

THE INFLUENCE OF THE ECONOMIC CRISIS ON ROMANIA

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Abstract

Macroeconomic developments in Romania have submitted inadequate development amid the financial and economic crisis deepened. The objective of this research is highlighting the impact of the economic crisis, deepening its effects at the national level.

In Romania, the negative effects of the crisis begin to be more evident: lack of demand on the market, which the collapse of production and reduction of the amount of reports of police work. The economic crisis creates uncertainty. The uncertainty in the economy is, in fact, income insecurity – both for the company and for the employees. The unemployment rate is in a continuous growth and the population is increasingly affected.

Crises do not constitute exceptional circumstances, because they tend to repeat it; at the same time, it must be stressed that these changes its form, that require a periodic review of their claims, as understanding more and more refined methodologies and a smooth integration of empirical research in theoretical solid construction. If all economic mechanisms would work perfectly balanced real economy should not deal with situations of crisis.

Keywords: crisis, economic, financial, unemployment, wages.

Introduction

The effects of the financial crisis have spread and the Romanian economy. In terms of direct impact, the banking system has been relatively unscathed. He has not been exposed to toxic assets, prudential measures taken by the National Bank of Romania along the time. But the consequence of the global financial crisis had spread to the economy of Romania on multiple channels.

On the commercial channel, has been slowed and even reduced production, the latter being correlated with the evolution of the world economy.

The financial channel, has been limited access to external financing, such was the volume of lending, generating small difficulties in private foreign debt service. This phenomenon was demonstrated through: stop lending, increasing the "spread" CDS, the "trend" after agreement with the European Union and the International Monetary Fund, the "spread" between interest-NBR and ROBOR, moving the focus from market share to customer risk assessment¹.

The exchange rate channel, the depreciation of the national currency, reduced external financing reflected. Relative stability followed increased volatility.

In respect of the trust, there has been a withdrawal of investors from European countries, the effect of this phenomenon by highlighting them in the expression of the monetary-currency market has some moments of speculative attacks and panic.

On the effects of balance sheet and asset deterioration took place on net asset of companies and of the population, due to the high share of foreign currency loans (related to the depreciation of the ROL) and lowering prices for real estate assets and securities. This has contributed to the deepening of the crisis through the negative effects it has had on the expectations and the augmentation of caution from consumers and businesses.

National Bank of Romania has made estimates of the evolution: the confidence – very active, active trade channel – the channel of exchange rates – attenuated, alleviated the financial channel – (EU, IMF, EBRD, WB)².

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¹ Berca, 2010, p.33.

² Ibidem, p.72.

The evolution of the crisis in Romania

Macroeconomic developments in Romania have submitted inadequate development amid the financial and economic crisis deepened.

The economic growth in Romania in the period 2005-2009 was generated by exports, as it would have been effective from the economic point of view, but also from domestic demand (consumption), investments in the most productive and Government consumption. This will be inadequate growth³, macroeconomic imbalances created.

Reduction of exports led to a contraction of domestic demand and lower production.

Decline in production resulted in lower turnover in trade and services. This, in turn, has led to rising unemployment through limited size of enterprises.

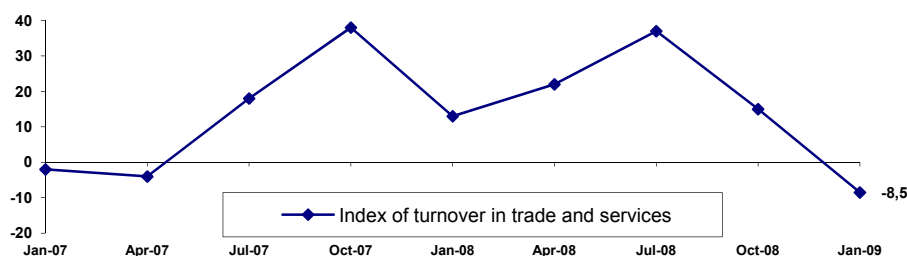


Fig.1 Index of turnover in trade and services

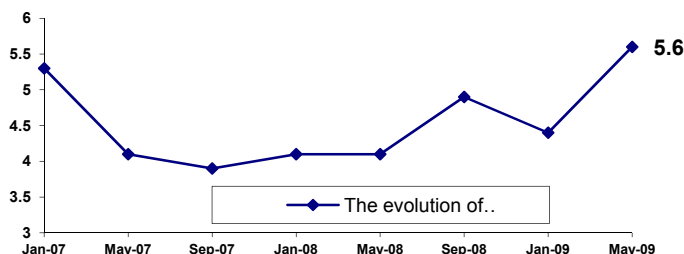


Fig. 2 The evolution of unemployment

In 2008, we achieved a growth of 7.9% to 6.3% inflation, a fiscal deficit of 4.8 percent of GDP (gross domestic product) and a current account deficit of 13.5 percent of GDP compared with 2004 when it achieved a growth of 8.5% to 9.3% inflation, a fiscal deficit of 1.5 percent of GDP and a current account deficit of 8.4 percent of GDP⁴.

