

## THE CONSEQUENCES OF THE GLOBAL CRISIS OF 2008 ON ROMANIA

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### ABSTRACT

Within the global economy of nowadays, related to some unprecedented interdependencies between the world countries, between the individuals and organizations, the global crisis launched in 2008 on the American economy (as matter of fact, the moment of launching was the last quarter of 2007), has been extended really fast, even if not of the same intensity, on the entire world. The hypothesis of launching the crisis, meaning the so-named “high depression”, towards the end of the last century, was especially known by governments, central banks or various governmental agencies; many studies have invoked this hypothesis, even explicitly (Röpke, 1936; Schumpeter, 1939; Mitchell, 1954; Friedman, 1987; Samuelson, 2001 etc.), where the economic cycles were unanimous accepted as part of the capitalist economies dynamics (Juglar, 1862; Kondratieff, 1925; Kuznets, 1930; Schumpeter, 1939 etc.). “The only surprise related to the economic crisis of 2008, according to Stiglitz, was the fact of surprising so many people”; this time, the crisis was launched on the immovables market in the banking sector, which financed this market, since almost two thirds of the American economy has started to be addicted to the immovables (the construction of buildings, the endowments, purchasing and mortgages on consumption etc.).

As regards the analysis of crisis over the European Union member states, and separately over the main states included within the Euro Region context, “the pattern” of current global crisis appearance has been significantly different for the countries in the Central and Eastern Europe. For some countries of this part of Europe (as Poland, Romania, Hungary and Bulgaria etc.), one might carry out an estimation about the comparative impact induced by the global crisis, and as result, consequences relatively proximate from one country to another; they adhered lately to European Union, and are not yet part of the Euro Region. Although, the presumption invoked should be regarded carefully, since the impact of the global crisis was significantly different to the countries placed in this region of Europe. These countries have felt and managed in a relatively different way “the shock” induced by the global crisis, from one case to another. The same effects of the crisis have been rebounded in a more severely way over another countries, such as Japan or India, and relatively moderate over some countries, such as China, Russia or South Korea.

**Keywords:** Global crisis; macroeconomic indicators; unemployment; external trade; public debt; budgetary deficit.

**JEL codes:** A1, E3, F5, H6.

## Introduction

As in other countries of the region, Romania has been vulnerable along the economic crisis that was launched in 2008 in USA. One should mention that the GDP progress expressed in absolute terms in Romania has indicated an increase as comparing to 1990; during the interval 1990-2000, the year rate of the GDP was oscillating, but starting with 2001 and up to 2008, an ascending trend could be seen, as regards the economic growth in Romania (in 2008, when the crisis was in progress of strong appearance, in USA and other occidental countries, Romania registered almost 8% of the growth rate of GDP). In order to understand the moment when the global crisis was felt within the Romania's economy context (as well as the intensity wherewith this was subsequently behaved), one should take into account that the government and the banks have encouraged the access to credits and the purchasing on the immovables market, at least until 2008; the easy access to credits has encouraged the aggregate consumption, but even the tendency towards the unsafe speculations, as happened over the wide world. In other words, starting with 1990 and until 2008, the immovables market of Romania has registered a relatively ascending rhythm; in an absolute similar way with the situation of other countries, the hypothesis of a collapse of prices within the immovables will not enter in the individuals or organizations calculus at the moment 2007-2008.<sup>77</sup> Moreover, 2008 signified the elections time for Romania, and the executive authority preferred (perfectly comparative to the government-citizens relationship from the occidental countries at the same moment) to transmit some messages, extremely optimistic, towards the people, as regards the Romanian economy perspectives. The reality that followed within the crisis in 2009 and up to present of our country has definitely contradicted the optimism manifested in 2008 by the government and other institutions; the economic and social costs of this "discrepancy" occurred in almost one year as regards the accepting the idea of economic crisis will be able to be evaluated more rigorously by the historians.

### ***Effects of the economic crisis***

*The distortion of the economic activity* signifies one of the first effects that can be noticed, effects induced by the economic crisis over the Romanian economy since 2009 (the impact was tuned by almost one year, in terms of "forcing" the economic growth by the government, which was visibly not sustainable, as happened in other countries). During 2009-2011, the year rate of GDP growth was reduced beneath the level of the general trend, which obviously indicates the existence of the economic depression. Although there are no tendencies of economic refreshment, the estimations for the following two years will not suggest the significant improvement of the Romania's situation; contrariwise, it is estimated that the growth rate of GDP, although positive, will continue to be reduced at least until 2015.<sup>78</sup> The progress of the year growth rate of GDP in Romania is emphasized in graphic no.1.

