IMPLICATIONS AND PERSPECTIVES OF THE PRESENT ECONOMIC CRISIS

Mariana Sorlescu, Iuliu Marin Ivanescu, Mona Ivanescu[*]

Abstract

The financial crisis that hited the global economysince the summer of 2007 is without precedent inpost-war economic history. Although its size andextent are exceptional, the crisis has many featuresin common with similar financial-stress drivenrecession episodes in the past.

The crisis is deep, being the result of a paradigm and a way to make public the policy which did not understand that markets functioning well are not equal to the lack of rules/ regulations and the decrease of the public interventions in economy can easily become unproductive. The order system was a political, historical and economic failure. But the markets can also fail and, that is why, the judgement by public action must not be eliminated.

We are in full economic crisis, forcing us to analyze both the factors and the effects of the crisis, which spread immediately in this global world with serious economic and cultural interdependencies.

Keywords: financial crisis, growht, global recession, credit jam.

JEL classification: E00, E60, F01

Introduction

The financial crisis that hited the global economysince the summer of 2007 is without precedent inpost-war economic history. Although its size andextent are exceptional, the crisis has many featuresin common with similar financial-stress drivenrecession episodes in the past. The crisis waspreceded by long period of rapid credit growth, low risk premiums, abundant availability ofliquidity, strong leveraging, soaring asset pricesand the development of bubbles in the real estatesector. Over-stretched leveraging positionsrendered financial institutions extremely vulnerable to corrections in asset markets.

As aresult a turn-around in a relatively small corner ofthe financial system (the US subprime market) wassufficient to topple the whole structure. Suchepisodes have happened before (e.g. Japan and the Nordic countries in the early 1990s, the Asiancrisis in the late-1990s). However, this time isdifferent, with the crisis being global producing events similar with those that triggered the Great Depression of the1930s.

[*] Mariana Sorlescu is Associate Professor of Economics at the Romanian American University in Bucharest. E-mail: madisorlescu@yahoo.com
Iuliu Ivănescu is Associate Professor of Economics at the Romanian American University in Bucharest. E-mail: iuliumarin@clicknet.ro
Mona Ivănescu is Assistant Professor of Economics at the Romanian American University in Bucharest. E-mail: mona.ivanescu@hotmail.com

In early 2008 many experts and business analysts estimated that the severe financial crisis would not extend over the real economy. These views were quickly dissipated and unfortunately in 2009 we all got up brutally from our great dreams.

When giants as Lehman Brothers, Bear Stearns, Merrill Lynch or AIG are on the verge of bankruptcy and the public perception is the one of financial panic, it is impossible for the banks from different corners worldwide not to be affected sooner or later , to a smaller or larger extent.

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Effects of the crisis in world economies

Almost everywhere in the world economy was in free fall in first half of 2009, to stabilize at a very low level in the second half of the year.

Each year we have to learn new terms when it comes to economics. In 2008, the focus was on terms such as financial crisis, credit jam, rescue package and the word Soffin, which means special funds to stabilize financial markets, for which Germany adopted a special law. In 2009, these concepts were joined by others, such as the law of accelerating economic growth.

Then, there was rarely a year in which the Germans had to memorize three names at the head of the Ministry of Economy. In the beginning of 2009, the Bavarian Christian-Social politician, Michael Glos announced on February 7 he was tired and resigned. Two days later, the economy reins were taken over by his party colleague, Baron Karl-Theodor zu Guttenberg, of course only until September 27 legislative elections. Since then, the economy has been run by the liberal Rainer Brüderle. In Germany, however, economic policies are not set by the Ministry of Economy, but by the Ministry of Finance, if not directly by the Federal Chancellery.

If overseas, the bankruptcy of the investment bank Lehman Brothers had led to the collapse of the entire banking system, the European Union would have suffered the same effect by the payment default of the real estate financier Hypo Real Estate.

