

THE ECONOMIC – FINANCIAL CRISIS IN ROMANIA IN CONTEXT GLOBALIZATION. CAUSES, EFFECTS, SOLUTIONS*

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Abstract: *The present economic financial crisis has disrupted the entire world economy, creating huge financial losses and producing profound changes both in the mentality of those who are coordinating the activity of banks and companies and of the consumers.*

Key words: economic financial crisis, monetary crisis, banks, companies, population.

General theoretic, economic and monetary overview

Once the industrial revolution appeared as the major form of progress and development of the society and way of increasing the quality of life, the appearance of major disruptions of economic and social nature generated by it was inevitable, disruptions that in time were given the well-known name of economic, financial or monetary crisis.

The first economic crisis were registered in the 17th century, in 1630, in Holland (the tulip bulb crisis) and in 1721 (bankruptcy of South Sea Company), where Sir Isaac Newton, the famous scientist, lost his life savings.

Subsequently, in the 18th, 19th and 20th century knew the most profound financial and economic crisis.

These crisis generated, to a smaller or larger extent, unbearable, sometimes dramatic consequences on the standard of living of the population as well as economic-financial damages at national economies level.

In line with those mentioned above, the main economic-financial crisis that “shook” the world at various times, the seismic center was in the following countries: U.S.A.. (1791-1792); U.S.A. (1819); U.S.A. (1841); Austria and Germany (1873); U.S.A. (1907); U.S.A., Great Britain, France and Germany

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(1914); U.S.A. (1929-1933); U.S.A., Great Britain, Canada, Belgium, Holland (1957) U.S.A. (1973); Asia (1997); Russia (1998); U.S.A. (2008).

Financial and economic dimension of the present crisis

The 2008 crisis, according to the World Economic Forum Report in Davos (January, 23-27, 2008), in the Document entitled Global Risks - 2008 (presented by World Economic Found in collaboration with Citigroup, Marsh Mc Jennis Companies (MMC), Swisske, Warthon School Risk Center and Zurich Financial Services) it was presented, among other things, the premises of the present crisis whose signs were already “felt” in 2007, when the situation on the financial markets was euphoric, generated by the real estate field, which seemed to be a successful, safe and profitable investment.

Once the crisis was triggered (February 7, 2007), date when the first issues caused by subprime credits emerge, the first great economic, financial and monetary problems of certain renowned companies come out.

On April 2, 2007, famous New Century Financial announces bankruptcy.

From this moment on, the shock wave propagates in all directions. In Europe, this strikes on 9 August 2007, when BNP Paribas states that it is impossible for them to honor all the cash withdrawals from two of their existing funds.

On September 13, 2007, the shock wave strikes the British bank Northern Rock, which in panic, but also in financial difficulty, seeks help from the Bank of England.

Enough, by this gesture, to create a domino effect on the entire European continent, spreading deep concerns.

Subsequently, the fears regarding the existence of an economic, financial and monetary crisis become a certitude when UBS Bank is caught by the “crisis virus”.

Compared to the previous financial crisis, the 2008 crisis induces a new world order, another hierarchy of the economic powers of the world.

Following the “earthquake” produced by the economic crisis, the “tectonic plates” of the financial - monetary system moved dangerously hard.

A first consequence was an increase of the price of a barrel of oil up to values much above 100 \$, a fact that lead to disruption of exchange rates.

It was a strong enough and convincing signal for the industrialized states review their energetic policy and crediting offers, which in the case of some countries were extremely generous. For instance, in Great Britain, there is no mortgage left that can cover 100% of the value of the real estate!

Romania has not felt the shock wave at the same intensity with the US or Great Britain, but only partially in some areas of the economy: more expensive fuels, higher rates, inflations higher than expected, slow down of real estate transactions, investment delays and abrupt falls of stock exchange.

The 2008 financial crisis has generated, for the first time, structural changes in the world order concepts, creating a humongous brake, difficult to predict in point of evolution, towards a new world order.

It is the real beginning of globalization, of a new universe of the human being, of a „Big-Bang” with unpredictable effects!

According to a study carried out by Centre for Economics and Business Research (CEBR), recession has situated the economical powers of the world in a different order. According to this study, China is going to be situated on a well deserved second place in 2010, surpassing Germany and Japan, breathing in the neck of the firstly ranked country, the U.S.A..

The source of the 2008 financial, monetary and banking crisis has started as a crediting problem in the U.S., in the second term and spread fast in Western Europe and even remote Asia until the end of the year.

The main manifestations of the crisis are the following: lack of liquidities on the financial and banking markets, as well as the significant decline of stock values on stock exchange markets.