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<sup>77</sup> Lybeck Johan A., *A Global History of Financial Crash of 2007-10*; translation from Romanian of *Istoria globală a crizei financiare (2007-2010)*, Polirom, 2012, pp. 106-107

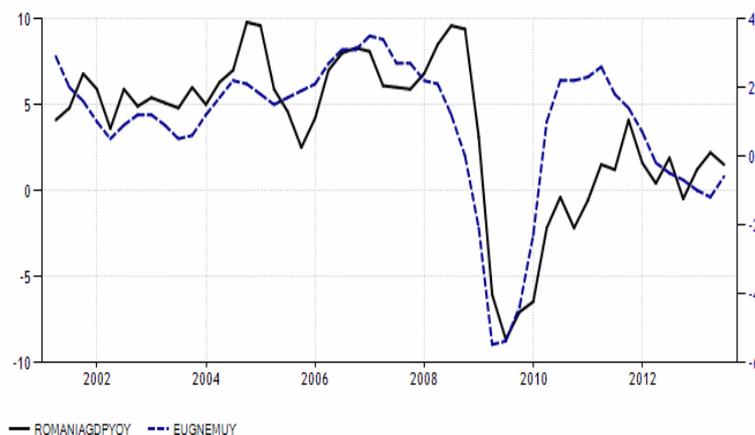
<sup>78</sup> <http://www.tradingeconomics.com/romania/forecast>

**Graphic no. 1. The progress of the GDP growth rate in Romania, during 2000-2013 (%)**

Source: www.tradingeconomics.com

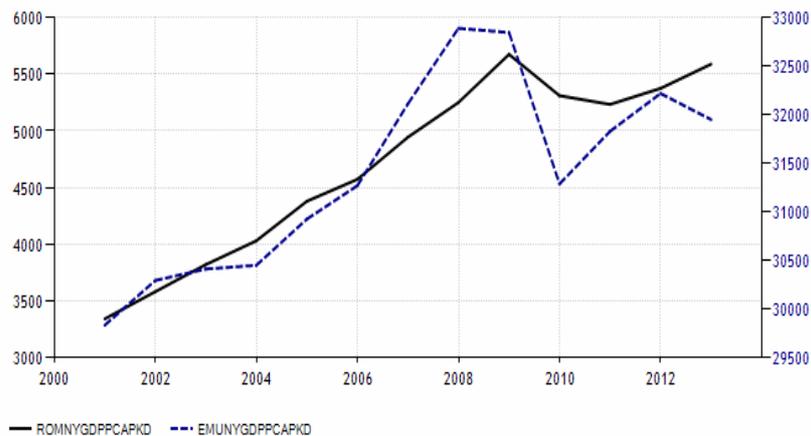
The economic activity distortion was generated by the reduction of industrial manufacturing and the processing industry. According to the National Bank of Romania estimations, the notable contribution to such trend was known within the agricultural sector, fact that illustrates the existence of a strong correlation between the internal economic growth and the agricultural production in Romania. Regarded from the requirements point of view, the temporization of economic growth was also intensified by the reduction of investments requirement and the net exports (as result of reducing the requirements aggregated on the international market). The demand on consumption goods was situated on an easily ascending trend, being supported by both the governmental sector and the private sector, as well; as regards the requirements on the long lasting products, it was limited by the process of financial disintermediation, as well by the tendency of intensifying the predisposition towards saving.<sup>79</sup>

The trends occurred within the economy of Romania have followed a relatively comparative trend with those registered by the economy within the Euro Region, as can be seen by the following graphics (the year rate on GDP growth and the average growth rate of GDP per capita; the second indicator illustrates a ratio of almost 1:10 between Romania and the average of the Euro Region).

