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## ECONOMIC EVOLUTIONS IN ROMANIA AND IN THE EUROPEAN UNION IN CRISIS CONDITIONS

*Alina Hagiu\**

### **Abstract**

*The global economic crisis is magnifying every day, and Romania began to increasingly feel the economic recession, to which economists from the whole world fail to find an antidote. Economic crisis will hit Romania fully. And there will not be a little crisis, as some still say, but will be a system crisis, an economic crisis, which if we don't understand and don't treat properly, will produce devastating effects.*

*Is the same as in the years '29 -'33, when the capitalist system of manufacturing bankrupt and it was replaced at that time with a capitalist financial system. Today, the financial capitalism is too in bankruptcy and must be replaced by another system. What will it be? The world is looking for it.*

*For Romania, in the present situation, it is extremely important to be aware of the crisis in its true dimension and try to keep manage.*

*Regarding European Union, in many ways the current economic crisis is a severe test for it. There is no secret that until now the national interests prevailed in all essential matters, beginning with that of energy security. But despite this, rhetoric typical of Brussels has managed so far to alleviate asperities moving tactically discussion in areas where septic joint positions are more easily obtained. The process will be much more difficult now. Already due to political and economic pressures at home, governments of all member countries appear less willing to take into account the views of Brussels map.*

*So far the European Union authorities have officially recognized that the Euro zone fell into recession after the third quarter of 2008 was the second consecutive quarter of negative growth estimating that GDP will decrease more in 2009.*

*On these coordinates we intend to analyze the effects of economic crisis on Romania and the European Union in general, also trying to formulate possible ways to follow for decreasing the negative effects as long as their removal does not seem possible.*

**Key words:** recession, unemployment rate, funding, human resources, budget, GDP.

**JEL classifications:** O11, E01, F01

### **Introduction**

It has already been some time since the economists started to worry about the rapid propagation on the real economy of what was initially a financial crisis and send signals of distress to policy makers. In many developing and emerging countries, those signals were not taken seriously by politicians - sometimes comforted by local

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\* Alina Hagiu is Assistant Professor of Economics at the University of Pitești, in Pitești. E-mail: alinahagi@yahoo.com

economists - because the crisis was perceived as something far away, which concerned only developed countries. The argument was always the same: developing and emerging economies are not financially integrated with the world system; consequently, these economies will not be contaminated. When the impact on real economy was questioned, the same confidence prevailed, based on high rates of real growth recorded in the past few years by those countries.

### **Similarities and differences between the crisis of 1929 and the current one**

In 1929, at the end of a golden decade that dimmed the memory of the First World War, the crisis hit full in Romania. Scholarships were collapsed, large companies began to stagger to the ground, and "unemployment" became, from a simple word, a daily reality alarming.

It have been almost eight decades since then, and Romania beats at the gates of a new economic crisis of proportions, and the comedy and tragedy still up dough from which the country is prepared the anti-crisis solutions.

Wall Street entered in collapse the first time on 24 October 1929. In Bucharest, news get more difficult to people. Internet was not yet processed thousands of miles away-in seconds. Three days later, the biggest Romanian newspaper of the time, "World", dedicated, finally, a "box" event: "The Exchange effects in New York were trading on a number of about 14 million shares. The meeting went extremely rugged and partly in an atmosphere of panic, with considerable decreases in huge classes of most papers.

No "Morning", the newspaper political of the Left side is not very much in a hurry. Only on November 1 on the first page they are announcing "catastrophic spill from Exchange in New York, describing in detail the chaos in the American stock exchange.

When it comes to Romania, optimism is in bloom. Crisis is always "them", others, always elsewhere: "In general, the National Bank's balance sheet shows that the economic situation began to focus on a very thorough and entitles the hope that, as we will capitalize the new harvest, improvement to stress. Furthermore, on November 7, it was held in Bucharest Extraordinary General Assembly of the Industrialists, in this meeting is absolutely nothing mentioned about the crisis.

Officially the economic crisis lasted from August 1929 until March 1933, and the evolution of U.S. GDP was as follows: 1929 - \$ 87 billion; 1930 - \$ 75 (-13%), 1931 - \$ 59 (-21%), 1932 - \$ 42 (-29%), 1933 - \$ 40 (-5%).

