World economic crisis and its effects on the Romanian economy

Abstract: This paper presents the negative effects of the recent global crisis over all the countries of the world, emphasising its impact on the Romanian economy. Such unfavourable consequences are analysed at multiple levels: commercially, financially, the exchange rate, foreign direct investments or the wealth and balance issues. Concrete results are submitted, based on relevant indicators studied according to their evolution in time, stressing the causes and consequences that generated the related changes. Finally, a brief view of the subsequent trajectory of our country from the perspective of the crisis is considered.

Keywords: financial crisis, Romanian economy, gross domestic product

Introduction

The current world economic crisis, often called the global financial crisis or global recession, which started to adversely affect mankind by the end of 2000’s, is deemed to be the darkest economic moment of the world economic history since the Great Depression of 1929-1933. The collapse of several powerful financial institutions, previously regarded as indestructible, the emergent measures taken by national governments in order to rescue their domestic banks, the breakdown of stock exchanges, the decline of economic activity, at national level, in general, and at the level of corpora-
tions, in particular, the decline of the population’s living standards, as result of the freeze or decrease in their incomes, or due to the increase of the unemployment rate, are just a few of the negative consequences manifested at world level, both micro-economically and macro-economically.

Revealing the close interdependencies existing between the countries of the world, the economic crisis began to extend its effects to Romania, also starting with the last quarter of 2008, thereby interrupting the economic leap undergone by our country, achieved in its efforts to meet the requirements imposed by the related organisms, in its standard as a member of the European Union.

In Romania, the unfavourable outcomes have contracted in multiple ways: commercially, by the registration of a decreased rate of exports; financially, by foreign financing access restriction, also involving credit restriction, implicitly leading to difficulties relating to private external debt; from the perspective of the exchange rate, by the depreciation of the local currency; as regards foreign direct investments, by their abatement as a result of the decrease of the level of trust in the ascendant economic evolution of our country; and as for the wealth and balance effects, by the deterioration of the net assets of both the population and companies, due to the high weight of credit in foreign currency, correlated with RON depreciation, and as a consequence of the discount of movables and real estate assets having previously registered speculative, unsustainable levels.

1. Evolution of Romanian Foreign Trade Given the Economic Crisis

The first negative impact was the sudden decrease of Romanian exports in general, and of those directed towards the European Union, in particular, considering that the latter represented the main destination of the products produced on the territory of our country. During the first quarter of 2008, the current account deficit of Romania increased by 10%, representing about 11.8% of GDP, dropped in 2009, when it reached a level of 4.4% of GDP and in 2010, with just 4.2% of GDP\(^1\) (Figure 1).

From the moment of adhesion and until the middle of 2009, exports destined for the EEC countries have amounted to 58.5 billion EUR, as compared to the imports totalling 92.8 billion EUR, therefore generating a commercial deficit in relation to the UE of about 35 billion EUR, under the cir-


cumstances according to which the weight of intra-community relationships in total relationships was 73% in 2009.

According to data provided by the National Institute of Statistics of Romania, the Romanian commercial deficit has decreased during the first quarter of 2010 with 13.6%, compared to a similar period of 2009, mainly due to exports' increase with 19.4%, accompanied by an export leap of just 11%. The current account deficit was to be financed to a great deal in 2010, by foreign direct investments of non-residents, amounting to 2.596 billion EUR, lowered by 25.6%, compared to 2009, already diminished with 48.4% when compared to 2008.

![Current Account Deficit (%GDP)](image)

Figure 1. Current account deficit (%GDP) of Romania in 2008, 2009 and 2010

2. Gross Domestic Product and Elements of Impact on Economic Growth

From an economic growth perspective, the gross domestic product represented the difficult circumstances that our country had to face. This indicator amounted to 115.9 billion EUR in 2009, decreased by 7.1%, when related to 2008, being the consequence of the diminishment of the gross added value in all sectors of activity, especially at the level of trade, hotels and restaurants, transportation, telecommunications and construction, the contribution of which to the formation of the gross domestic product was

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31.1%, while the industry, maintained at a reasonable level, was too insignificant as a weight of GDP, to represent a saving solution.