**Graphic no. 2. The progress of the GDP growth rate in Romania comparative to Euro Region 2000-2013 (%)**

Source: www.tradingeconomics.com

<sup>79</sup> \*\*\*Year Report 2011, 2012, National Bank of Romania, www.bnro.ro

**Graphic no. 3. The progress of the GDP growth rate per capita in Romania comparative to Euro Region. 2000-2013 (USD)\***

\* Note: The values mentioned on the vertical left axis correspond to the GDP per capita in Romania (between 3000 and 6000 USD); the values in the right side correspond to the Euro Region (between 30.000 and 33.000 USD).

Source: [www.tradingeconomics.com](http://www.tradingeconomics.com)

The indicators invoked in graphics no.2 and no.3 will be taken into account, since they emphasize by de facto that once becoming member of the European Union (2007), the Romanian economy has followed closely the trend of the macroeconomic indicators within the Euro Region, even if Romania hasn't adopted the Euro currency. A series of questions, such as "Which are the real perspectives for Romania, in order to manage simultaneously the economic crisis, wherewith this is confronted, and to manage a potential process of adhesion to the Euro Region, as well?"; "It is preferably for Romania to postpone the adhesion to the Euro Region, by taking into account the hypothesis, according to which Romania can be better protected, if it would not be addicted to BCE?"; "Can Romania stake on a financial external support, quite significant in order to manage more easily the effects of the global crisis?"

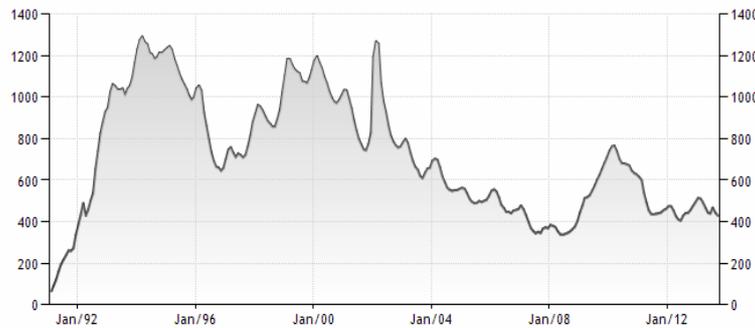
Any attempt on formulating an answer to so many questions, on the above mentioned type, should take into account the current realities of the Romanian economy, and that the total debt of government reported to GDP is still on a low level (In Romania, the percentage is almost 40% of GDP, as comparing to Italy, Portugal or Greece, countries where the indicator has exceeded the value of 100%; Annex no.1), as well as *the fact according to which the surpassing of an economic crisis will remain essentially addicted to the government actions and the behavior of the organizations or individuals from any country that is confronted with such a disequilibrium*).

Finally, in order to describe concisely the current state of the Romanian economy, within the crisis context, we included in our analysis a radio-graphing as regards the unemployment, the external trade, the public debt, the budgetary deficit and the inflation rate.

*The unemployment* has started to grow simultaneously with the propagation of the crisis effects; although, the recent progress has confirmed a trend of recovering; but, though the number of people employed has followed an ascending trend, the modest economic growth proves to be unable "to absorb" from the labor force excess, already existing at the level of

Romanian economy (situation emphasized in graphic no.4). According to the estimations of the World Bank, this ascending trend will be maintained in the following years in Romania as well, on extremely pride-less limits.

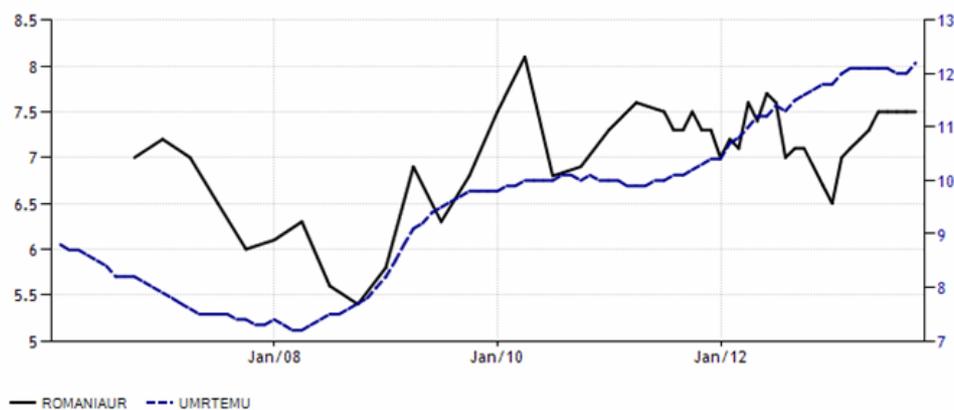
**Graphic no. 4. The progress of unemployment during 2000-2013 (thousands of people)**



Source: [www.tradingeconomics.com](http://www.tradingeconomics.com)

In contradistinction to other indicators that emphasize the economy’s status, as regards the unemployment in Romania, this has registered a relatively more favorable trend as comparing to the Euro Region (almost 7-8% the year rate, towards 10-12% in the Euro Region), fact that can indicate a tendency of economic recovering, more pronounced in Romania, rather than in countries included within the Euro Region.