To see this crisis and its influence on other developed economies, we will present the table below where it can be seen the evolution of industrial production index related to each country during the crisis period, 1929 is taken as reference (100).

**Table no.1 The evolution of industrial production index**

	1927	1928	1929	1930	1931	1932	1933	1934	1935
Britain	95	94	100	94	86	89	95	105	114
Canada	85	94	100	91	78	68	69	82	90
France	84	94	100	99	85	74	83	79	77
Germany	95	100	100	86	72	59	68	83	96
Italy	87	99	100	93	84	77	83	85	99
Sweden	85	88	100	102	97	89	93	111	125
U.S.	85	90	100	83	69	55	63	69	79

Source: *Industrial Statistics, 1900-57* (Paris, OEEC, 1958).

As a result of industrial activity decline, in 1933 approximately 25% (15 million) of Americans able to work were unemployed and average income of those who were still working fell with 43%. Regarding the banking sector, if in the years proceeding the crisis banks appeared with a rate of 4-5 per day, during the crisis have bankruptcy on average, two per day.

The current crisis may be similar to that in 1929-1933 in terms that this crisis was caused by excess venture of financial assets, particularly shares and real estate (let's not forget, sub-loans that have triggered economic crisis), assets whose price has risen completely out of control in the past 10 years and now, when their price is closer to normal values, we discover that the richness of the world decreased by 30,000 billion dollars. In addition, it is obvious that various governments and regulatory institutions have not kept pace with the times, and the existing legislative framework in some areas is completely overcome.

On the other hand these two crisis are different because now there is more wealth, the world economy situation is incomparably better than it was 80 years ago and governments have funds to fight against this crisis. The most pessimistic analysts point for 2009, year regarded as representing a crisis peak, a decrease of U.S. GDP of 3-4% while unemployment rate will not pass from 8-9%. If we compare these figures with those of 80 years ago and we will see neither why the situations are nor comparable if we talk in percentages. In absolute numbers, however, losses are much higher, given that in 1929-33, a decrease of the exchange by 80% led to losses of tens of billions of dollars while now, a decline of 40% of Dow Jones Industrial Average has led to losses of thousands of billions.

And if the current economic crisis began with the blockage of scholarship in America, the war with Iraq, followed by blockage in the real estate market, instability of the European currency euro, which in 2008 saw dramatic fluctuations, increasing unemployment and other implications other plans.

And Romania as in the case of crises there has begun to counter the crisis when it almost loom. What could rehabilitate Europe at this time? What is the origin and nature of the sources of instability in Europe?

A hawk-eyed about our current situation reveals that the sources of instability such as military, in Europe, are currently extremely low, almost non-existent, no state had an interest in confronting a gun in his hand.

Territorial claims, although they have disappeared completely - the case of former Yugoslav Federations - are heard more rarely, from groups with a strong extreme-nationalist character, what makes us say that there is a high degree of territorial stability, Poland, Czech Republic, Hungary, Slovakia, Romania cases.

An area requiring attention in the coming period is the economic-financial, economic imbalance - still existing between Western and Eastern Europe (in especially when states of the former sphere of influence of the USSR, among which Romania) - can become a source of instability that could lead to a crisis proportion in the EU. This should be encouraged that the eastern part of Europe out of the Cold War, characterized by a strong economic instability. Signs of economic weakness were felt on the line in Poland, Hungary, Romania and Bulgaria, when involved in the pre-accession, these countries have made significant economic delays, some up today, persisting in - Romania and Bulgaria.

Also is known the Europe's dependence of external energy resources, it is said here the state of instability can be generated by separate or combined action of agents whose nature may vary from bomb attacks to cyber attacks.

Oil prices in particular and energy in general are very sensitive, any possible conflict may generate an excessive increase in prices, the effect is triggering a crisis, major, if an energy system such as Europe, which is forced to import the much energy.

### **Economic evolution in Romania and the European Union Forecast of the Romanian Economy in crisis conditions**

"Financial holds" a favorite phrase from the beginning of the decade past reappears. In 1995 the economy was blocked by huge amount of outstanding payment from not reorganized industrial colossi, which spread throughout the economy. Fifteen years later, the problem of forgotten arrears becomes again topical.