³ Ibidem, p.83.

⁴ Ibidem, p.84.

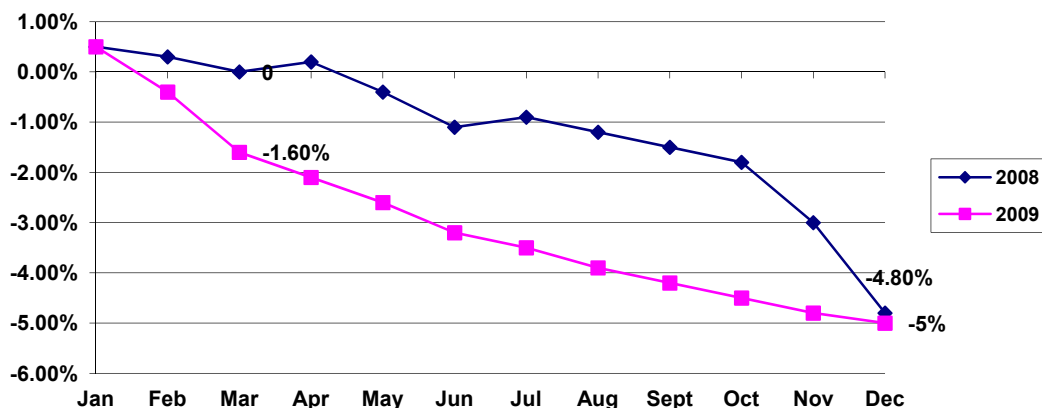


Fig. 3 Budget Deficit (% GDP)

Domestic savings are low, and economic growth and satisfy the domestic consumption and of higher investment was foreign capital. The total foreign debt has increased from 21.5 billion euros in 2004 to 74 billion euros in 2008. Unguaranteed public debt has risen to 11.4 billion euros in 2004, 63,3 billion euros in 2008⁵.

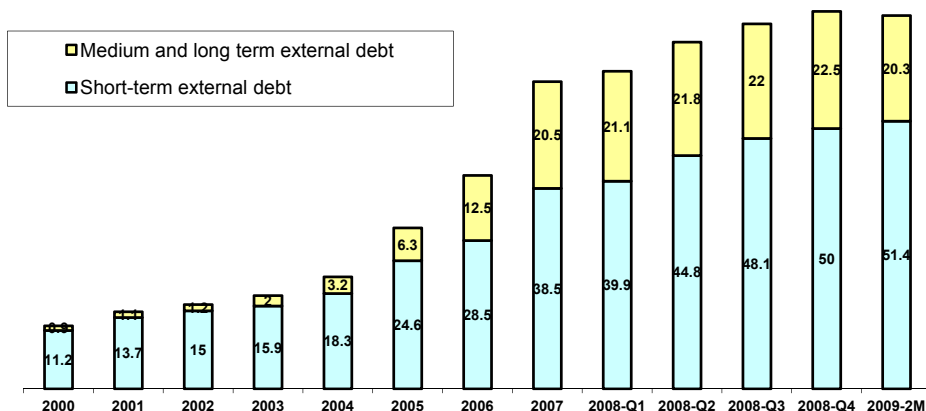


Fig. 4 Evolution of external debt

The Romanian banking system is owned in the proportion of 90% of banks with foreign capital. They have experienced financial losses due to the purchase of toxic products on the u.s. market and on the English, such as financial derivatives that are based on real estate and financial assets whose prices have collapsed.

By default, the low capacity of the parent banks with branches in Romania to grant further generous lines of credit with low cost to be reîmprumutate, with the American Bank Lehman

⁵ Ibidem, p.87.

Brothers' bankruptcy. Foreign debt in the short term, under one year, increased by 7,5 times. This creates a high degree of vulnerability in the external deficit financing⁶.

