

## **CRISIS AND DEVELOPMENT (ONE YEAR OF CRISIS IN ROMANIA)**

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### ***Abstract***

*The papers show the impact of financial crisis in Romanian economy. In the middle of 2008, when the current financial crisis had begun to be felt in many developed countries of the world, like the U.S., but also with the European countries as Germany, Britain, France, Spain, Italy, Romania is still considered far from these influences, and after some even immune to the effects of the crisis. Romania being part of European financial and economic system and world, could not escape the effects of the crisis that began to manifest with virulence in late 2008 and fully in 2009, with a certain gap with developed countries affected by crisis even in 2007. Besides the contagion determined by foreign markets, the Romanian economy has been affected by the influence of internal factors (high current account deficit to be financed, high external debt, mainly short-term delay of effective anti-crisis measures).*

**Key-words:** *economic and financial crisis, macroeconomic indicators, credit, non-government, economic growth resumption in Romania*

**JEL Classification:** G01, G15

### ***I. Introduction***

In the middle of 2008, when the current financial crisis had begun to be felt in many developed countries of the world, like the U.S., but also with the European countries as Germany, Britain, France, Spain, Italy, etc., Romania is still considered far from these influences, and after some even immune to the effects of the crisis.

Until the outbreak of financial crisis, the Romanian economy passed several years of sustained economic growth with annual growth of 6-7 and even 8%, but in the same time with background accumulation of huge external deficit (over 15% of GDP) and a foreign debt high 56.42 billion euros at end 2008, of which 43% short term.

Contracting by Romania of a huge loan from the International Monetary Fund (IMF), European Commission, World Bank and European Bank for Research and Development in the amount of 19.95 billion euros in the spring of 2009, it was considered the seat belt to save the country from the current financial crisis which is increasingly the globalization. Moreover, it is included in its nets not only financial markets, but also production, trade, labor.

### ***II. Macroeconomic situation***

Romania being part of European financial and economic system and world, could not escape the effects of the crisis that began to manifest with virulence in late

2008 and fully in 2009, with a certain gap with developed countries affected by crisis even in 2007.

Besides contagiunea determined by foreign markets, the Romanian economy has been affected by the influence of internal factors (high current account deficit to be financed, high external debt, mainly short-term delay of effective anti-crisis measures, etc..) And a very specific general and presidential elections that have generated a series of populist measures with dramatic effects on the balance of the country's economic finanicar.

## II.1. Macroeconomic indicators

Thus, macroeconomic indicators have suffered a strong deterioration in mid-2009 compared to June 2008.

Table 1

### Macroeconomic indicators

	Explanation	Variation percentage	
		January 2009/ January 2008	6 months 2009/ 6 months 2008
1.	Industrial production	-5.90	-10.80
2.	Labor productivity in industry	12.70	3.70
3.	Retail Trade	-16.30	-9.70
4.	Foreign Trade		
	– export	-17.50	-20.30
	– import	-38.00	-36.60
5.	Market services provided to the population	-22.20	-13.40
6.	Average monthly earning		
	– gross	8.30	12.70
	– net	2.30	5.90
7.	Consumer prices of population	5.86	6.42
8.	Exchange rate (RON/EUR)	-13.20	-13.20

Source: NBR, Monthly Bulletin, June 2009

With the exception of labor productivity, growth recorded mainly to the reduction in the number of employees thanks to the removal job, which made the unemployment rate to rise by a further 0.3% compared to May, reaching 6.3% at June 30, 2009, to review all macroeconomic indicators are registered negative evolutions.

A special mention for earning that rose in the first half of 2009, compared to the same period the previous year (+12.7%), as a result of populist measures taken by authorities during the election. In correlation with labor productivity, increase gross earning (12.7%) was almost 3.5 times higher than labor productivity (3.7%) in the first half of 2009 compared to the corresponding period of previous year.