National Bank of Romania mentions in the situation report in January 2009 that have already occurred difficulties in collecting the value of production sold to companies in the chemical industry, construction materials industry, the extractive industry, means of technical computing industry, machinery, equipment and apparatus ( percentages between 29 to 100%) and 25% of companies in the construction sector.

The government included in the anti crisis pan several measures that will contribute to streamlining the movement of money, such as compensation of value added tax. These measures are beneficial, but they may not be sufficient for the market at this time.

While the abrupt cooling of domestic demand will dampen import growth, the economic slowdown in Romania's main export markets is expected to allow only a gradual reduction of net external borrowing from just below 13% of GDP in 2008 to

about 12% of GDP in 2009 and 11% of GDP in 2010, in spite of improved competitiveness.

In 2009, the general government deficit is set to increase to 7/% of GDP from an already high deficit of some 5/% of GDP in 2008. This reflects an unfunded increase in pension benefits and the full impact of the 2008 cuts in the social security contribution rate as well as the cost related to the second pension pillar. Public sector wage increases are assumed to remain high. Furthermore, tax revenues will be affected by the economic slowdown as well as various tax changes (e.g. removal of taxes on certain capital and interest gains, preferential tax treatment for R&D expenditure, reduced VAT for social housing).

The new government announced but not yet approved revision of the 2009 budget is not included in the forecast. The public deficit is projected to increase further to around 8% in 2010.

The higher deficits together with rapidly increasing yields on government debt will result in the debt-to-GDP ratio rising from 15/% to 26%% between 2008 and 2010.

**Table no.2 Main features of country forecast – ROMANIA 2007 Annual percentage change**

billion RON	Current prices	% GDP	92-04	2005	2006	2007	2008	2009*	2010*
GDP at previous year prices	412.8	100.0	1.6	4.2	7.9	6.2	7.8	1.8	2.5
Private consumption	277.8	67.3	3.5	10.1	12.7	11.6	8.0	1.9	2.9
Public consumption	64.3	15.6	1.8	3.8	-4.1	1.6	3.5	3.4	3.2
Gross fixed capital formation	125.6	30.4	6.5	15.3	19.9	29.0	18.1	1.4	3.0
of which : equipment	60.8	14.7	8.4	18.9	23.5	27.1	18.0	0.7	2.2
Exports (goods and services)	121.9	29.5	11.3	7.6	10.4	7.9	10.7	1.3	1.9
Imports (goods and services)	179.7	43.5	11.6	16.0	22.6	27.2	15.2	1.7	3.4
GNI at previous year prices (GDP deflator)	398.0	96.4	1.3	5.5	7.4	6.0	7.5	2.0	2.6
Contribution to GDP growth :	Domestic demand		4.7	10.9	12.9	15.7	11.4	2.2	3.3
	Stock building		-1.8	-2.3	1.4	0.1	-0.2	0.0	0.0
	Foreign balance		-1.0	-4.5	-6.3	-9.5	-3.5	-0.3	-0.9
Employment			-2.1	-1.5	0.7	0.4	1.1	0.0	0.5
Unemployment rate (a)			6.5	7.2	7.3	6.4	6.2	7.0	6.9
Compensation of employees/head			73.1	28.6	12.4	22.4	22.5	9.0	8.9
Unit labor costs whole economy			66.8	21.6	4.9	15.7	15.0	7.0	6.8
Real unit labor costs			-1.3	8.4	-5.1	2.6	1.3	-0.3	0.3

Savings rate of households (b)	-	-	-	-	-	-	-
GDP deflator	68.9	12.2	10.6	12.7	13.5	7.3	6.4
Harmonized index of consumer prices	-	9.1	6.6	4.9	7.9	5.7	4.0
Terms of trade of goods	2.3	12.2	12.7	10.3	6.1	1.4	2.2

(a) Eurostat definition.

(b) gross saving divided by gross disposable income.

(c) as a percentage of GDP.

