

CRISIS IMPACT ON THE ROMANIAN ECONOMY COMPARED TO EUROPEAN UNION COUNTRIES

Raluca ZORZOLIU, Lecturer Ph.D.
Faculty of Marketing and International Affaires
Spiru Haret University

Abstract

The second half of 2008 marked, in Romania, the entry into technical recession, and during the following periods of time the economic contractions led to a widespread crisis in almost all sectors. In the first half of 2010, Europe recorded the first increase, more or less timid, meaning leaving the recession, but in Romania we continue to record an economic contraction – in other words, the fourth quarter of crisis. Business analysts and business people consider that this setback was caused by the lowering of the population's purchasing power and government measures taken or just announced, in the first half of 2010, as well as the bankers' reluctance to lend to firms.

Key-words: *purchasing power, average gross wages, trade deficit, unemployment rate*

JEL Classification: E24, F43, J31

Literature review

Silviu Cerna (former member of the Board of BNR), in January 2009, in a weekly newspaper, talks in an article, about: the economical growth limits of the American model based on credit and consumer demand, the strong deregulation of U.S. financial markets, excessive growth of loan volume to increase bank profits. Silviu Cerna believes that the decline in stock market quotations is likely to have a moderate impact on the process of corporate financing, the financial sector in Romania being strongly dominated by banks.

Iulian Dobra (Paris School of Economics) wants to find out why some countries experienced larger GDP declines than others in 2009.

Simona Montagnana (2010) makes an analysis of the distribution of unemployment: geographically, on education level, on gender, age – as a result of the crisis. The economic and financial crisis of the labour market was characterized by a strong reduction of employment and therefore increasing the number of unemployed. The most affected sectors are: the construction sector, cars and furniture as well as sectors that are consumption-related.

1. Romania – general economic framework

Businessmen, especially the manufacturers of consumer goods complain about decreased purchasing power of the population as the main factor threatening the existence of their companies. And what they felt in an acute way started to show in official statistics. More specifically, the month of June 2010 was the 11th month of the last 24, and seventh in the last 12, in which price growth has exceeded that of income.

Constant price rises, and lowering wages are a spreading phenomena in all key areas of the economy. From July 1, VAT increased by 24% and with it the inflation, to 7.5%. Over the first six months of 2010, both unions and employers have repeatedly warned that the drop of purchasing power will have a domino effect in the market. The buying inability of consumers causes the firms' incapacity to produce.

In place of real crisis measures, urged by the employers, the Government chose to implement an austerity program, reducing wages and even the jobs in the public sector.

This was followed by introducing tax measures that will affect, in fact, the whole business environment, instead of facilitating or, at least producing tax relief, which means that the entrepreneurs came up with some increased costs.

Table 1

Average number of pensioners and average monthly pension and welfare recipients

	Years	Average number of pensioners –thousands –		average pension		Trim. I 2010 in % / trim. IV 2009
		Trim. I	Trim. IV	Trim. I	Trim. IV	
Total - Retirees	2007	5768	5725	356	466	100,4
	2009	5688	5694	660	707	
	2010	5695	-	710	-	
Retired social insurance, of which:	2007	5748	5707	356	466	100,4
	2009	5674	5682	661	708	
	2010	5683	-	711	-	
Retired state social insurance	2007	4641	4647	364	483	100,1
	2009	4693	4745	685	734	
	2010	4761	-	735	-	
Retired farmers insurance	2007	958	908	140	206	100,3
	2009	824	777	291	307	
	2010	762	-	308	-	
Retired social insurance records of the State Secretariat for Religious Denominations	2007	2	2	313	361	100,4
	2009	2	2	537	551	
	2010	2	-	553	-	
Pensioners registered with the Insurance House Lawyers	2007	2	2	925	1172	118,3
	2009	2	2	1481	1546	
	2010	2	-	1892	-	
Recipients of social welfare –type pension	2007	3	3	104	131	99,5
	2009	2	2	183	192	
	2010	2	-	191	-	
Retired IOVR	2007	17	15	237	235	100,0
	2009	12	12	245	244	
	2010	10	-	244	-	

Source: INS, Monthly Statistical Bulletin, 6/2010, 1/2009

The value of the average pension has doubled in the past three years, from 356 lei in the first quarter of 2007, to 711 lei in the first quarter of 2010 and the number of pensioners has decreased over the same period with 73,000 people. Of the total number of pensioners in the first quarter of this year, 83.77% are retired employees of state social insurance, compared with the 80.74% share recorded 2007. Pensioners of farmers insurance represent 13.40% of the total number of pensioners in the first quarter of this year, compared with 16.66% in spring 2007. The other few thousand people who fall into the category of pensioners are represented by groups in the table above, with appropriate developments from 2007 until the first quarter of 2010.

