

The First on-line Conference on
*World's Economies In and After Crisis: Challenges,
Threats and Opportunities*



THE CRISE OF THE CREDITS AND ITS IMPLICATIONS IN ROMANIA

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Abstract

Countries of Central and Eastern Europe have been extremely affected by the crisis, not only because they have suffered a decline in domestic demand and exports, but many of them suffering from the effects of depreciation relative to their foreign currency loans. In addition, access to external credit has been restricted and the costs rose. Finally, capacitive their exit from the crisis on account of public expenditures is extremely limited.

Unfortunately, as seen fairly quickly in early 2009, Romania is not so simple as Western. Public investment looks good on paper, but their practical implementation requires administrative capacity, project managers and consistency in action. Romania faces its first economic crisis since the fall of communism, as its 2008 performance, with a record economic growth of about 9% in the first nine months of 2008, was significantly slowed down by the global financial crisis. Under existing circumstances, in this paper we want to make an analysis of the current economy in Romania and debate the possible settlement to solve this.

Keywords: international financial crisis, global recession, causes and effects of the crisis, anti-crisis remedies, external debt

JEL Classification: E44, F01, G01, G15

1. Aims and scope of the paper

The European Bank for Reconstruction and Development (EBRD) has lowered its forecast on Romania's 2010 economic growth to zero from a previous forecast of 1.3%, citing limited internal demand expected after the country's austere budget gap tightening measures.

The study is trying to present the main causes and characteristics of the crisis, with special attention to its impact on Romania, which has witnessed a severe economic downturn in the first trimester of 2010, registering a sharp decline in industrial production, construction sector, exports and also in the lending activity. To deal with high budget deficit and liquidity pressures in the short term a financing agreement with international organizations has been concluded. But, in the long term, the external debt burden is increasing, the sustainable development of Romania facing new risks arising from both the global crisis and the internal vulnerabilities.

2. Review of the Literature

The financial crisis was not widely predicted by mainstream economists, who instead spoke of The Great Moderation. A number of heterodox economists predicted the crisis, with varying arguments. Dirk Bezemer in his research credits (with supporting argument and estimates of timing) 12 economists with predicting the crisis: Dean Baker (US), Wynne Godley (UK), Fred Harrison (UK), Michael Hudson (US), Eric Janszen (US), Steve Keen (Australia), Jakob Brøchner Madsen & Jens Kjaer Sørensen (Denmark), Kurt Richebächer (US), Nouriel Roubini (US), Peter Schiff (US), and Robert Shiller (US). Examples of other experts who gave indications of a financial crisis have also been given.

The Wharton School of the University of Pennsylvania's online business journal examines why economists failed to predict a major global financial crisis. Popular articles published in the mass media have led the general public to believe that the majority of economists have failed in their obligation to predict the financial crisis. For example, an article in the New York Times informs that economist Nouriel Roubini warned of such crisis as early as September 2006, and the article goes on to state that the profession of economics is bad at predicting recessions.

Economist Paul Krugman (Nobel Prize in Economics) argued in January 2010 that the simultaneous growth of the residential and commercial real estate pricing bubbles undermines the case made by those who argue that Fannie Mae, Freddie Mac, CRA or predatory lending were primary causes of the crisis.



3. Methodology of research/ approach

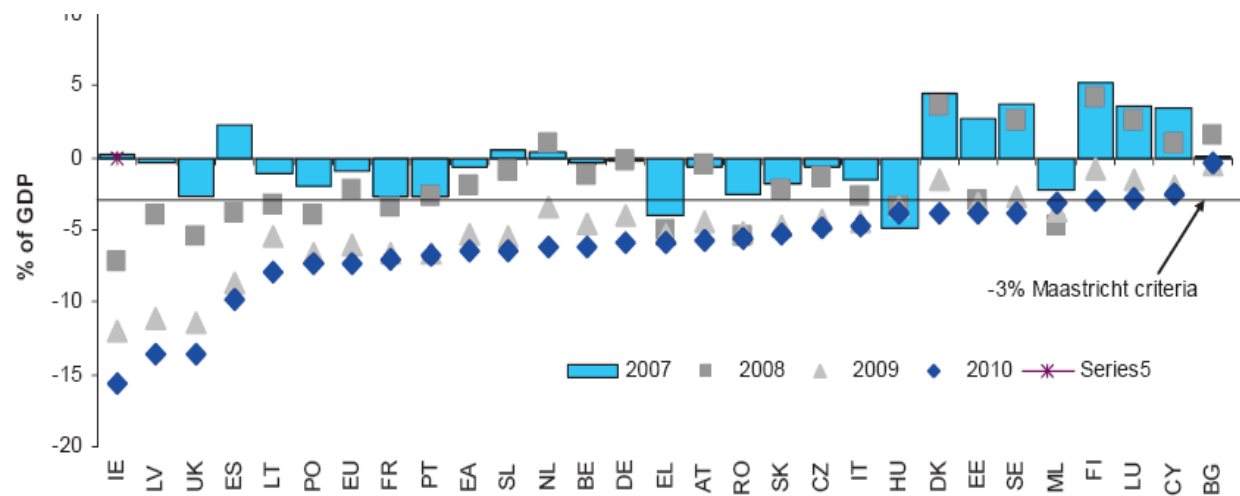
The effects of the crisis on emerging European countries have been multiplied by their super positioning to the persistent inflationary pressures caused by the rise of energy, raw materials and agricultural products global prices, during 2007 until the second half of 2009. Moreover, in this context, a flight of foreign capital has been noticed, some of these countries (Hungary, Romania, Czech Republic, Poland) facing a sharp depreciation of their currencies and the decline of investors appetite, which resulted in an increase in external financial imbalances.