The final consumption also registered a drop of 8.2% in 2009, when compared to 2008, especially due to the decrease, by 10.8%, of the expenses destined for the final consumption of households⁶, while investments marked a loss of 25.3%⁷. The year 2010 faces a new decrease in gross domestic product, by 1.3%, showing, however, a smaller contraction than the initially forecasted one, especially as a result of its increase, by 0.1%, in the last quarter of 2010, created by the augmentation of the level of exports and by a more temperate decrease in consumption (Figure 2).

By the end of 2009, we succour to a deflationary process, with a rate of inflation of 4.74%, the yearly average reaching 5.59%, lowered to about 2% in relation to 2008. This decrease was mainly influenced by the price evolution of non-food products, which registered in December, a rate of 4.36% under the total yearly price rate, namely 0.38%⁸.

If, during the first quarter of 2010, inflation continued its descendent trajectory, in parallel with maintaining the economic decline, the second part of the year came with a strong ascendancy, up to the level of 7.96% by the end of 2010, the central source of this issue being the increase of the standard quota of added value tax by 5%, starting with the third quarter of 2010 (Figure 3).

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At the same time as the inflation increase, our country was confronted with a decrease of the labour force occupational rate, the average number of employees totalling in 2010 4238.13 thousand people, 7.8% below the level registered in 2009, under the circumstances of a continuous economic decline and of the reduction of personnel in the budgetary sector.

Even if, in 2010, the gross average wage on the economy as a whole was about 2.5% higher than the one specific to 2009, and the net average wage was superior by about 1.8%, considering the average inflation of 6.1%, the level of the real wage was in fact lowered by 2.6%\(^9\), therefore generating the diminishment of purchasing power.

As for the currency market, the National Bank of Romania has intervened several times in order to maintain, at reasonable limits, the volatility of the rate of exchange, so as to control the inflationary process and any possible repercussions on the financial sector and on the real economy. Towards the middle of 2009, the Romanian currency significantly depreciated compared to the European currency, to about 25%, when related to the middle of 2007, despite the increase of interest rates which would have generated a contrary effect.

In order to slow down the inflationary progress, the National Bank of Romania decided to correlate the increase of interest rates at the economy level with the increase of the monetary policy interest rate 7% in September 2007 to 10.25% in August 2008\(^{10}\). However, at the beginning of 2010, the RON began to appreciate in relation to the EUR currency, as a result of the decrease of the level of trust in the latter, on the grounds of the increase of external debts and of the considerable budgetary deficits.

\(^9\) Fiscal Romanian Council (2011), idem, p. 11.
Although, during 2000-2008, we faced a visible economic growth, the budgetary deficit continued to increase all along the stated period, reaching, in 2008, 5.2% and, in 2009, 7.4% of GDP. Yet, in 2010, it decreased to 6.5% of GDP,\footnote{Constantin, D., Goschin, Z și Danciu, A. (2011), \textit{idem}, p. 162.} this being due, on one hand, to the diminishing of the rhythm of extension of the budgetary expenses, up only 4.2%, when compared to the previous year, mainly caused by the decrease of the wage funds by 8.6%, compared to 2009, and by the decreased investment expenses of 5% and, on the other hand, as a result of the increase of the revenues of the consolidated general budget to about 7.2% in relation to the previous year, up to 32.8% of GDP.\footnote{Fiscal Romanian Council (2011), \textit{idem}, p.14-15.}

Considering a significant budgetary and current account deficit, after a period during which the Government promoted an expansionary fiscal-budgetary policy, once the crisis emerged, we adhered to the implementation of an anti-cyclical policy, based on drastic austerity measures, among which the decreasing by 25% of public employees’ wages, an increase of added value tax from 19% to 24%, and massive dismissals, in parallel with the effort to sustain economic growth, by the conclusion, in March 2009, of a 2-year agreement of financial aid with the International Monetary Fund, the European Commission and the World Bank, the contract amounting to almost 20 billion EUR.

