

THE IMPACT OF THE GLOBAL FINANCIAL CRISIS ON THE PUBLIC AND PRIVATE FINANCES IN ROMANIA

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Abstract:

If the exit from the crisis is linked to the productivity, the technological boom, the orientation should take place by sectors with high growth potential. The idea is that the power of the Government to rely on increasing economic value and implementing effective measures to redress and not on fiscal destructive policies that can block even more the economic development. In order to exit from the economic and financial crisis it is necessary to identify the risks and vulnerabilities of the financial system as a whole. However, the emergence of malfunctions such as inaccurate assessment of risks and the inefficiency with which capitals are allocated can affect the equilibrium of the financial structure. Some solutions to overcome the negative effects of the global crisis to which has been submitted to Romania are represented by the design and implementation of strong macroeconomic frameworks, reviewing and improving the capacity of institutional, organizational level, to ensure a sustainable and environmentally sound growth of the economy in the long run, for the benefit of the society in general.

The real cause of the economic crisis, whether it is called: recession, crisis, economic depression or another name, the content and the effect of the crisis are the same, however, can be solved if the policy makers choose to stabilize the financial conditions and to find solutions stimulus, achieving strong macroeconomic frameworks, improving the institutional capacity to ensure a sustainable and favorable growth of the economy, the society in general.

Keywords: financial crisis, inflation, public deficit, public debt, economic crisis

JEL Clasification : E02, E60

1. Introduction

From an economic perspective, according to Adam Smith, author of *The Wealth of Nations*, 1776, "the engine of any psychological activity is the hedonistic principle which causes people to seek **maximum satisfaction with minimum effort** ... and to carry out certain functions necessary for the operation of the market economy, the state must intervene in order to ensure a better allocation of resources on certain types of government spending : defense and public order, justice, public works and the operation of public institutions" [1]. Adam Smith provided as solution the increase in the national wealth or the drastically reduction in the public spending, being closely correlated with the managerial capacity of those that manage the "national wealth". In other words, Romania must ensure, first, to preserve the national wealth, not to be affected by the financial crisis faced by other states [2].

The world economy faces the first crisis of the XXI century, the so-called sub-prime crisis and the most powerful after World War II, characterized by unstable economic conditions, together with the volatility and uncertainty increase.

The financial crisis is just a manifestation of the economic crisis and reflects a loss of confidence in the current financial system, lowering the main macroeconomic indicators, GDP, inflation rate, economic growth, public deficit. The economic downturn in the United States in 2007, engaged as a vital engine, most countries (more or less developed). However, the credit crisis in the U.S. has become a global crisis of credit (butterfly effect).

The Romanian economy was marked by decline in the first months of 2008, after the recession above mentioned, due to a fragile financial system, without a practical and theoretical tidy, the wrong decisions (or intentionally applied preferably), the complexity of the economic, psychological, social, political factors have led to a possible erroneous interpretation of what the financial crisis means.

The financial crisis has infiltrated as a result of finding a niche characterized by the absence of legislative packages that clearly stipulate measures to eliminate or reduce risks that have the effect of financial disturbances as a result of excessive spending, not always justified in economic terms.

As a result of the global economic crisis, the financial crisis was felt in the industrial production, consumption, constructions, due to the worsening of the global credit conditions and thus nationally.

2. The role of the National Bank of Romania in maintaining the financial stability

The financial crisis has had pyramidal consequences on the economy in general. Thus, locally, the financial and economic crisis has determined the reduction in the foreign investment, the decrease in the financial transfers from central to local level, the income reduction, the increase of unemployment as a result of restructuring or closing many manufacturing activities, etc. Also, the reduction in the population as a result of lower natural growth and the migration to other areas of the active population, more developed economically, is a result of the financial and economic crisis that our country is facing. The administrative-territorial units, to recover financially, have to adopt the measures of using positive balances from previous years to lessen the overwhelming effect of the global financial crisis.