Fearing this next disaster, the representatives of the G20, of the most industrialized nations plus emerging countries, decided at their meeting in London, to implement control mechanisms for high-risk financial products, so-called hedge funds, for rating agencies and bonuses awarded to bank managers. The representative of the host country, British Prime Minister Gordon Brown said on that occasion: "Today is the day the world met to counter the global recession. Not with words but with a plan to revive the global economy, a reform plan and with a timetable for their implementation. "

The deepest recession after the II-nd World War finished in the 3-rd semester of 2009, when it was registered a 0,4% economic growth in the Euro area, after five decreasing semesters; in the 27 states of the European Union, the growth of GDP was 0,2%, compared to the 2-nd semester but compared to 2008, it was -4,3% respectively -4,1% and between the member states there are continuous significant discrepancies. Outside Europe, Japan has succeeded since the second quarter of 2009 to record a 0,7% growth over the first quarter and the United States, which triggered the crisis in the third quarter, increases by 0,6%.

Table 1. Growth rates of GDP in volume

	Percentage change compared with the previous quarter (based on seasonally adjusted* data) **2009**				**Percentage change compared with the same quarter of the previous year 2009**			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
EA16	-2.5	-0.1	0.4	**0.1**	-5.0	-4.8	-4.0	**-2.1**
EU27	-2.4	-0.3	0.3	**0.1**	-4.9	-5.0	-4.3	**-2.3**
Member States								
Belgium	-1.7	-0.1	0.7	**:**	-3.7	-4.2	-3.2	**:**
Bulgaria**	:	:	:	**:**	-3.5	-4.9	-5.4	**-6.2**
Czech Republic	-4.4	0.2	0.8	**-0.6**	-4.2	-4.7	-4.1	**-4.2**
Denmark	-1.4	-2.3	0.6	**:**	-3.9	-7.0	-5.4	**:**
Germany	-3.5	0.4	0.7	**0.0**	-6.7	-5.8	-4.8	**-2.4**
Estonia**	-6.0	-3.4	-3.0	**2.6**	-15.0	-16.1	-15.6	**-9.4**
Ireland	-2.1	-0.6	0.3	**:**	-9.0	-7.8	-7.6	**:**
Greece	-1.0	-0.3	-0.5	**-0.8**	-1.0	-1.9	-2.5	**-2.6**
Spain	-1.6	-1.1	-0.3	**-0.1**	-3.2	-4.2	-4.0	**-3.1**
France	-1.4	0.3	0.2	**0.6**	-3.5	-2.7	-2.3	**-0.3**
Italy	-2.7	-0.5	0.6	**-0.2**	-6.0	-5.9	-4.6	**-2.8**
Cyprus	-0.7	-1.0	-0.8	**-0.3**	0.4	-1.4	-2.3	**-2.7**
Latvia	-11.4	-0.2	-4.0	**-3.2**	-18.7	-17.3	-19.3	**-17.9**
Lithuania	-11.3	-7.7	6.1	**0.2**	-13.1	-19.7	-14.2	**-13.0**
Luxembourg	-0.9	-2.7	4.2	**:**	-6.3	-7.3	-2.6	**:**
Hungary	-2.3	-1.4	-1.2	**-0.4**	-5.6	-6.8	-7.1	**-5.3**
Malta	-0.8	-0.7	0.4	**:**	-1.2	-2.9	-2.1	**:**
Netherlands**	-2.3	-1.1	0.5	**0.3**	-4.5	-5.5	-3.7	**-2.2**
Austria	-2.2	-0.5	0.5	**0.4**	-3.8	-4.5	-3.4	**-1.8**
Poland	0.1	0.5	0.5	**:**	1.5	1.3	1.0	**:**
Portugal	-2.0	0.6	0.6	**0.0**	-3.9	-3.5	-2.5	**-0.8**
Romania**	-4.6	-1.1	-0.6	**-1.5**	-6.2	-8.7	-7.1	**-6.6**
Slovenia	-6.2	0.6	1.0	**:**	-8.8	-9.0	-8.5	**:**
Slovakia**	-8.1	1.2	1.6	**2.0**	-5.7	-5.5	-4.9	**-2.7**
Finland	-4.9	-0.3	0.3	**:**	-7.8	-8.9	-8.8	**:**
Sweden	-0.8	0.3	0.2	**:**	-6.3	-5.8	-5.2	**:**
United Kingdom	-2.5	-0.7	-0.2	**0.1**	-5.2	-5.8	-5.1	**-3.2**
EFTA countries								