### ***Evolution of unemployment in Romania***

In Romanian statistics, the number of unemployed is determined in two variants:

- ***Registered unemployed*** are persons who have declared that in the reference period were entered the offices of the labor force and unemployment, whether or not receiving the allowance support, unemployment or other forms of social protection.

- ***Unemployed B.I.M<sup>8</sup> in effect***. are persons 15 years and over who during the reference period while satisfying the following conditions:

1. Have no job and no activity in order to achieve revenue;
2. Are looking for a job, using the last 4 weeks in various ways to find: the registration of employment and unemployment agencies or private placement, arrange to start work on your own ads or publication responses to ads, calling on relatives, friends, trade unions etc.;
3. Are available to start work in the following 15 days, if you would immediately find an employment;
4. Are also included: Persons without jobs available to work, waiting to be recalled to or who have found a job and is to begin work on a later date the reference period;
5. People who usually are part of the population of inactive (students, retired persons), but said they are looking for a job and are available to start working.

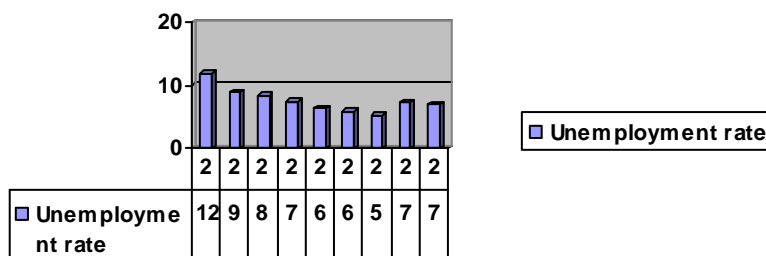
The relative values that the intensity of unemployment is one of the most key of macroeconomic indicators: the unemployment rate. This is determined by reporting total number of unemployed to active population and is expressed as a percentage. The rate of unemployment and development is one of indicators depending on who is taking some measures to protect social or economic policy decisions.

It is noted in the chart bellow that the unemployment rate has tended to increase from 2006 to 2008, while unemployment in the period 2000-2005 has been controlled in the sense of a decrease.

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<sup>8</sup> International Labor Office

Figure no.1 Unemployment in Romania. Period 2000-2008:

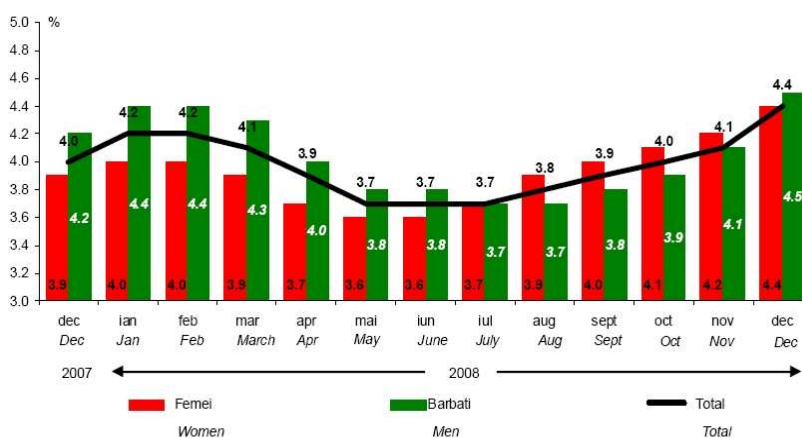


Source: The Annual Statistics of Romania

Unemployment rate recorded at the end of December 2008, at the national level was 4.4% higher than the 0.3 percent in December of 2007 and than in November 2008. The labor market in Romania was characterized by a constant rate throughout the year 2008 with a slight increase in December the annual average was 4.0%.

This shows again the direct link between socio-economic characteristics of each area and the development of unemployment, regional disparities that can be solved only in time, efforts and providing necessary resources.

Figure no.2 The unemployment rate in Romania, in 2008.



Source: The monthly statistic bulletin no.12/2008.

