption stimulation, avoiding a wave of business failures, sustaining the most disadvantaged social and economic categories of people and a sustainable development on long run.

To stimulate the consumption it was proposed a cut of VAT to 15% in the countries where it is higher. To avoid the business failures means a state support for that companies which, having great difficulties, could determine the rise of unemployment rate, or even, could stop the activity of some certain fields of economy. That's why the support will be submitted to great industrial groups, under the condition they should be able to recover as soon as possible.

On the other hand, the European Commission recommended state financial submissions to small companies that can't recover by their own, and to private husbandries. They also recommended as all the state loans to be granted for long-run projects and to be included in the state budgets for several years. This recommendation, as well as the idea of some public expenditures cutting has the purpose to keep the budget deficit at a level of 3% of GDP, as it was established by the Community.

The financial support against the recession in all the states of European Union should represent 1.5% of the Community GDP, meaning 200 billion euro, on the condition the national support to be 1.2% of GDP, and the difference to be offered from the European Union budget.

## **1.2. Solutions Adjusted To Romania's Problems**

In Romania, the results of depression are present mainly in the Real Estate field, including the construction sector, but also in a decreasing of manufacturing products for export or for domestic market (i.e. auto industry).

These results due to the scarcity of cash, caused by the fact that banks from Romania financed the loans for domestic market by borrowing money from their headquarters from abroad, not by rising their own capitals or by stimulating the population savings.

But banks are not the only guilty institutions implied. So, the savings of people and companies, which might be the main source in financing the banks (and the cheapest), were discouraged by negative efficiency and by taxing the incomes provided by interests. Much more, the guarantee at low levels practised for deposits, made many capitals to move to other markets, where the whole sum of money in banks is guaranteed. Another occurred problem was the trading deficit, also reflected in the current account, as long as in 2009 the movement of capitals owing to Romanian workers from abroad, as well as foreign straight investments are diminished.

The difficulties are worsen by the growing of budget deficit perspectives, due to a reduction of public rises because of lowering the companies profits and population incomes.

To stop the problems that Romanian economy has to face this year, the Government have to put in practise some of recommended measures by the European Commission. The highest efficiency on long run would be granting financial support to some companies, to agriculture and to invest in infrastructure. To cover these supplementary expenditures the Government should cut other less important budgetary ones.

The state financial support for those companies that are able for a fast recover if they get funds the banks can't offer now is one of the most efficient methods to prevent the unemployment rate rise. For this purpose must be selected only companies producing competitive goods, both for home and foreign markets (i.e. auto makers, foodstuff industry, textile industry, footwear industry, furniture industry etc). The foodstuff industry should be supported especially, by this way being helped an important rural social class, and facilitate the Romanian producers to become dominant on the home-market. At the same time, our foodstuff industry could become competitive on international markets.

The most important anti-depression measure is considered to be the financing of infrastructure projects, especially in transportation. This measure is useful not only for new jobs, but also for the integration of Romania in the European Union, will cut the prices for transportation and will make to increase the goods transited from the Eastern countries to European Union countries through Romania. So could be offered new opportunities of development for the companies working in this field.

The development of infrastructure is not only an anti-depression measure, but it is the most important one for future economic development of Romania. Without investments in transportation infrastructure, Romania will escape from depression poorer and more disadvantaged than its present position, comparing to the other countries of Europe.

## **2. ECONOMIC DEPRESSION IN ROMANIA – A DOMESTIC ONE**

The economic depression in Romania is mainly a home-induced one, generated by a mistaken mix of macroeconomic policy during several years. The economic growth proved to be non-sustainable, falling down in only one quarter. The growth was based on a debt-financed consumption and the private consumption turned to excess because all the macroeconomic measures were thought in a pro-cyclical manner. In our opinion, the most damaging measure was the unique tax quotation on incomes, that stimulated the consumption. Now we have the first over-consumption recession in Romania.

The population should not be blamed for this depression. In the future they must be better informed about their own income expectations. But the Government could be criticized for its strategic error: it spent all the economic growth and indebted hundreds million euro on short-run (even for a week), at a high interest rate. That means there are no budgetary funds for current expenditures, including the salaries of state employees.