The economic crisis is the result of economic and financial disturbances being a serious situation due to the application of financial palliatives such as the financial incentives, which at least for now, do not contribute to economic recovery but determine the substantial increase in the national deficit, with all his retinue of large economic effects. To this is added the human factor, his psychology, before, during and after an economic crisis. [4]

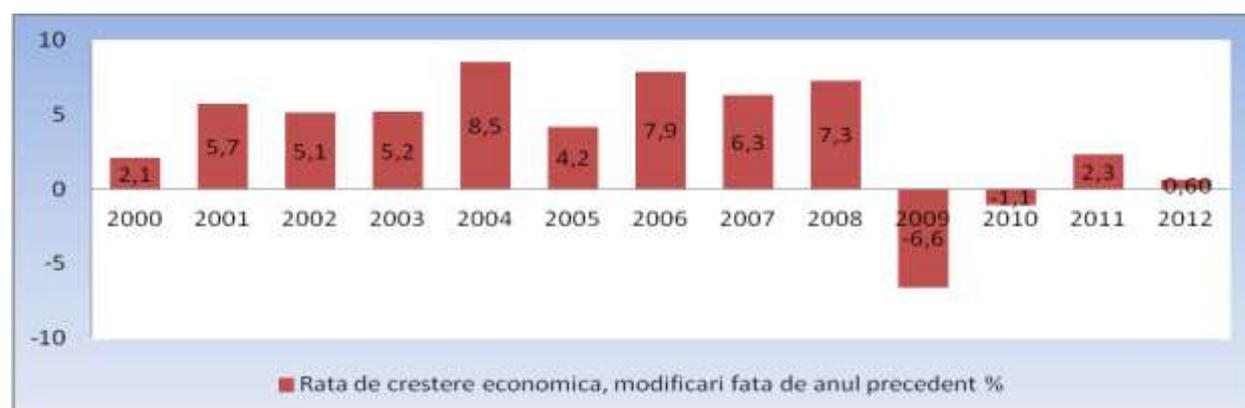
Today, our country is facing the financial crisis, the causes of which are more or less known. Among the known causes we include:

- The fast and false "Welfare" of the economic activity due to the increase contraction of loans over the financial assumption of the tax payers, presently, affect directly the future generations;
- The financial asset prices have risen faster involving, as a disadvantage, the increase in the required guarantees leading, obviously, to the emergence of a new financial crisis with repercussions on the inflation in our country;
- Facilitating the access to credit by lax monetary policy and the mimetic behavior of financial institutions and people [3] (without a thorough analysis of the situation and the financial capacity), operators cannot pay their debts (are not solvent);
- The poor regulation of the national financial system, where the "*laissez faire, laissez courir*" principle in the financial sector had detrimental effects that contributed to the crisis;
- The mathematical calculations by which risk can be assessed depend on fragile assumptions and historical data, which do not provide certainty in the future. These calculations led to "financial inventions", complex and abstract, to whom financial resources managers may be intimidated;
- The existence of a vicious circle of economic growth based on an excessive consumption, unsupported by resources;

Naturally, the global economic crisis implies all countries involved, directly or indirectly, to a lesser or greater extent, in the handling the factors that have caused this crisis.

In order to form an overview of the current financial situation of Romania, the economic growth rate, the public deficit of our country, the public debt and the inflation rate have to be analyzed.

a) The economic growth rate of Romania evolved according the figure:



Source of data: National Institute of Statistics from Romania, www.insse.ro [5]