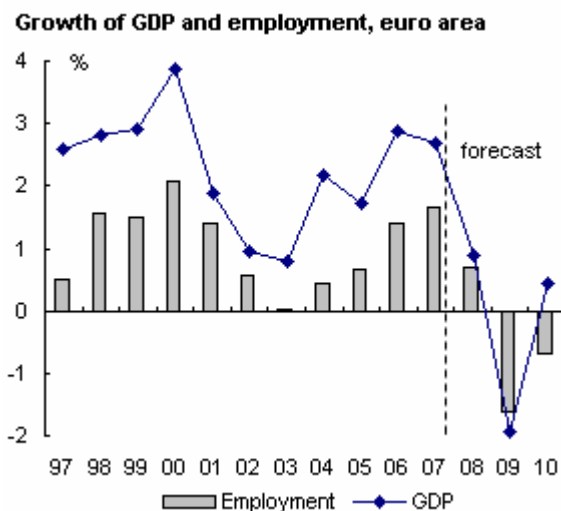
### Evolution of unemployment in the European Union

According to Eurostat<sup>9</sup>, unemployment in the euro area reached 7.2% in October compared to 7.3% in September. In the EU, the unemployment rate was in October, 7%, as in September, but 0.8% less than in 2006. The lowest

<sup>9</sup> Eurostat is the Statistical Commission of the European Union, the Romanian National Institute of Statistics of Romania.

unemployment rate in October was 2.9% in Denmark Netherlands and 3.15 and the highest in Slovakia was 11.2% and Poland 8.8%.

**Figure no.3 Growth of GDP and employment in the Euro area**



The labor market situation started to worsen in most Member States in 2008. Reacting with a certain lag to changes in GDP growth, employment growth is expected to turn negative this year, with EU employment falling by 3½ million jobs. The unemployment rate is expected to increase to 8¾% in the EU in 2009 (and 9¼% in the euro area), with a further increase in 2010.

### ***Evolution of GDP in Romania and the European Union***

During the economic recession, a higher tax reduces aggregate demand and hence investment, leads to the redistribution of resources through occult parallel formal economy, and increases size of illegal economy. Rather, the stages of economic boom, the consumption is over, a tightening of fiscal measures is appropriate to reduce the phenomenon of "warming" of the economy and thus to circumscribe inflation in controllable limits.

With regard to the budget of Romania since 2009<sup>10</sup>, article 2, paragraph (2) State budget income is set at the amount of 103,856.6 million lei, and expenses in the amount of 117,032.3 million lei, with a deficit of 13,175.7 million lei.

The state budget for 2008<sup>11</sup> shall be revenue amounting to 67,004.7 million lei, and expenses amounting to 78867.9 million lei, with a deficit of 11,863.2 million lei.

<sup>10</sup> LAW of the state budget for 2009, Chapter I General Provisions, published in the Official Monitor.

<sup>11</sup> LAW of the state budget for 2008, Chapter I General Provisions, published in the Official Monitor.



It notes that the current slump, revenues have almost doubled, while costs decrease by one third, to achieve the rationalization of public ban, the budget deficit increased very little.

Regarding the conditions of funding, currently Romania expects receiving loan from the International Monetary Fund, to begin unlocking the banking market, in this case the relaxation of loans, a resumption of lending activities, financing and restart economic activity overall.

Gross Domestic Product estimated for the quarter 2008<sup>12</sup> was 159,430.4 million RON current prices, up - in real terms - by 2.9% over the 2007 quarter.

Gross Domestic Product estimated for the first half of 2008<sup>13</sup> was 195,764.1 million lei, up 8.8% over the first half of 2007. In second quarter 2008 gross domestic product was 109019.1 million lei in current prices (GBP) growth in real terms by 9.3% over the same quarter of 2007.

Gross Domestic Product estimated for 2007<sup>14</sup> was 404708.8 million lei, up 6.0% over 2006. In IV quarter 2007 gross domestic product was 137768.5 million lei in current prices (GBP) growth in real terms by 6.6% over the same quarter in 2006.

Gross Domestic Product estimated for 2006<sup>15</sup> amounted to 342,418.0 million lei current prices (USD), increasing in real terms by 7.7% compared to 2005.

In IV quarter 2006, Gross Domestic Product was estimated at 112,475.7 million lei current prices (USD), with 7.7% higher than the same quarter of previous year.