Iceland	-5.1	-0.4	-5.7	**:**	-6.3	-0.7	-8.0	**:**
Norway	-0.7	-0.9	0.9	**:**	-1.1	-2.3	-0.7	**:**
Switzerland	-0.9	-0.3	0.3	**:**	-1.7	-2.3	-1.5	**:**
Main economic partners								
United States	-1.6	-0.2	0.6	**1.4**	-3.3	-3.8	-2.6	**0.1**
Japan	-3.1	0.7	0.3	**:**	-8.6	-6.0	-4.7	**:**

Sursa: Eurostat, 2010.

Not all the EU countries have responded affirmatively to the economic growth, some countries have taken timid growth since the second quarter, (Czech Republic, Germany, France, Poland, Portugal, Slovenia, Slovakia, Sweden), others have succeeded positively in the third quarter (Belgium, Denmark, Ireland, Italy, Luxembourg, Netherlands, Austria), and others have continued to decline.

While Poland remained the only E.U state with a positive economic growth, in countries such as Letonia, Lituania, Estonia, Hungary or Bulgaria the gross domestic product continued to fall dramatically. Latvia' economy contracted by 17,9% in 2009 compared to 2008, Estonia by 15,6% after the first three quarters of the year 2009 compared to 2008, managing a small comeback in the fourth quarter of 2009 compared to 2008, and Lithuania's GDP dropped by 13% in 2009 compared to 2008.

Romania registered in the 3-rd semester of 2009 a fell in GDP by 0,7% compared to the previous three months and by 7,1% compared to the same period of 2008, a not so significant fall as they told because they were expecting a decrease in the first three semesters by 7,7%.

Emerging countries have so far managed to cross less affected the recession's effects. China's economy, for instance, increased in 2009 with more than eight percent. The Asian country has meantime become an engine of the world economy, representing hope to overcome this crisis.

The crisis was initially a crisis of the financial markets. Currently, many banks record huge profits again. Ironically, it has become possible because the world's governments have indebted more than enough to finance programs to stimulate economic conjuncture.

2010 came with shocking news. Greece, an EU member for more than two decades, was on the verge of entering a sort of national bankruptcy.

Beyond the help agreed to save Greece, the Athens crisis brought into discussion at European level the need for economic coordination in the euro area.

The European Council in March 2010 appointed the Chairman of the European Union, Herman van Rompuy, to organize a group to reflect on ways of establishing permanent economic governance. A super-executive with the task to implement strict budgetary discipline and to build mechanisms to prevent and avoid crisis. The working group should provide the euro zone leaders with a package of responses by the end of this year.

Rompuy presented in Parliament plenary session in Strasbourg a final report of the European Council, explaining to the Community legislature the need for more effective monitoring and control instruments.

It is at least bizarre the behavior of the Brussels officials who insist on an unprecedented escalation of the public authority's involvement in the real economy, ignoring the reality that the current economic and financial crisis has been triggered by the public and populist measures taken by the U.S. government, which fact has affected not only the U.S. economy, but the world economy as we have seen in recent years.

So far, four states have had benefits from this crisis and certain Western chanceries call them the winners of this "competition". Brazil, Russia, India and China are, among emerging nations, the four pillars of strength. Even if, from a cultural standpoint, they do not share any common values, the four countries have weight in the financial world.

When the crisis broken out in 2008 reached the economies of Brazil and Russia, crashing them with about three percent, the leaders of the two nations decided to consult each other - and with counterparts from other countries, which also dominated the group of markets on an upward trend. However, two more qualified: China and India.