Figure no. 1: The economic rate of return of Romania during 2000-2012

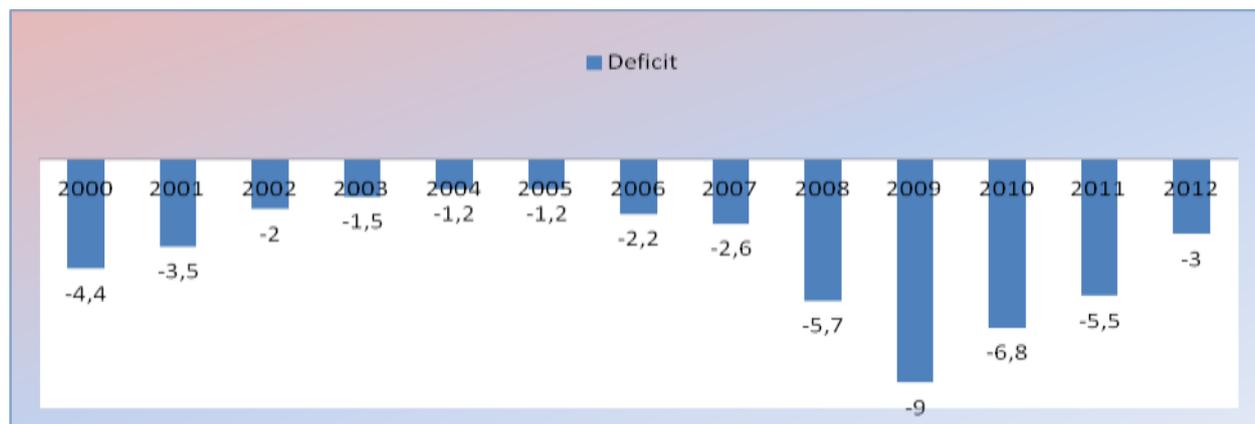
In the figure, we observe a growth rate of 8.5% in 2004 which is higher than the one from 2000.

During 2000 and 2008, the growth rates was of 6.3% per year. We observe an economic contraction in 2009 and 2010 meaning the negative increase in the gross domestic product.

The evolution of our state economy can be traced with the help of some macroeconomic indicators, very relevant such as: the growth rate, the government deficit, the inflation rate, the exchange rate of the national currency.

According to the figures presented, it is estimated that the growth rate in the coming years to be declining somewhere at a level of 4-5%.

- b) The public deficit in Romania, determined as a percentage of the gross domestic product, is presented in the following figure:

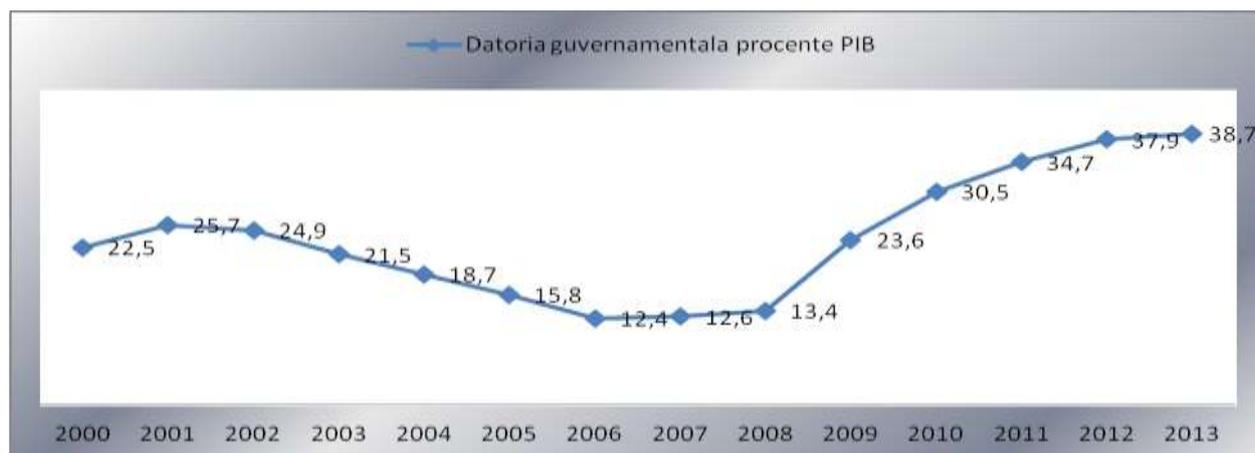


Source of data: Eurostat [6]

Figure no. 2: The evolution of the public deficit in Romania during 2000-2012

In 2007, Romania was at the limit set by the European Union (2.2% GDP) regarding the limit of the budget deficit due to spending cuts, the situation changed in 2008 due to an irrational budgetary policy, reaching a deficit of 5.7% of GDP and in 2009 the government deficit registered 9% but it decreased to 3% in 2012.