**Graphic no. 5. Progress of the unemployment rate in Romania as comparing to the Euro Region. 2006-2013 (%)**

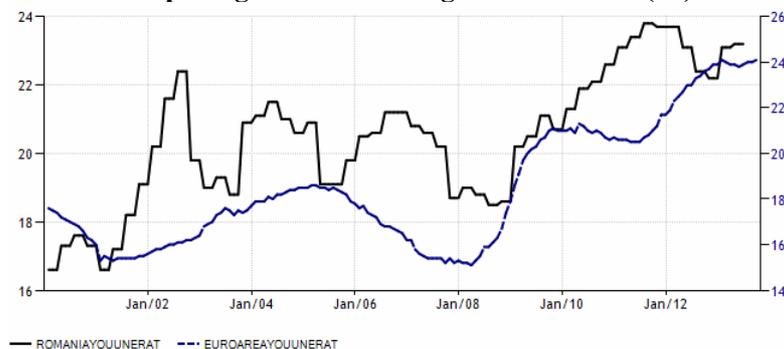


Source: [www.tradingeconomics.com](http://www.tradingeconomics.com)

Notwithstanding, an easy comparative analysis of the yearly growth trend related to the number of unemployed actually “hides” so many different structural behaviours in Romania towards the Euro Region, concerning this indicator. During the times of economic crisis, one of the classes more affected by the unemployment growth are represented by the young people; the statistic data indicates a very pronounced trend in this direction, at the Romania’s level, as comparing to Euro Region. More precisely, as mentioned before, for the most of occidental countries, and for the Euro Region, the unemployment has affected in a

different way the structure of the working people; the evaluations have shown that “the most affected” by the crisis were the young people and the emigrants<sup>80</sup>. For some countries included within the Euro Region (Spain and Portugal, for instance), the official rate of the unemployment was about 25%, but this rate was reflected every year in extremely different ways on social groups; for some periods, one of four young persons was not able to be employed (as previously mentioned).<sup>81</sup> The structural analysis of the unemployment in Romania emphasizes that such phenomenon had extremely negative results within the active people structure (even if the unemployment rate in our country has remained under 10% every year); more precisely, the unemployment has affected Romania, and especially the young people, being on their start on the labour market, fact that brings severe signs on questioning, related to the future of an entire generation. Graphic no.6 illustrates the statistical data that support our previous affirmations.

**Graphic no. 6. Progress of the unemployment rate over the young people in Romania, as comparing to the Euro Region. 2000-2013 (%)**



Source: [www.tradingeconomics.com](http://www.tradingeconomics.com)

*The distortion of the external trade* in Romania was caused by lowering the easily growing trend of exports on one hand, as result of reducing the demand on the Romanian products outlet, and by the imports restraint, on the other hand. The trade balance was maintained in deficit, but its contribution on the current account deficit was more reduced.<sup>82</sup>

*The deficit of the strengthen general budget* of Romania was reduced in the last years, after reaching a significantly maximum in 2010 (9%), but the value was estimated at 2.9%<sup>83</sup> in 2013, fact that would mean that Romania aimed on respecting the nominal convergence criteria, which established the maximum level of the public debt, for countries that aim to adopt the Euro currency, as well as on register within the general trend noticed at the Euro region level.