The international financial institution said in a last report Romania has vowed to take drastic measures to tighten its ballooning budget deficit, which will trigger a decline in internal demand. Romanian authorities and the International Monetary Fund, which is leading a EUR20 billion rescue loan for the recession-hit eastern European EU member, now expect this year's economic growth at zero, after previous scenarios forecast a more optimistic 1.3%.

To understand and motivate better possible solutions we must classify the effects of the crisis according to their action on short and respectively on long term, this issue depending on the duration of the crisis on the one hand and its economic and social consequences on the other hand. In analyzing the effects of the crisis in the context of coherent anti-crisis programs and measures we must take into account not only their negative side but also the opportunities created by the process of "creative destruction" that must be highlighted.

4. Findings and data

Where is Romania now?



Source: European Commission

Fiscal position for members states

5. Results and Discussion

We study the impact of the global crisis on Romania's economy by:

1. Indexes of industrial production in Romania;
2. Exports and Imports of Romania;
3. The projection of main macroeconomic indicators;
4. The short, medium and long term external debt of Romania;
5. Prerequisites of the financing agreement with international organizations;
6. Impact on Budgetary Position;

Regarding the non-traditional causes, especially the ones related to the financial crisis, we can mention, first of all, the extent and depth of the sub-prime crisis concerning: the uncontrolled growth of a *sui generis* origin-and-distribute model; an inordinate appetite for profit that has fuelled the growth in demand for high risk assets; the ex-ante ignorance and ex-post uncertainty regarding the risk associated with stock market values, based on mortgages, derivative financial products and credit-default swaps transactions; the lack of an appropriate corporate governance and the excessive incentives for the financial institutions managers.

6. Concluding Remarks for Romania:

- despite the negligible effects of the crisis on the banking system of Romania due to the limited exposure to the toxic assets, the measures for promoting the recovery of lending through the recapitalization of banks could help the rebound of the consumption credit support and the prevention of a too long recession.
- the impact of the global crisis which has contracted the external demand particularly affects the real economy. According to the decline in GDP over the first two quarters in 2009 Romania has entered into recession.
- viewing the economy vulnerabilities caused by the accelerated deterioration of the current account in recent years mainly due to the growth of trade deficit, Romania's external financial position was on the edge of a crisis, which, in any way, would have rendered an external loan necessary to cover the financial gap.
- the analytical foundation of the joint loan from the IMF-World Bank-EBRD-EU summing EUR 20 billion over two years is raising debatable assumptions, in our opinion, the real reason being imposed by the NBR needs to avoid a currency crisis, firstly because of the lack of immediate liquidity of international reserves, apparently reassuring.
- besides the negative impact on the Romanian economy, the crisis can stimulate the financial restructuring and reorganization, to develop new activities and gain new markets, taking into account the conditions of competitiveness and globalization, marked by challenges of the environmental crisis and the transition to a sustainable development.
- because of the crisis impact on the state budget by cutting public funds, including for R&D and for environmental protection investments, the government should promote strategies in order to develop high technologies for saving energy, for recycling and waste treatment, while respecting the environment parameters and the requirements of Romania's sustainable development.
- there is a series of other dilemmas and related risks in the future caused by the general need to reduce the interest rate in contrast with the high level charged by banks in Romania and also by the recommendation to continue the trade liberalization policies in contrast with the trade protectionism practiced by many countries during the current crisis.

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