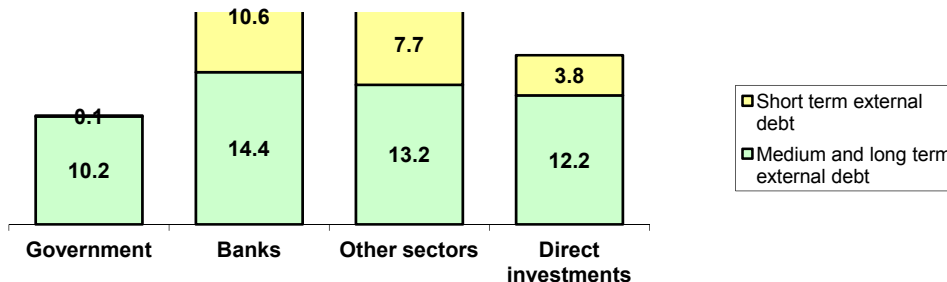


Fig.5 The structure of external debt-billions of euros

Romanian's exports are based on products, petro-chemical, metallurgical and construction of advanced equipment, including cars. The collapse of loans to banks decreased demand for such products. At the same time, domestic demand has fallen amid a sharp contraction in lending and thus GDP growth has been reduced by 3%.

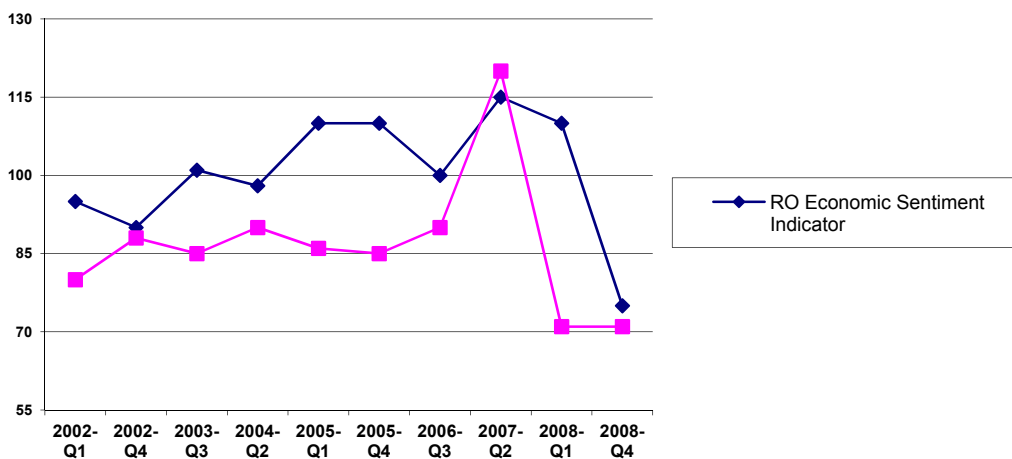


Fig. 6

Due to the uncertainty and cost of finance, foreign investment fell by around 10 billion euros in 2009.

The national currency, the ROL, was depreciated by 10.4% in 2008 and by 6.4 percent in 2009⁷. The inflation rate in 2010 was 7,96% to a level almost double that recorded in 2009. Increase in the value added tax (VAT) and the rise registered last year have caused this growth. Prices have climbed by 0.5 percent in December, further increases being registered in all foods.

The data appears in a report by the National Institute of statistics (NIS). National Bank of Romania (NBR) missed, so, for the fourth consecutive year inflation target set at 3.5% +/- one

⁶ Ibidem, p.72 .

⁷ Ibidem, p.72.

percentage point. The annual rate was 4.74% in 2009, when the range was being targeted all of 2.5-4.5 percent⁸.

Average annual inflation in 2011 arrived at minimum-3,14% record, show the data of the National Institute of statistics (NIS).The graphs show that the official rate of inflation has not had a level in post-Decembrist so low, the last record of this kind being achieved only in March of 2007, when the media came down slightly under 3.7 percent.

CNP estimates an inflation of 3.5 percent by the end of 2013, as well as in the autumn forecast, while the annual average will be 4.3%.

No forecast for 2014 was not altered, so that it expects inflation of 3.0% at the end of next year. In 2015 and 2016, it will drop slightly, from 2.5% 2.3%, respectively.

In February 2009, the CDS have reached the peak of 777 bp, while the average for the year 2008 was of 260 bp⁹.

The impact of the financial crisis and the confidence was felt in the real economy, which hit sectors of the economy, among the first reacting strongly to changes of cyclic: automotive and aviation industry, computer science etc. These are typically the industries where the negative effects of the change shall be reflected in the attitude of the people, i.e. the tendency to spend less and save more¹⁰.

The consequences of the financial crisis in Romania

In spite of the interventions of the farms, the feeling of disbelief of investors has persisted, what he has done as many segments of the financial market in general and of the securitizare and long-term financing in particular, remain vulnerable¹¹.