## II.2. Specific risks for Romania

In this context, the economic environment and international financial crisis, amplified by the negative effect of specific national factors influenced dramatically and will continue to adversely affect economic and financial situation of the country by:

- Difficulties in financing the current account deficit;
- Major issues in reimbursement of foreign debt (about 25 billion short term only) to which is added to the loan rates reached with the IMF in EC which starts in the spring of 2014;
- Contraction of foreign markets;
- Entry into the crisis of liquidity and solvency of a growing number of economic operators;
- Cease to halt access to credit;
- Difficulty in maintaining the exchange rate of national currency against the euro, by changing the destination of the second tranche of the loan from the IMF and the EC to support the pension fund and insurance payroll in the public system.

A recent IMF report on the evaluation stage of the Romanian economy presents a serious deterioration in the evolution of GDP in 2009 from a decline of about 4% estimated in April needle to an approximately 8% –8.5% in September 2009.

## II.3. External Comparisons

Compared with its neighbors in the region, Romania is the champion at the 2009 drop in GDP (-8.5%), inflation (+5.8%), inregistreaza Among the highest rates of current account deficit (-7.4%) and final deficit (-5.1%) in gross domestic product, but looks good in the share of external debt to gross domestic product with only 18.2% compared to Hungary (80.8%), Poland (53.6%), with the mention that in the case of Romania, foreign debt short term is a problem, as is 43% of total external debt. Thus:

Table 2

### Foreign debt short term

	Explanation	Forecast 2009			
		Hungary	Romania	Bulgaria	Poland
1.	Gross domestic product	-6.30	-4.00*	-1.60	-1.40
2.	Gross fixed capital	-10.60	-6.50	-12.70	-6.20
3.	Unemployment	9.50	8.00	7.30	9.90
4.	Inflation	4.40	5.80	3.90	2.60
5.	Account Deficit/GDP	-5.00	-7.40	-18.80	-4.70
6.	Public Debt/ GDP	80.80	18.20	16.00	53.60
7.	Final Deficit/GDP	-3.40	-5.10	-0.50	-6.60

Source: European Commission, spring forecast, May 2009

\* September 2009 IMF assessment of the Romanian economy indicates a decline in GDP of about 8-8.5%.

### III. Credit to economy

In the years preceding the outbreak of the current global financial and economic crisis, a registered non-government credit which has accelerated dynamics found in annual economic growth rates among the highest among European countries. Thus:

#### III.1. Evolution of non-government credit

Table 3

##### Evolution of non-government credit

– millions lei –

Period	Non-government credit	
	Amount	% growth from one year to another
2005	59800.30	100.00
2006	92378.50	154.50
2007	148180.70	160.40
2008	198055.70	133.70

In this case, economic growth of 6-7% and even 8% of GDP by Romania in the years preceding the outbreak of global financial and economic crisis was possible due to a strong expansion of credit in the economy which recorded nominal growth rates of 54.50% in 2006 from 2005, of 60.40% in 2007 compared with 2006 and 33.70% in 2008 compared to 2007.

Basically, the end of 2008, mass non-government credit registered a growth of over 3.3 times compared to the end of 2005. Unfortunately, since the second half of 2008, when the effects of economic and financial crisis began to be felt in Romania, the financial system has not provided the increase “uid”unctionality needed economic mechanism, dynamic non-government credit to June 30, 2009 compared to June 30, 2008 presenting the following:

Table 4

##### The dynamic non-government credit

– millions lei –

Explanation	June 2008	June 2009	%
Total loans, which:	178180.30	198056.30	111.20
In lei thereof:	80043.90	80929.00	101.10
– Short-term	25183.80	25287.90	100.40
– Medium term	21113.00	20979.80	99.40
– Long-term	33747.10	34661.30	102.70
In currency (equivalent in lei) thereof:	98136.20	117127.40	119.40
– Short-term	17374.10	20236.20	116.50
– Medium term	18220.30	20303.40	111.40
– Long-term	62541.80	76587.80	122.40

Source: NBR, Monthly Bulletin, June 2009

Therefore, the annual growth rate of 50%-60% in the years preceding the economic and financial crisis, in this year of crisis from Romania (June 2008-June 2009), non-government credit increased only 11.20% of which not to lei by 1.1% and at the foreign currency (expressed in lei) with 19.40%.