In Moscow, in June 2009, the four leaders sought a common language for discussing solutions to the deadlock of the global markets. The somewhat institutionalized coalition of the four was dictated not only by the membership to the same economic class. In fact, we are talking about four states that gather almost half of the global population. And, statistically we are speaking about 10% of the mankind's gross domestic product. Therefore, together, these four countries may claim increased attention from organizations such as IMF.

The four countries known as the BRIC have been reporting an average annual growth of up to ten percent in recent years. For comparison, the average in the European Union has been, in recent years, about two percent.

What are the advantages of the four? For the moment, Russia and Brazil are major exporters of raw materials, with oil and gas on top of deliveries. China is, in particular, the cheap labor bank of the planet but also has significant resources for innovation. Innovation as creative tool is an asset for India, but India is particularly recommended by the talent of software developers - which, of course, could be translated as "brain bank".

So, for year 2010 looking ahead, recent data give a mixed picture. The global economy, most notably emerging Asia, appearsstronger than expected earlier, although it remains to be seen to what extent this will help the EU this year.

Financial-market conditions have recovered since early 2009, but balance-sheet adjustment is not complete anduncertainty remains abundant. Improved sentiment indicators for the EU point to an expansion of activity goingforward, but hard data, especially industrial production and retail sales, have been less encouraging recently.

A sizeable slack in the economy continues to keep inflation in check. With the main driving forces being stilltemporary in the EU and globally, the robustness of the recovery is yet to be tested, and a soft patch later thisyear is accordingly to be expected in the EU as well as in most developed economies.

Based on an update for the seven largest EU Member States focusing on growth and inflation this year, theeconomic outlook for the EU remains broadly unchanged from the Commission's autumn 2009 forecast. GDPgrowth is projected at 0.7% in both the EU and the euro area in 2010, with only marginal revisions for mostindividual Member States. Notwithstanding increased volatility in commodity and exchange rate markets, theinflation forecast also remains largely unchanged for 2010.

The recent turbulence in financial markets illustrates well the high uncertainty that continues to surroundeconomic projections. Risks to these projections thus remain high, but broadly balanced, with some risk factors,such as heightened turbulence in sovereign bond markets on the one hand and a more vigorous recovery of theworld economy on the other, gaining importance since the autumn forecast.

Effects of the crisis in Romania and perspectives

As regards Romania, the results of the survey conducted by the Central Bank in January did not outline an improvement of the industrial sector, while in the construction field, the climatic factors continued to affect smooth business.

Beyond the stories of politicians and experts' estimates, data from the National Institute of Statistics show that we have not overcome the recession. The Romanian economy has a long way to recover.

Industrial businesses, one of the most relevant indicators of the economic situation, increased in March by 3.3%, supported by increased orders by 11% and consequently the production of 1.4%. The consequent increase in the last three months is influenced mainly by the advance of trade with western countries which appear to have already emerged from the crisis.

Exports increased, by 10.6% in February compared to the previous month and by 23% compared to February 2009 to 2.56 billion Euros. Interestingly, after 14 consecutive months of decline, due to increased industrial demand (production equipment, energy, etc.), but also currency appreciation, imports increased by 14.7% in February, well above the level in January.

And the trade, the main engine of the economic growth in recent years, has begun to feel the first positive signs. Sales of fuel, another important indicator of the economic situation, rose by 2.5% in February compared to January. And non-food sales advanced by 4.6% and food sales by 2.5%.

Overall, however, trade remains more than 20% below the 2009 level, the statistics being influenced by the significantly lower car sales.

As regards services, business grew in the second month of the year by 5.4% compared to February 2009 and 3% compared to the first months of 2010. The advance came, according to INS, amid growing demand for services in hotels and restaurants by 1.6% in February 2010 compared to same month last year.

It is expected that construction activity will maintain its downward trend. The total portfolio of orders to industrial operators will record a mild restriction, and the construction will continue on a descending slope, associated to weather conditions.

The construction field sees tightening stocks of finished goods. Regarding the availability of raw materials, most respondents from both economic sectors continue to anticipate a normal size for January. Considering, however, the negative levels of balances, it is not excluded to record stocks below the standard rate, most likely in the construction field.