By the end of 2008, the total external debt of Romania, registered 72.3 billion EUR, the debt in the medium and long term being 51.7 billion EUR, and the debt in the short term 20.5 billion EUR.\footnote{Wall.Street Editors (according to BNR) (2010).} In 2010, the external debt of our country increased by 11.8%, reaching 90.76 billion EUR, the debt in the medium and long term being, by the end of the same year, 79.3% of the whole external debt, more exactly 72.019 billion EUR, an increase of 9.5%, when compared to the level specific to the end of 2009, while the short term external debt reflected more accentuated dynamics, increasing by 21.6%, up to a level of 18.746 billion EUR\footnote{Fiscal Romanian Council (2011), \textit{idem}, p.11-13.} (Figure 3).

The loans contracted by our country, unsupported by a favourable evolution of the gross domestic product which could have been provided by the stimulation of consumption and investments, allowing for the payment of the debt service and sustainable economic stimulation, made Romania continuously sink into the darkness of debts.
3. Year 2011 – Surpassing the Crisis?

The year 2011 entered with some vigour in the economic area. According to the data of the National Institute of Statistics, in the forth quarter of 2010, GDP registered a slow increase, in real terms, of about 0.1%, when compared to the previous quarters, reiterating the same in the first quarter of 2011, this time with a cu of 0.7%, thus marking two consecutive quarters of economic growth and, therefore, the emergence from recession of our country, after two and a half years. The increase continued also in the second quarter, by 0.2%, followed in the third one, by 1.8%.

In October 2011, the current account of the balance of payments revealed a deficit of 4.09 billion EUR, 9.5% below the value of the same period of the previous year, due to the contraction of the commercial balance deficit, by 12.7%. In exchange, the external debt in the medium and long term reached 74.82 billion EUR, 2.6% above the threshold of December 2010. As for the budgetary deficit, an amelioration was also ascertained, it representing, in the second quarter of 2011, 1.1% of GDP, significantly lowered, by 0.7% of GDP, related to the same period of 2010, on the grounds of increasing the budgetary revenues and decreasing the budgetary expenses, especially personnel ones, by 23.5%, and social security, by 9.5%.

The third quarter of 2011 marked a favourable evolution also as regards to inflation, with a rate of 3.45%, the lowest level since the revolution of 1989, its decrease by 1.5, when compared to the previous quarters, being mainly due to the dissipation of the first round effect of increase of the added value tax and the decrease of food products prices, the latter almost returning to the


autumn level of the previous year\textsuperscript{17}. In parallel with it, according to the National Agency for Employment, the unemployment rate was 4.93\% in October 2011, the number of unemployed amounting to about 444,000 individuals, related to a rate of 7.08\% in October 2010.

Even if the results obtained by Romania in 2011, in the economic field, give us hope of revival, the adverse effects expected from the perspective of the Euro area crisis and of the payment of the loan instalments to the International Monetary Fund, announced for 2012, raise certain doubts as to the subsequent evolution of our country in the near future. By the budgetary measures proposed for 2012, including the freeze of public wages and pensions and the introduction of co-payment in the budgetary system, this leading to the decrease of purchasing power as result of a positive inflation rate, targeted at 3\%, the Government aims at succeeding in reducing the budgetary deficit to 1.9\% of GDP, from 4.4\% in 2011, this implying, however, an economic growth of 2\% and an increase of the financial aid granted by the European Union\textsuperscript{18}.

Conclusions

The paper revealed the destructive effects of the world financial crisis on Romania, rendered by specific indicators reflecting the evolution of the gross domestic product, inflation rate, unemployment rate, commercial deficit, budgetary deficit, exchange rate and so on, for the period 2008-2011, with their ups and downs. By analysing the evolution of such indicators, the sometimes inappropriate measures taken by the authorities in supporting the right direction of our country has come to our attention. Given the close inter-correlation between the economic indicators and the issues to be considered in studying a complex economic process, fiscal-budgetary and monetary policies should be undertaken after a profound study of all possible consequences and acting in compliance with anti-cyclical principles. In order to propose adequate solutions, the organisms in charge have to take into account not only the short-term, but also medium and long term effects, therefore creating the premises for surpassing the current crisis and for providing a subsequent healthy economic growth.

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