If you adjust loans in foreign currency (expressed in lei) with exchange rate depreciation of domestic currency against the euro, which in the same period was 13.20%, results that in fact the real growth of forex loans and overall credit was more reduced as:

Table 5

Exchange rate depreciation

– millions lei –

Explanation	June 2008	June 2009	%
Total credit-government: of which	178180.30	184398.40	103.50
– in lei	80043.90	80929.00	101.10
– expressed in foreign currencies during the June 30, 2008	98136.20	103469.40	105.40

### III.2. Situation loans granted to households

Lack of credit in the economy was reflected negatively on both companies were forced to restrict/close work, but also on households who have suffered so to finance their consumption needs but also for the investment (houses, land etc.).

Between June 2008-June 2009, loans to households and total population by currency, have evolved as follows:

Table 6

Loans to households and total population by currency

– millions lei –

Loans to households population			
Period	Total	of which:	
		lei	Foreign currencies (equivalent in lei)
June 2008	86918.20	38045.00	48873.20
July 2008	87822.70	39297.90	48524.80
August 2008	90558.60	40249.40	50309.20
September 2008	96047.40	41016.60	55030.80
October 2008	95765.20	41377.90	54387.30
November 2008	96825.20	41299.70	55525.50
December 2008	99204.70	40940.90	58263.80
January 2009	102975.30	40585.90	62389.40
February 2009	102889.10	40383.70	62505.40
March 2009	101226.60	40091.40	61135.20
April 2009	100176.30	40017.60	60158.70
May 2009	99900.00	40034.70	59865.30
June 2009	99587.10	39606.70	59980.40

Source: NBR, Monthly Bulletin, June 2009

Basically, the figures show that the population has suffered most from lack of credit, whose nominal constant dropped from January 2009 until June 2009 inclusive. If you adjust loans to the population of the depreciation in currency exchange rate of

the leu against the euro (-5.5, from 3.98 lei/euro on December 31, 2008 at 4.20 lei/euro at June 30 pin), it follows that in fact the decrease of population lending was more dramatic. Thus:

Table 7

**Population lending**

– millions lei –

	January 2009	June 2009	%
Credit granted to households	102975.30	96460.10	93.70
Of which:			
– in lei	40585.90	39606.70	97.60
– in foreign (equivalent lei)	62389.40	56853.40	91.10

Sub-lending of economy in general and especially of the population was reflected practically in all sectors of loans destination: housing, consumption and other purposes as:

Table 8

**Sector of loans destination**

– millions lei –

Loans to households in which:				
Period	Dwellings	Other purposes	Total	Consumption
June 2008	65521.20	17328.10	4068.90	86918.20
July 2008	66583.10	16957.50	4282.10	87822.70
August 2008	68328.30	17603.80	4626.60	90558.60
September 2008	72045.30	19085.80	4916.30	96047.40
October 2008	71960.70	19142.80	4661.60	95765.20
November 2008	72564.30	19730.10	4530.80	96825.20
December 2008	73694.60	20898.60	4611.50	99204.70
January 2009	75793.50	22349.60	4832.20	102975.30
February 2009	75999.90	22029.20	4860.00	102889.10
March 2009	74787.90	21655.70	4783.00	101226.60
April 2009	73924.70	21506.90	4744.70	100176.30
May 2009	74330.70	22133.00	3436.30	99900.00
June 2009	73901.00	22283.70	3402.30	99587.10

### III.3. Required reserves

Although, last year (June 2008-June 2009) table credit in the economy recorded lower growth rates and even contraction in some sectors (destinations), the monetary authorities continued to maintain very high rates of reserve requirements, damage as the real economy important sources of funding, as follows:

Table 9

**Reserve requirements**

Period	The period of minimum reserve ratios (%)	
	in lei	in foreign currency
June 2008	20	40
July 2008	20	40
August 2008	20	40
September 2008	20	40
October 2008	20	40
November 2008	18	40
December 2008	18	40
January 2009	18	40
February 2009	18	40
March 2009	18	40
April 2009	18	40
May 2009	18	40
June 2009	18	40

Measures to reduce/cancel the reserve requirements have been taken much later, in the second half of 2009, when the economy was already affected by lack of financing.

**III.4. The cost of credit**

Financing the economy through credit was not only insufficient, but has become very expensive on the one hand, due to the increasing cost of funds, and on the other hand, because of reluctance of banks to grant loans in May, and when given are the interest very high, although it is known that in conditions of crisis economic recovery can be achieved only through adequate financing, the costs (interest) as low.

Interest rates applied by monetary financial institutions in loans and deposits is:

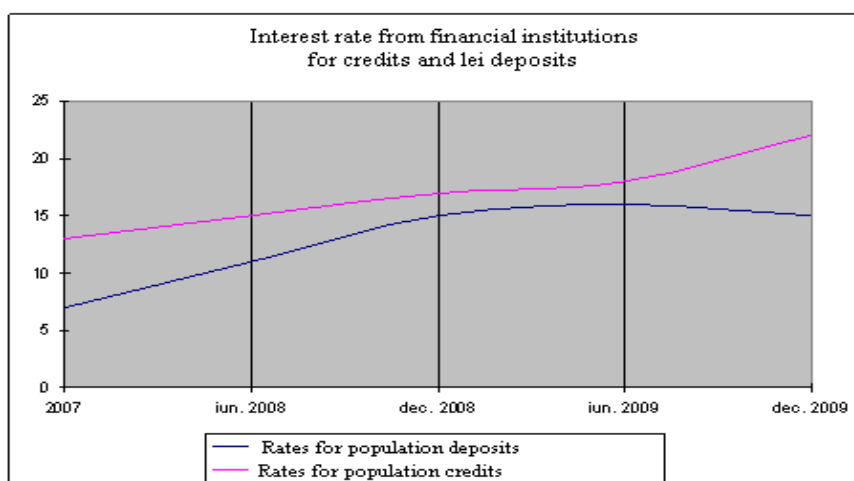


Fig. 1. Interest rates applied by monetary financial institutions in loans and deposits

#### ***IV. Premises of the resumption of economic growth***

Financial and economic decline is a hard reality of Romania, persisting uncertainty regarding date of resumption of economic growth.

Assessment of September a.c. IMF show that for 2010 is likely to halt the decline in production and even registering a slight economic growth (0.3 – 0.5% GDP growth rate).

Established to halt the decline and resume growth in Romania are:

– Growth of public investments, particularly in infrastructure, tourism, agriculture (farming).

– Continuation of public and private investments in construction and housing market stabilization, which, through dynamic may give weight in the economy in the economic and financial stability.

– End of the electoral cycle by completing the presidential election (November 22, 2009), reformulation Romania's political area and develop a budget based on 2010 and the next, which was safe to return to a healthy development of economy and restore fundamental equilibrium (investment/consumption, productivity/wages, export/import, income/expenditure budget, etc.).

– Resume lending economy through effective measures of facilitating access to credit to businesses and householders population at reasonable interest rates.

– Intensifying efforts to attract European funding or grants in favorable benefits for Romania during the EU post-adherence opportunity ending in 2013.

– Maintenance, including tax levers, firms able to take the effort to unfreeze the foreign markets (Germany, France) through export controls.

– Strengthening prudential measures for financial markets, including by creating a unique and independent body to oversee both the banking market, capital market and that the insurance model BaFin (Germany), Banking Comision (France), FSI (UK).

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