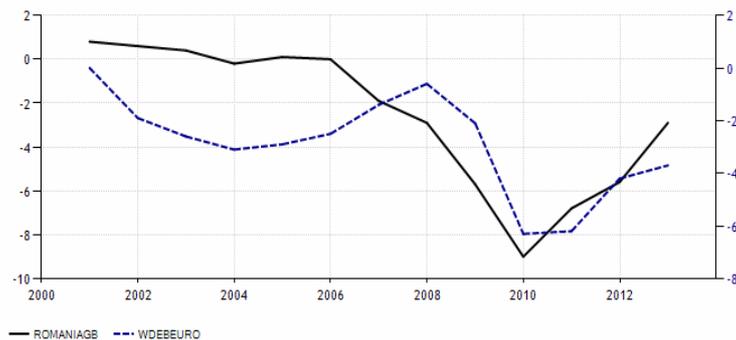
<sup>80</sup> Keeley B, Love P., *From Crises to Recovery. The Causes, Course and Consequences of the Great Recession*, OECD Insights, 2010

<sup>81</sup> Keeley B, Love P., *From Crises to Recovery. The Causes, Course and Consequences of the Great Recession*, OECD Insights, 2010

<sup>82</sup> \*\*\*Raport Anual 2011, 2012, Banca Națională a României, [www.bnro.ro](http://www.bnro.ro)

<sup>83</sup> [www.tradingeconomics.com](http://www.tradingeconomics.com)

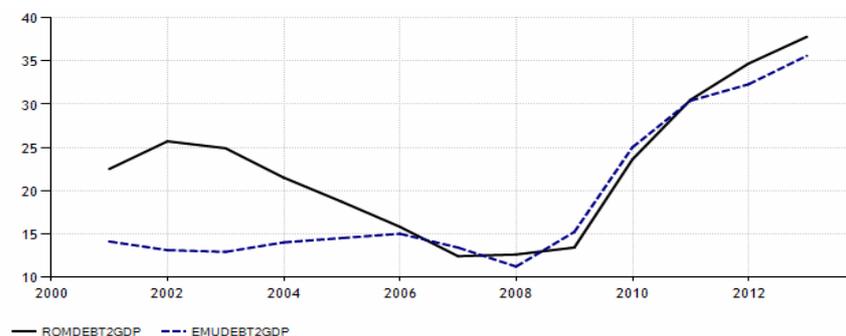
**Graphic no. 7. Progress of the budgetary deficit in Romania as comparing to the Euro Region. 2000-2013 (% din PIB)**



Source: [www.tradingeconomics.com](http://www.tradingeconomics.com)

Another criterion established for the evaluation of public finances sustainability, within the perspective of integrating one country within the Euro Region consists in *the weight of the public debt of GDP*, (maximum 60%); this indicator was deteriorated constantly after 2008, but maintaining on levels lower than other countries included within the Euro Region, as previously mentioned (Graphic no.8, Annex 1).

**Graphic no. 8. Progress of the public debt level in Romania as comparing to the Euro Region. 2000-2013 (% din PIB)**



Source: [www.tradingeconomics.com](http://www.tradingeconomics.com)

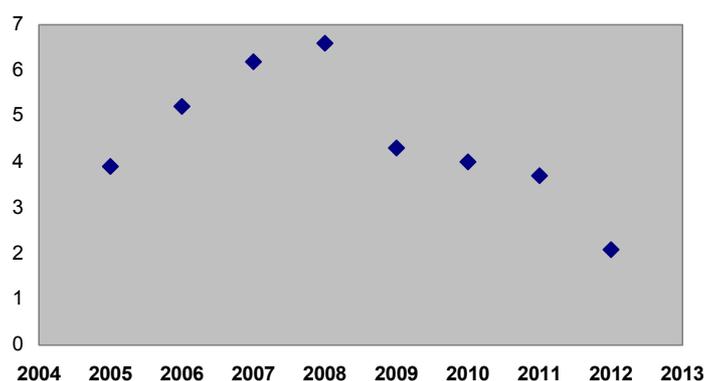
As regards the inflation rate, the situation in Romania followed about a descending trend in 2006, and up to present, with easy year oscillations; one might say that after Romania's adhesion to European Union, the inflationist trends in our economy were lower, approaching by the trend registered at the Euro region level (this happened after starting with 1992, the Romanian economy has had a strong inflation trend during almost a decade).<sup>84</sup>

Finally, related directly to the current realities of the Romanian economy, we will forwards invoke in a concisely way the problems of emigration, within the context of the capitalist economies dynamics. There is no unitary point of view as regards this topic, but more often, the estimations have shown that the countries that accept the emigrants are especially beneficiating and more advantaged by the global competition, as comparing to the