Table 2

Average gross earnings

	2008			2009			2010	
	January	June	Dec.	January	June	Dec.	January	June
Total	1637	1738	2023	1839	1887	2023	1967	1951
Agriculture, forestry, fishing	1182	1211	1412	1311	1308	1610	1389	1399
Total - Industry	1379	1583	1836	1615	1745	1983	1780	1905
Mining and quarrying	2361	2760	3234	2822	3056	3667	3124	3415
Manufacturing	1239	1396	1602	1427	1544	1709	1561	1697
Production and supply of electricity as heating, gas, steam	2538	3354	3821	3132	3378	4122	3443	3510
Construction	1250	1438	1615	1463	1517	1650	1549	1573
Wholesale and retail	1257	1378	1619	1491	1517	1664	1540	1572
Transport and storage	1711	1863	2337	1963	1976	2189	2053	2154
Hotels and restaurants	916	939	1107	1006	1041	1086	1098	1057
Telecommunications	2798	3684	4192	3659	3755	4724	3828	4275
Financial intermediation and insurance	3671	4069	5323	4042	4912	5268	4325	4544
Real estate	1527	1646	2040	1727	1703	1942	1867	1829
Public administration and defence	3289	2968	3298	2761	2786	2908	3091	2697
Education	2369	2043	2235	2354	2166	2004	2312	2045

Source: INS, Monthly Statistical Bulletin, 6/2010, 1/2009

Regarding the average salary, this dropped in January 2008-June 2010, only in public administration, defence and education. In public administration and defence the reduction was of 18% and 14% in education, during that period. The most spectacular increases in average gross wages were recorded in the fields of: telecommunications – 52.78%, financial intermediation and insurance – 23.78%, and at the opposite pole: agriculture – 18% and the hotels and restaurants – 15% growths occurred in January 2008-June 2010.

Table 3

IPC and Unemployment rate

Country	IPC, 2005 = 100			unemployment rate, total %		
	Sept. 2009	Jan. 2010	July 2010	Sept. 2009	Jan. 2010	July 2010
Romania	127,64	131,66	136,45	7,2	7,4	7,4
Hungary	125,20	127,25	130,66	10,6	11,2	10,3
Bulgaria	132,48	134,15	136,74	7,4	8,9	9,7
Germany	107,10	107,30	108,60	7,6	7,3	6,9
Greece	112,99	113,59	118,02	9,8	11,0	-
Latvia	137,92	136,16	138,70	18,5	20,1	-
EU (27 countries)	109,83	110,08	111,79	9,3	9,5	9,6
			Estimate Spain	19,0	19,1	20,3

Source: Eurostat, September 2010

The data presented in Table 3 shows that only Germany was able to reduce unemployment, while in other EU countries it has been growing, which determined 27 countries to reach an unemployment level rate of 9.6% in July 2010.

2. Positive results in the EU

At the EU level, only a few states – including Romania – had an economic decline in the second quarter, compared to the same quarter of 2009. The EU economy had an overall growth of 1%. The same advance was registered in the euro area, according to preliminary data of Eurostat. From the 18 member states that submitted data for the second quarter, only Greece has recorded an economic contraction between April and June (-1.5%). The largest increases in GDP occurred in Lithuania (+2.9%), Germany (+2.2%) and Estonia (+2.0%). Among member states for which the second quarter GDP figures are available, only five have been performing worse than the same quarter of 2009. These include, in addition to Romania, Bulgaria (-1.5%), Greece (-3.5%), Spain (-0.2%) and Latvia (-3.9%).

The German economy grew with 2.2% in the second quarter, the best result recorded in the last 23 years. According to officials in Berlin, it is due to investments and exports, and GDP could advance much above 2% this year, says Reuters.

The German GDP was also 3.7% higher in the second quarter of this year compared to the same period of last year, after an annualized expansion of 2.1% in the first three months.