According to an information published by the Central Information Agency in the U.S.A., the losses on the international capital markets stated at the beginning of the crisis, end of 2008 until February 2009 are reaching the incredible amount of 34,6 thousands of billion dollars. To be more precise, the stock values at global level decreased by 28,7 thousands billion dollars, to which losses in total of another 5,9 thousand billion dollars added up in the first two months of this year. In other words, capital markets lost more than half of their value, in the event where at the end of 2007, the total value of the world capital market was 66,82 thousand billion dollars!

Fluctuation of economic indicators

Deterioration of the financial sector has generated a huge unemployment wave, affecting the economic markets in the America and Europe.

In this way, on the London banking market in the analyzed period (autumn 2008 - February 2009) a reduction of 62 thousand jobs was announced due to a reduction of the demand for complex banking services.

In Ireland, unemployment raised by 6,3 percentage (August 2008). It is the highest level in the past 10 years, because of lay overs in the construction sector, in decline as a result of the economy slow down.

All these were to be the prelude of the actual crisis, which will be seen with certitude in 2009, when the problems in the banking sector, affecting the economies of the developed countries, will lead to a reduction of capital flow on emergent markets by 25 percentage, from a value of 730 billion dollars (estimated for 2008), up to 550 billion dollars. According to an IMF report, the problems on

financial, stock exchange and monetary markets will generate drastic long term declines of the economic activities.

At the same time, a World Bank report was a warning that „*Eastern European states, but also those in Asia are not immune to the disruptions generated by the global financial crisis, which could slow down the path of economic growth in most of the countries of these regions*”.

Losses in the Real Estate Sector

In the summer of 2008, in the USA, the real estate of subprime creditors crashed. The net value of the American real estate sector, evaluated by the American Federal Reserve (FRD), declined at the value of 2000 billion dollars (about 1500 billion dollars less) in the second term of year 2008, compared to the period before 2007. From that moment, the shock wave of the real estate sector explosion struck fiercely other countries too: Great Britain, Spain, Australian, and so on.

Losses on the stock exchange market

In September 2008, at the New York Stock Exchange about 4000 billion USA dollars have volatilized. The USA stock exchange has registered the most serious decline since the 1987 crash. Other sources maintain that it has been the most serious crash in the whole history. In general, in the period between July - September 2008, Dow Jones indicator declined by 36 percentage, the Italian S&P/MIB indicator lost 41 percentage of its value and the MSCI/World indicator calculated for the company shares of in 28 developed countries, declined by 36 percentage.

The dimension of this disaster shows the extremely violent way this crisis struck, and the disruptions produced in the stability of the economy of the countries of the world (USA, Asia and Europe).

The financial losses have established themselves at the level of physical persons as well, by the diminishing of the value of their actions. The consequences of this earthquake on the stock exchange market have been found in the bankruptcy of many banks and companies.

The most famous bankruptcy was the one belonging to the British bank Northern Rock, taken over by the British government in February 2008.

In the USA Lehman Brothers Holdings and Indy Mac Bancorp. Went bankrupt. Merriell Lynch was sold to Bank of America Corp, and Bear Stearns was bought out by JP Morgan Chase and the examples can be continued.

Surprising for this period is the state intervention on the American markets buying various banks in difficulty. In this respect, Jim Rogers, Wall Street important investor stated: „*The United States of America is more communist than*

China at the moment. The accent falls on a welfare state for the rich, not for the poor as well”.

This extremely controversial model from the point of view of capitalist monetary policy, but efficient during the crisis, has been used by other Western countries as well (Belgium, Holland, Luxemburg, Austria, Denmark, Germany, Sweden, Ireland). As a result of the financial crisis a new model opposed to the consuming one appears, orienting the population priorities towards saving money for retirement, education and other reasons.

It was reached the stage, stated Nicolas Georgescu-ROEGEN during one of his conferences at Yale University on November 8, 1972, on „**Energy and Economic Myths**”: *„It is necessary to free ourselves from that obsession of the fanatic, who doubles his efforts in a direction whose aim is in contradiction with the reason to exist ”.*

Besides, the essence of Nicolas Georgescu-ROEGEN’s theory lies in the fact that *„in order to avoid a predictable economic crash, activities costing less materials and energy should be developed, as resources are limited.”*

At the moment we are assisting a profound change in the US and other Western countries consumer’s mentality, in the sense that they started think twice before buying something.

Only in the USA, the losses in the period between 2008-2009 caused by this crisis have been estimated at 10500 billion euro, without taking into account the stock exchange losses in Europe and Asia.