<sup>84</sup> <http://www.tradingeconomics.com/romania/inflation-cpi>

emigration countries (the issuing countries). This fact took place since the countries that accept emigrants (for instance, USA or Canada) are usually the beneficiary of a high qualified year labor force flow and/or aimed towards economic sectors of hard labor (understanding here that persons that emigrate were trained by the countries that accept emigrants). Although, if we include in our analysis the two well-known economies as models of development within the after-war period (on one hand USA, which receives yearly almost 400.000 emigrants and Japan, for which the legal migration is almost null, on the other hand), one can establish that we cannot identify any direct relationship between the migration phenomenon and the equation of developing a country; and, USA and Japan have always been competitive within the world economy, being equally affected by the current global crisis. As regards Romania, the estimations have shown that the phenomenon of emigration, especially for the young people, has reached a severe level, and the beneficiaries are represented usually by the countries that accept the labor force from our country (most often, such labor force was high qualified in the origin country). On the other hand, the emigrants coming from Romania, similar to the same “specific social group”, were more affected by the unemployment and by the negative effects of the global crisis in 2008, as the OECD<sup>85</sup> studies reveal. Regarding from the Romanian economy perspective, and analyzing the involvements associated to the migrations phenomenon, one might notice the positive effect of the volume of amounts issued by the labour force that left Romania, in order to work abroad (estimating that a part of these commitments were intended to the productive consumption, by the nature of some immovable investments, by the financial assets acquisitions etc.; moreover, these funds have partially supported the year equilibrium of the external payments balance etc.). Graphic no.9 illustrates the progress of Romanians relegation abroad, indicator that emphasizes quite well the negative effects of the global crisis and over this social group (since the number of these relegations was reduced by about one third after launching the crisis of 2008).

**Graphic no.9. Progress of Romanians relegations from abroad (milliards of Euro)**



Source: National Bank of Romania

Taking into account the consequences of the most known economic crisis, one can appreciate that in Romania as well, the current economic crisis has followed “the general

<sup>85</sup> Keeley B, Love P., *From Crises to Recovery. The Causes, Course and Consequences of the Great Recession*, OECD Insights, 2010

pattern”, the trends emphasized within the Romanian economy, by following the tendencies that marked both the European economy, especially the Euro Region, as well as the world economy, per assembly.

## Conclusion

The problems related to the occurrence, behaviour and mechanisms of managing the economic crisis has always been a major topic of interest in the entire economic theory, starting with Adam Smith and up to present, even if initially, the theory took into account the economic equilibrium and the cyclic movement of the capitalist economies. Among other conclusions that are imposed, one should also emphasize the idea known in the economic theory, according to which, the cyclic or sinuous movement over the evolution in time of the developed economy or in progress of development can be regarded as a natural movement, no matter the causes or forces that induced it.

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\*\*\*Raport Anual 2011, 2012, Banca Națională a României, [www.bnro.ro](http://www.bnro.ro)

### Annex no.1

#### Governmental total debt of some countries during the following period of timen2008-2011

YEAR Country	2008	2009	2010	2011	2013 (estimated)
ROMANIA	12,6	13,4	23,6	30,5	37,8
AUSTRALIA	18,3	24,1	29,3	30,6	
AUSTRIA	66,2	71,4	74	75	
BELGIUM	84,8	89,3	88	91	
SWEDEN	42	42,1	38,7	38,3	
UKRAINE	13,8	24,9	29,9	27,4	
CANADA	44,2	52,6	52,7	52,5	
NEW ZEELAND	37	45,9	49,1	63,9	
GREAT BRITAIN	57,2	73	86,6	101,2	
DENMARK	31,6	40	43,5	50,6	
FRANCE	73,3	84,9	89,1	93,7	
GERMANY	43,1	47,6	55,6	55,6	
GREECE	121,3	136,9	129,2	106,5	157
PORTUGAL	78,9	91,1	94,6	92,5	124
HUNGARY	73,9	82,8	82,7	81,6	
SPAIN	34,2	46,7	48,5	55,2	84
ITALY	107,2	119,1	117,7	110,9	127
POLAND	45	47,1	50,9	54,8	55
JAPAN	153,1	166,8	174,8	189,1	
USA	55,5	67,7	76,8	81,8	101,6
CHINA	19,6	17	17,7	33,5	