Table 4

Minimum wage (per month, as of 1 January)

	currency			euro		
	1999	2004	2009	1999	2004	2009
Belgium	1074	1186	1388	1074	1186	1388
Bulgaria	64	120	240	33	61	123
Ireland	-	1037	1462	-	1037	1462
Spain	416	537	728	416	537	728
Hungary	22500	53000	71500	89	200	270
Malta	475	543	635	462	541	635
Netherlands	1064	1265	1382	1064	1265	1382
Romania	35	280	600	28	69	153
UK	608	761	914	866	1084	1010
USA	893	893	1135	762	727	844

Source: Eurostat yearbook 2010, European Commission

The best paid employees in the year 2009 are, according to data from the 2010 Yearbook of the European Commission, those of Ireland, Belgium, Netherlands and United Kingdom, and the last three places are occupied by Hungary, Romania and Bulgaria.

3. Romania in 2010

Once it received loan's from the IMF, Romania cut in July, 25% off the salaries of civil servants (1.3 million people) and it reduced with 15 % various social benefits.

The government is also trying to reduce the pensions after VAT rose with five percentage points to 24 percent. By reforming the pension system, the remuneration will be based on their many contributions and pensions will be reduced by up to 10 times. The payment of 1.9 billion Euros that the state owes to private companies are tasks that must be respected by the IMF, which has already provided 13 billion Euros. Massive layoffs of civil servants are already on the table as a possibility – it can be up 200,000 people.

The trade deficit reached 5.36 billion Euros after the first seven months of the year, slightly above the level recorded in the same period last year, although in July exports continued to grow at a pace faster than imports.

In January-July period, exports increased with 25% in Euros compared to with the same period of 2009 to 20.56 billion Euros, exceeding the 19.6% advance payment of imports, which totaled 25.9 billion Euros, according to the National Institute of Statistics.

The catching up trend started last year, when both exports and imports have declined in every month but the reduction of imports was almost constantly stronger than that of exports.

In the first seven months of this year, the major shares in the structure of exports and imports were held by groups of machinery and transport equipment (42.9% to 35.2% in export and import) and other manufactured goods (34.3% export and import 30.9%).

In July, exports grew with 30.9% and imports with 28.1%.

In the first half of 2010 compared to the first six months of 2009, investments in national economy decreased with 18% to 22.48 billion lei. In agriculture and construction sectors were the ones with the least materialized investment, businessmen relying on the autos industry trade components.

Romanian agriculture should be a gold mine, but it's just an aside (this is how it can be characterized literally and figuratively), taking into account the fact that it attracted only 5% of the investments in the first six months of 2010, according to figures provided by INS.

Moreover, approximately 20%, from 1.5 to 2.5 million hectares of cultivatable area of the country isn't used. Investments could be made, but bureaucracy and excessive parceling of land proves to be an obstacle.

The construction sector achievement is small also – it attracted only 17% of the investment. In contrast, the industry attenuated the collapse of investment in the autochthonous economy in the first six months it has attracted 38% of total investments and 36% commerce and services sectors (light industry and semi light, such as auto or electrical components have been the subject).

Regarding the construction sector, developers say that there is nothing that can be done without bank loans, and the loans market is almost completely frozen.

Conclusions

At the EU level, only a few states – including Romania – had an economic decline in the second quarter, compared to the same quarter of 2009.

Only Germany was able to reduce unemployment, while in other EU countries it has been growing, which determined 27 countries to reach an unemployment level rate of 9.6% in July 2010.

According to a study by UNICEF and the World Bank, the number of people living in poverty in our country reached 1.59 million in 2009, 370,000 more people than in 2008.

The problem of rural poverty must be taken seriously, especially because is a problem affecting 47% of the population, according to data published in the carrying out in the 2002 census.

The trade deficit recorded at the end of July 2010 exceeded the one recorded in 2009 and investment in the national economy decreased by 18%.

Our country has more than 40% of the population employed in agriculture, while in EU countries, only Greece and Portugal than 10%.

The average salary theoretically kept pace with food price increases, until the spring of this year. Practically, the wages growth was supported by year-end bonuses, arrived late to the budget.

Romania ranks sixth among foreign investors in attractiveness, many of them deciding to postpone investment projects.

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The economic crisis is not over yet, and its negative effects make their presence felt more and more clearly, from month to month.

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III. QUALITATIVE ANALYSIS OF CERTAIN ECONOMIC VARIABLES