As a conclusion, new financial and monetary rules are necessary capable to change the education regarding money perception. This would involve a real revolution in the education of the citizens within educational systems.

The Relationship between the International Monetary Fund and Romania

In the spring of 2009, Romania agreed upon an external financing package from the IMF, EU, World Bank and BERD in an amount of 19,95 billion euro, representing the highest external credit in the History of this country and almost half of the budget for 2009.

IMF decided to provide the Romanian authorities funds amounting 12,95 billion euro, through a standby agreement for a 2 year period. So far, the Fund has released about three quarters of the sum, but the Romanian authorities have not made concrete steps in reforming the public sector. For the money received, Romanian has paid taxes and interests at an amount of 84 million euro, by the end of February this year.

The Romanian officials stated several times that the agreement is “preventative”, that in fact, it is a “safe belt”. Last autumn, the IMF money became the solution for payment of salaries and pensions, the financial institution

accepting that half of the 2nd, 3rd and 4th tranches to enter directly the state budget.

However, IMF-EU were less tough than in the preceding agreements, the Fund letting understand that the extraordinary circumstances, the generalized recession are taken into account.

The IMF-EU agreement involves more conditions regarding structural reforms and compulsory targets to be met by Romania regarding the macro economic indicators. So far, the authorities have agreed with international financial institutions representatives that VAT and the unique taxation should not be modified and found a lot of understanding in point of budgetary deficit. However, in the letter of intent in February, 2010, the government committed himself to take additional measures if they do not succeed to meet the expected budgetary income objectives.

Romania's relationship with IMF has been crucial for the governments who took the power one after the other in their attempt to make structural reforms.

Prime Minister Mugur Isărescu (Dec. 1999 - Dec. 2000) was the only head of the post December governments who adopted from the very beginning a coherent economic policy, contributing to a re launch of economic growth after three years of recession. During the year 2000, Romania's GDP grew by almost 3%.

Năstase government (Dec. 2000 - Dec. 2004) managed to finalize for the first time after 1989 an agreement with the IMF, amounting 431 billion dollars. The four year period when Romanian was lead by the minority government headed by Adrian Nastase was marked by political stability and by an average growth of more than 6%. In this period, administrative reforms have been carried out, a strengthening of foreign relations was registered, however there were critics regarding freedom of speech and an accentuation of corruption phenomenon.

Călin Popescu - Tăriceanu (Dec. 2004 - Dec. 2008) became Romania's Prime Minister as representative of the DA alliance, LNP and DP, when the succession of power following the general elections in 2004 was against another IMF agreement. The period having Tăriceanu in power was characterized by an economic growth without precedence, nevertheless unsustainable, having the misunderstandings between the Executive and the Presidency as a background. Equally, his mandate was marked by a strong growth of expenses and of the bureaucratic system.

In the spring of the year 2009, the Boc government (Dec. 2008 / present) has contracted from the IMF, European Commission and the World Bank a loan in an amount about 20 billion euro, This one being the largest foreign loan in the History of Romania. The Boc government came into power in a period when the effects of the global crisis became more and more visible at local level. The last part of the year was marked, beyond the difficult economic context, by

incoherence of governmental policies and misunderstandings within the SDP - LDP coalition. In 2009, the economy contracted by 7,1%.

Payment Peak - 2013

Graph of IMF money reimbursement according to the latest agreement (equivalent bill. euro))

Year	2009	2010	2011	2012	2013	2014	2015	2016
Redemption	0	0	0	1,48	4,91	4,89	1,58	0,120
Interest	0,13	0,34	0,41	0,40	0,30	0,11	0,02	0,001
Total	0,13	0,34	0,41	1,88	5,21	5,00	1,60	0,121

Note: for converting the sums from DST into euro the courses for DST/dollar and euro/dollar published by RNB on April, 16, 2009.

Source: IMF

History of Romania-IMF agreements (1975-2010)

Type of agreement	Data of approval	Expiry Date /rezilierii	Approved Amount (mil.DST)	Drawn (mil.DST)
Stand-by	3 Oct.1975	2 Oct.1976	95,0	95,00
Stand-by	9 Sept.1977	8 1978	64,1	64,10
Stand-by	15 June 1981	14 Jan.1984	1.102,5	817,50
Stand-by	11 April 1991	10 April 1992	380,5	318,10
Stand-by	29 May1992	28 March 1993	314,0	261,70
Stand-by	11 May1994	22 April 1997	320,5	94,30
Stand-by	22 April 1997	21 May1998	301,5	120,60
Stand-by	5 August 1999	28 February 2001	400,0	139,75
Stand-by	31 Oct.2001	15 Oct.2003	300,0	300,00

Stand-by preventative	07 July2004	06.July2006	250,00	0 (not final.)*
Stand-by	04 May2009	03 May2011	11.443,0	8263,0

* Drawn Sum is zero because this was a preventative agreement The programme has not been finalized, only the first evaluation being finalized.