Increasing risk premiums and higher financing has affected directly and indirectly by a multitude of economic actors and had consequences in the real economies, which have been given clear signs of slowing economic growth or even recession.

Corrections to the value of assets had a wide and unpredictable. Although adjustments were concentrated in the residential mortgage market and the financial market segment it serves, their complex ties with parts of the financial sector and real have prompted tensions at the price level of other categories of financial assets, such as obligations issued by corporations or municipalities¹².

At the time of a shock in financial markets tend to overshooting. Afterwards, analyzes and digested the information and the prices of financial assets is adjusted according to the perceived risk. In the financial markets, asset values and corrections now, what is the evidence that the risks were not fully understood and the markets still face uncertainties¹³.

Remain open and fair evaluation of the issue of financial instruments, the kind that have been based on the borrowers ' loans neperformanți. As such, you may be able to assist you further to new revelations of losses from the financial institutions.

The areas affected by the crisis

Nationally, more than 150,000 employees have experienced a drastic decline in income due to the increasing demand of the market, reducing the activity of the place of work, or remained unemployed because of massive dismissals. The most affected are the trades that produce come in direct relation to the volume of sales (in commissions, for example, brokers.

⁸ Ibidem, p.75.

⁹ Ibidem, p.76.

¹⁰ Ibidem, p.80.

¹¹ Puiu, 2010, p.15.

¹² Ibidem, p.83.

¹³ Bal, 2009, nr.31.

As far as the sellers and brokers, the situation is somewhat better. They manage to get in the best case, revenue by 35% lower than those realized so far¹⁴.

Due to the temporary closure of factories, workers in the iron and steel industry, receive wages by a quarter. They are in number of over 30,000 people.

In fifth place in the ranking of categories of employees poorer due to the crisis, there are those in the subassemblies.

Sixth place is budgeting, whose salaries were low by 25% and they have been changed to wage grids.

All of these are added to those who have lost their jobs, those who have not received meal vouchers and subsidy, there is no question of any of the 13th salary or holidays.

Banking sector

Despite the international financial crisis and reduce lending globally, the Romanian banking system can be described as solid, with levels of capitalisation, liquidity and solvency in accordance with the prudential requirements.

Following the requests made by NBR, the shareholders of the Bank have proceeded at an increase of share capital/endowment at the end of 2010 its level being higher in 2009 with 17.8% in nominal terms (+ 9,1% in real terms). In terms of foreign banks' exposures are present in Romania, they rose from 81,1 billion in 2009 and EUR 84,7 billion during the year 2010.

In this context, the aggregate level of solvency shall be pointer to 31 December 2010 to 15%, its value in excess of 11% in the case of credit institutions. Furthermore, during the years 2009 and 2010 there were banks with a solvency ratio below 10 percent. The liquidity indicator system has been placed over the minimum regulated¹⁵.

Rate of unemployment

Even if he will come back from Romania's recession, unemployment will head to 10%, and any wage hikes could be affected by inflation. The International Monetary Fund (IMF) has said the year 2010 that Romania could get out of the recession in 2011, i.e. a decrease of 8.5% to an increase of 0.5%. At the end of 2008, in Romania there were just over 400,000 people unemployed. After half a year, their number grew to nearly 550,000, the unemployment rate climbing from 4.4 percent in December and 6.3 percent in July. Also, at the conclusion of the 2009 unemployment rate has climbed to nearly 8%¹⁶.

In 2010 unemployment rate was 6.8%, reduced by 0.9 percent from the previous year, the number of unemployed totaling 629.960 people, according to the NEA (National Employment Agency). Of these, 329.640 are unemployed make. The unemployment rate in Romania was less than the average of the European Union (EU) where it had fallen by over 9%¹⁷.

According to data provided by the NEA, the unemployment rate in February 2012 fell to 6,58%, 1.75 percentage points below the level of February of 2010. Total number of registered unemployed was 600.308 people.

In April 2012, according to the international definition (BIM), seasonally adjusted, the unemployment rate in Romania was 7.1 percent, down 0.1 point in December 2012, and unemployment rate in seasonally adjusted was 6.5 percent, it said in a press release (NIS)¹⁸. Number of unemployed (persons shall be taken into account between 15 and 74 years) estimated for the last month of last year, is 661.000, towards 751.000, in December 2011.

¹⁴ Ibidem, p.193.

¹⁵ NBR, 2010, p.30-33.

¹⁶ Ibidem.

¹⁷ Ibidem, p.139.

¹⁸ Ibidem, p.140.