The situation of public finances has been shown to be significantly better than expected in the autumn, because the average budget deficit fell from 2.3% of GDP in 2005 to 1.7% last year in the EU (from 2.4 % to 1.6% in the euro area), mainly due to higher revenue from taxes. This should have a positive impact throughout the forecasting period, showing a decrease in the deficit to 1.2% of GDP this year in the EU (1% in the euro area). It provides a further decrease for 2008 to 1.0% in EU and 0.8% in the euro area, the usual assumption on maintaining existing policies. It would be the lowest deficit since 2000 until now.

Despite this overall improvement, five Member States, including a country in the euro area, it still faced with a deficit exceeding 3% of GDP this year.

### **Forecast of the European Union Economy in crisis conditions**

The economic and financial crisis represents a reality not only for Romania but for the whole world. Although it appeared in the United States, the crisis included the world economy, its effects being felt in different ways, for most states.

If until recently there were still opinions that supported the idea that national economies may evolve independently from each other, or that an imbalance in a domestic macroeconomic indicators in a country can remain isolated in that region,

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<sup>12</sup> PRESS RELEASE, No.41 of 4 March 2009, National Institute of Statistics.

<sup>13</sup> PRESS RELEASE No. 172 of 1 September 2008, National Institute of Statistics.

<sup>14</sup> PRESS RELEASE No. 44 of 4 March 2008, National Institute of Statistics.

<sup>15</sup> PRESS RELEASE No. 41 of 6 March 2007, National Institute of Statistics.

the current evolution of the international economic scene is the supreme counterargument for such an idea.

The European Commission had to adjust their forecast for spring to adapt to new trends and economic realities. As can be seen from Table no.3, the adjustments of macroeconomic indicators are more visible in the investments.

**Table no.3 The evolution of macroeconomic indicators of EU during 2008-2010**

Annual change (if is not specified otherwise)				Autumn forecast 2008			Differences from the spring forecast 2008	
				2005	2006	2007	2008	2009
GDP	2,0	3,1	2,9	1,4	0,2	1,1	-0,6	-1,6
Private consumption	2,0	2,3	2,2	1,1	0,2	0,8	-0,5	-1,4
Public consumption	1,6	1,9	2,1	1,8	1,3	1,2	-0,1	-0,4
Total investments	3,6	6,1	5,4	1,2	-1,9	0,9	-1,6	-3,9
Employment	0,8	1,5	1,7	0,9	-0,5	0,1	0,1	-1,0
Unemployment rate	8,9	8,2	7,1	7,0	7,8	8,1	0,2	1,0
Inflation	2,3	2,3	2,4	3,9	2,4	2,2	0,3	0,0
Deficit (%GDP)	-2,4	-1,4	-0,9	-1,6	-2,3	-2,6	-0,4	-1,0
Public Debt (%GDP)	62,7	61,3	58,7	59,8	60,9	61,8	0,9	2,5
Current account deficit (%GDP)	-0,2	-0,8	-0,7	-0,9	-0,7	-0,6	-0,2	0,0

*Source: Autumn forecast of the European Commission 2008,  
[http://ec.europa.eu/economy\\_finance/publications/publication13290\\_en.pdf](http://ec.europa.eu/economy_finance/publications/publication13290_en.pdf)*

As can be seen, forecasts are not too optimistic. For 2009, the Commission forecast a growth of 0.2% at EU level and an increase of 0.1% for the Euro area. Visible results are expected in the year 2010, when is estimated a GDP growth of 1.1% for the EU and 0.9% for the euro area.

### **Conclusions**

It is clear that the financial system of the United States failed in two important directions: first, controlling risks and secondly, the allocation of capital. In regrettably way, many of the defective financial leverage in this system were exported / imported (for) to other states.

Given the current crisis, in my opinion, Romania will overcome this Regarding European Union, in many ways the current economic crisis is a severe test for it. There is no secret that until now the national interests prevailed in all essential matters, beginning with that of energy security. But despite this, rhetoric typical of

Brussels has managed so far to alleviate asperities moving tactically discussion in areas where septic joint positions are more easily obtained. It will be much more difficult now. Already due to political and economic pressures at home, governments of all member countries appear less willing to take into account the views of Brussels map.

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