Source: IMF

After 1990, Romania signed six stand by agreements with the IMF (except for Isărescu and Tăriceanu governments), each programme being accompanied by a loan, conditioned by certain commitments for the reform. However, only one agreement was finalized with difficulty, after numerous delays and derogations, being finalized in October 2003.

Out of a total available finance of about 2.8 billion dollars, the governments that succeeded applied as many reforming measures as to enable them to draw a little bit more than half of this sum. However, the programmes and finance allocated in the period between 1990 - 2000 did not produce the expected results.

The repeated failures in applying the IMF programmes in Romania have made the IMF board decide in 2004 to not discuss a new agreement draft unless they receive an evaluation report of the programmes that have been carried out. This IMF decision took the Romanian authorities by surprise. In spite of all these, Romania could not do without “a new credibility certificate” granted by the Fund, under the circumstances where the EU manifested serious doubts regarding the registered progress with a view of joining the EU. At the beginning of June 2004, a new stand-by agreement was concluded, a preventative one this time. The programme was never concluded, only the first evaluation being finalized.

Economic and social situation in Romania in the period of the present economic-financial crisis.

Unfortunately, the present economic financial crisis struck Romania on the background of a profound poverty. Thus, out of the 9 million Romanians, almost half of the population, receiving social aids, are supported by 4.5 million employees, the only contributors for the social assurance budget. These employees also support the payments for approximately 6 million retired people.

The transfer of the national wealth to foreign capital, economy crash and the debt surpassing 100 billion euro, have determined a dramatic decline of the standard of living in the period between 1990-2009.

It is obvious that under these circumstances, the financial economic crisis struck harder in an economy that is more fragile than other national economies.

In addition, the crisis effects have been amplified by the deficiencies registered by the governments between 1990 - 2009.

The catastrophic crash of the national economy in the period between 1989 - 2009, determined by the anti Romanian policies of the governors who lead Romania have changed the lives of million citizens dramatically. For Romania it is difficult to get out of the crisis, because the national economy has been disastrously been administrated and consequently the present governing people have are left without efficient administrative means.

Chaotic and fraudulent privatization of the national belongings, practically almost 90% (banks, oil, gas, forests, waters, land, constructions, plants, chemical plants, metallurgical plants, etc,) produced a damage of about 700 billion de euro. Out of this amount, only 7 billion euro(1%) has been cashed. In many cases, there was no privatization in the right sense of the word, but a transfer of values from the Romanian State into the propriety of other states

At present, the profits obtained by the companies having foreign capital are transferred to the originating countries. Thus, in 2008 only, the banks with foreign capital in Romania have obtained profits exceeding 5 billion euro.

The 16% taxation on profits and incomes determines annual 7 - 8 billion euro.

In 2009 the loans contracted from the IMF were spent significantly on social assurances (salaries, pensions, compensated medicines, unemployment, etc.), and the rest of the IMF money were given to the commercial banks - one of the conditions imposed by the IMF besides lowering the salaries and pensions and increasing the taxes.

The solutions that can contribute to the improvement of the economic and social condition of the Romanian citizens cannot be those having in view on going loans from the World Bank, or from other banks from Europe and the US, because they are concluded through IMF agreements, imposing counter productive measures for Romania's economic development.

The solutions for getting out of the crisis of Romania's economy consist in relaunching the national economy that needs to include transfer in the state patrimony of the state of the economic objectives that have been fraudulently been privatized or in the Romania's state disadvantage.

Another solution for getting out of crisis is investment in education and research. The present Research Development Innovation (RDI) is over dimensioned, developing gradually after 1948, within the framework of a planned economy. This system is rigid, anachronistic, and incompatible with the market economy and globalization. Lack of reform and under financing of research and education, activities having medium and long term impact, will lead to deepening the economic crisis, and of the narrowing of the solution spectrum of solutions

necessary to resolve this situation. The reform of research has to be linked to the reform of education, aiming at strengthening research activities in universities.

Final considerations and perspectives

The global financial crisis has resulted in the devaluation of shares totalizing hundreds of billion euro and bankruptcy of banks that seemed invincible, once upon a time.

The financial and monetary crisis can be considered at a certain point as an antidote against the human habit of continuous accumulation, but equally a dangerous potential of triggering local, regional or global wars.

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