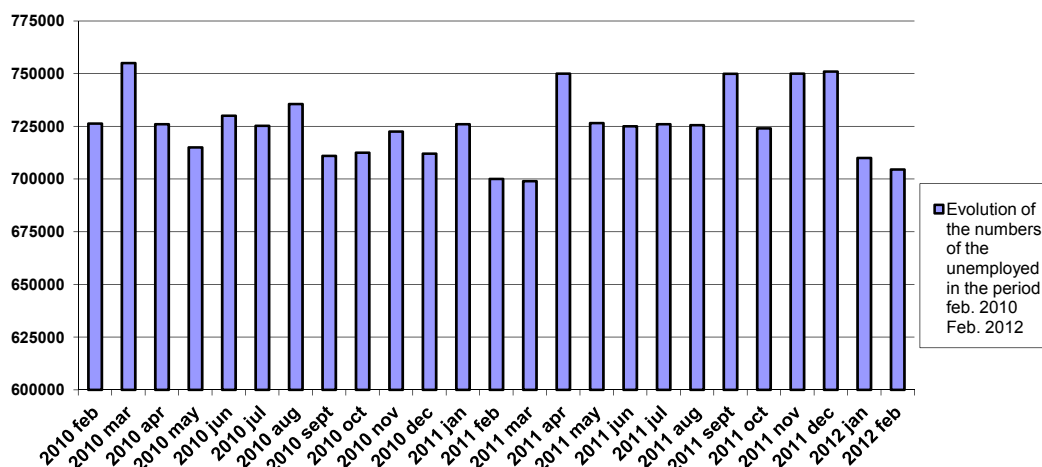


Fig. 7 Evolution of the numbers of the unemployed in the period Feb. 2010 Feb. 2012

In June of 2009, the average net salary per economy amounted to \$ 1.379, up 8.3% compared to the same period in 2008. The average salary in real net, reduced inflation, increased by only 2.3% in the same period. From June 2007 to June 2008, the average net salary on economy rose by 24.4 percent, the real appreciating it with 14.5 percent. The highest average net salaries was retrieved in aviation, 3.282 ROL, and the lowest in hotels and restaurants, 769 ROL.

The average gross nominal earning was total at the beginning of 2010, with 1.1 percent higher compared with November 2009¹⁹.

"Earning real Index" for February 2011, calculated as the ratio between the net nominal salary and consumer prices compared with the same month of 2010 has been set at 93.1% (6.9%)-reads in a press release (NIS).

At the same time, the average nominal wage net was in February of 1.414 ROL, 0.7% (10 ROL) lower than in January. The highest values of the nominal average wage net have been in the industry for tobacco products (3.790 ROL), and the lowest in hotels and restaurants (855 ROL)²⁰.

National Forecast Commission (NFC) claim that real wage grew by 0.8% in 2012 compared with 2011, according to the draft of the medium-term forecast for 2011-2015. For 2013, the NFC intends to increase real wages by 1.4%, 2014 with 1.6% and 1.8% for 2015.

The areas unaffected by the crisis

Although the economic crisis has swept most of the areas of activity, there are still a few areas that have not yet been affected: IT and communications, Retail and pharmaceutical. Due to the nature of these industries, employment will be made in the next period to meet demand of qualified personnel.

Despite the existence of these areas that are protected from the dangers of the economic crisis, the problem usually arises at the level of each company individually, depending on the liquidity of available and its capacity to make a long-term activity. It provides for an increase in salary in the next period, ranging between 3 and 5% thing declared and the Romanian Government.

¹⁹ Gandul info.

²⁰ financiarul.com.

Maximizing profits is one of the main goals of all companies. Both companies in the public sector and the private sector have realised that this can be achieved by reducing the dramatic wage and looking for ways to reduce costs and depreciation risk for subsequent periods²¹.

Conclusions

The direct effects of the economic crisis on Romania were increasing the risk premium and the cost of financing, high interest rates on CDS and the interbank market, depreciation and high volatility of the national currency ROL, reduction of imports and exports, the outflow of foreign capital, the decrease in industrial production due to dependence on international demand (70% of the exports of Romania being in the Euro area).

Indirect effects of the economic crisis on Romania were: increasing the uncertainty and cost of funding led to the cessation of crediting, increase of unemployment, reduction of the population, the decline in consumption; reduction of domestic and foreign demand coupled with the rising cost of funding have repositioned investment plans resulting in the postponement or reduction of investments in the economy, risks relating to financial activity by increasing bad loans, dwindling profits and a lack of financing companies, as well as exposure to currency risk; decrease in budgetary receipts resulting in a high budget deficit²².

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²¹ Cerna, 2010, p.15.

²² Ibidem, p.190.