The first step in stopping the depression should be the cutting of wastes and budgetary expenditures in administration. The cheapest money is that you already have and can save it. Those savings could be used for investments in infrastructure, this way bringing new jobs and pushing up other economic fields. Such kind of investments must be fulfilled by making a multi-yearly budgetary planification, being the only way to reduce supplementary costs. Also the fiscal policy mistakes must be removed - not only to rise the budgetary funds, but also for a more proper distribution of taxes, in the benefit of disadvantaged social categories.

At the same time, a public plan for joining euro currency must be assumed, with a certain decided deadline. This will grow up the foreign trust in our economy (and a lower cost for foreign loans, implicitly), and most of all, we'll be obliged to make needed financial and budgetary reforms, as well as the structural reforms (concerning the rising of level of competition, labour market flexibility, agriculture modernizing, bureaucracy reduction).

### 3. THE SPECIFICITY OF FINANCIAL DEPRESSION IN ROMANIA

The financial depression hit all the World and is already present in Romania. The Stock Exchange was stopped, national currency dropped to the lowest rates of exchange, Real Estate field collapsed. That's why we want to expose the *main vectors* that influence nowadays finance depression in Romania and some advice for people in this period of uncertainty.

#### 3.1. Where the financial depression is felt

- **The Stock Exchange** – The transactions were closed in Bucharest and Sibiu Stocks. This was a protective measure, as when the falling is more than 15%, the instability is dangerous. But this is not a reason to panic the population. The companies listed at the Stock can't turn down the Romanian economy.

- **The Banks** – Some of them have shares listed at the Stock, but they are not depending on the quotations. The only bad thing that can happen could be the panic of population, meaning huge withdrawins of cash, but this was not happened until now.

- **The Currency rate of exchange** – The dropping of RON rate will bring a higher price for loans granted in foreign currency, affecting many people. Also, an important falling could induce consecutive higher prices and problems on converging markets.

- **The Real Estate maket** – Already in recession for several month caused by the freeze of the market, this field could be hardly affected by an important falling of the RON currency rate.

- **The National Bank of Romania (BNR) Policy** – For a moment, BNR was implied decisively only when the situation seemed to turn out of control, offering a safety sentiment to population.

- **Political actions** - the nearest election campaign could deep the inflation in Romania, due to promises of politicians and the reaction of trade unions.

#### 3.2. Advice for population (from the Governor of BNR)

- Romanian state offers guarantee for less than 20,000 euro deposits. For bigger sums of money the market is still stable, but the risk is higher.

- There is not a good period for Stock Exchange investments. Big fluctuations could turn an investment into a loss.

- It is not recommended to make Estate trades. Instability of the market could be dangerous.

- Loans: the most disadvantageous seem to be those granted in dollars and euro, because of the national currency dropping. Would be better to avoid making loans in this period.

- The population must expect a new wave of high prices.

### CONCLUSIONS

The international financial depression was just the trigger for our economic depression, affecting the financial resources. Our consumption was based on debt, and now we need to borrow more expensively or don't. This is available for Government, firms and population. The weaknesses of a disequibrated economy are evident now. The first sign is the loss of many jobs. During 2009 the budget incomes were less and more difficult to be rised because the scarcity of cash. To stimulate the loans by BNR measures it will not be enough.

The solution to pass an over-consumption depression is not to stimulate all types of cosumptions. By that way it could be only delayed with some quarters. Depression in Romania has other reasons. It is a domestic-improved depression, specific to our way of development. The poorest people should be sustained in this period. That doesn't mean more money and a higher cosumption. Nor the consumption of Romanian products obviously is not perfectly available.

The solution to surpass an over-consumption depression is more complex than a help from the State, risking to generate a higher inflation.

We have an over-consumption depression. To surpass it means: to eliminate the wastes, to make investments in infrastructure, to make a real fiscal reform that not be neutral, by implementing structural reforms.

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