As mentioned, the most significant rebound was registered by the residential construction field, where works fell in February more than 60% compared to the same month last year. Also, non-residential constructions fell 37% compared to February 2009. Interestingly, compared to January, this segment has marked an advance of 11.4%, which represents a signal of work resumption after winter.

Economic results of the first two months of the year have been reflected, as expected, in budget revenue decrease (-19% VAT, for example) and increased labor market crisis.

Regarding inflation, according to experts, it fell in March, reaching a range of 4,1-4,4%, in the context in which the RON's exchange rate appreciation tempered the increase in consumer prices and the adjustment of excise duties in January mitigated the inflation's effects. Official data from the INS will be communicated on Monday.

Much better results in the production sector, foreign trade and RON exchange rate appreciation at the beginning of the year increased confidence in the Romanian economy. According to Eurostat, the index measuring confidence in the Romanian economy went up by 1.4 percentage points in March compared to February. Growth rate is lower than the European average, but is relevant to improving the overall economic perspective.

Most forecasts say that the Romanian economy could return to growth in the second half of the year, but we should also settle for stagnation. This especially since the advance of Western economies has tempered, with the spending of public money allocated to anti-crisis programs.

It is expected that construction activity will maintain its downward trend. The total portfolio of orders to industrial operators will register a mild restriction, and the construction one will continue on a descending trend, due to weather conditions.

The construction field will witness tightening stocks of finished goods. Concerning the availability of raw materials, most respondents from both sectors continue to anticipate a normal size for January. Considering, however, the negative levels of cyclical balances, it is not excluded recording stocks under the standard rate, most likely in constructions.

Over 40 percent of industrial companies and 52 percent of total construction operators specify the restrictive impact of demand on production activity. Another negative factor is the financial blockage, its action being felt in industry (in the case of 18 percent of companies) and construction (32 percent of operators). Also, the high level of bank interest installments, the evolution of the exchange rate and insufficient raw materials have restrictive influences.

Redundancies of staff will continue, opinions' balancing recording levels close to those of the previous period (-25 percent in industry, -50 percent in construction).

Estimates indicate the likelihood of a slightly downward trend of capital accumulation in industry, while in constructions, investments will accelerate their decline. The economic performance of the industrial sector will not record significant changes compared to December, but the construction field sees a considerable drop.

In this context the pressures that are on the government to take measures to redress the economy are dangerous because it does not have sufficient space for maneuver, depends on external funding and cannot handle a crisis whose roots are outside the country.

It becomes increasingly clear that after 2008, it is impossible for Romania to escape the current crisis if the global economy does not surpass the crisis, because we are dependent on the global context. The value of the companies depends on the business they undertake, and the business is not too profitable during crisis, although there are some exceptions.

Romania's current account has run disturbing deficits in recent years, which also occur when the Leu strengthens against the European currency, thus making imports cheaper. Given that Romania produces very little and the consumption is heavily import-oriented, it is expected that nearly all expense bills, whether public or private, to stimulate imports.

When imports grow, the amount of money leaving the country increases, thus increasing demand for currency and a risk of leu devaluation are triggered. In this situation, the central bank is almost forced to intervene by selling foreign currency from its treasury to stop the currency falling. NBR is currently preoccupied with maintaining a certain level for the leu in order to avoid additional problems for the banks' million of clients – citizens or companies, which have contracted loans in foreign currency.

Conclusion

The financial blockage that extended in the economy will not disappear too fast because, on the one hand, the demand for consumption is still lw, and on the other hand the access to loans is still restricted because of the damaging profile risk of the companies and the bankers' lack of appetite for new adventures on the markets.

But the worldwide system is characterized by inequalities, that make all the dependent countries recover heavily, and the differencies between the rich and the poor become deeper, and the middle class, which barely appeared, get a powerful strike.

In conclusion, I quote Andrei Marga which *"Criză şi după criză",* saying that to boost economic, political and cultural Romania, expertise, competence and vision needed for reforms, but also the leaders.

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