- c) The public debt of Romania, expressed in percentages of the gross domestic product.

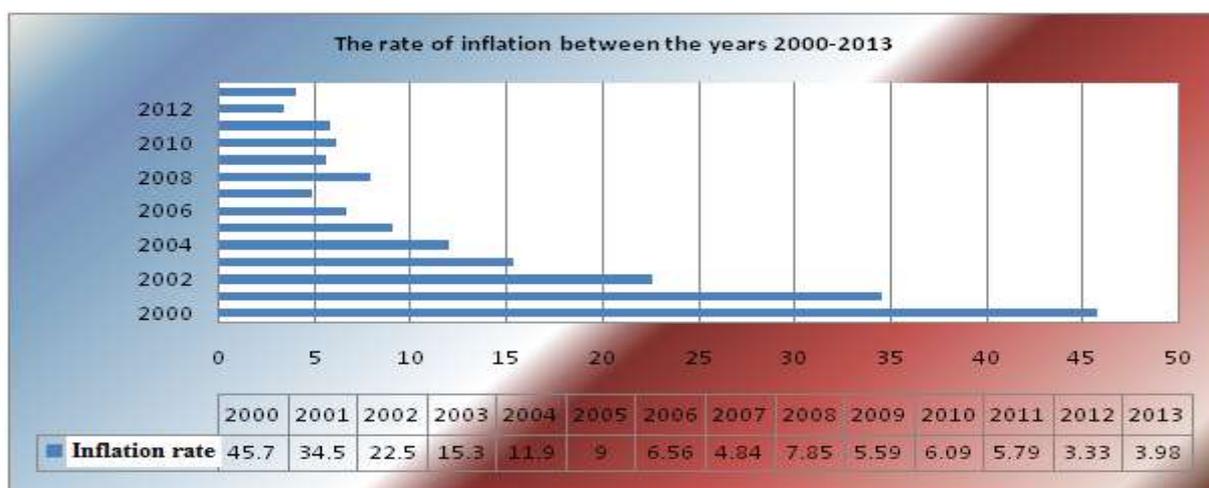


Source of data: National Institute of Statistics, www.insse.ro [5]

Figure no. 3: The government debt of Romania during 2000-2013

The level of the public debt in Romania is relatively low in comparison with the European standards, but, in the last years, the public debt has increased considerably, unlike of the year 2007, where the level of public debt was the lowest, of 12.4% GDP. In addition, taking into consideration the low level of the financial intermediation in Romania, the additional absorption capacity of the public debt by the local financial markets is decreased. The banks are the main funding source of public debt on the local market. The impossibility of issuing debt with long terms of maturity, in the absence of a necessary critical mass at the level of the local institutional investors, which raise savings on long term (pension funds, insurance companies), make the only option to increase significantly the average maturity of public debt to be the issuing on external markets, with the risk of assuming a currency risk.

- d) The evolution of the inflation rate in Romania between 2000 and 2013 is presented in the following graphic:



Source of data: National Institute of Statistics, www.insse.ro [5]

Figure no. 4: The evolution of the inflation rate in Romania during 2000 - 2013

The rate of inflation is expressed as a percentage and determines the evolution of inflation between 2000 and 2013, where the peak of inflation was recorded in 2000 and the low inflation in the year 2012. It should be noted that in the context of deficit of demand, the absence of pressure from the prices of raw materials from agriculture and energy, of an unstable exchange rate and of the anchorage of possible inflation, the change in the average annual inflation recorded the lowest amount in the last 24 years. During the period analyzed, the basic inflation maintained its downward trajectory, the persistence of deficit-induced demand, abundant supply of agricultural raw materials domestically and of the favorable international context. The impact of the factors mentioned resulted in a rise in the annual deflation.[7]

The effects of the financial and economic crisis:

- The economic and financial crisis and the austerity measures have determined the diminution of the population's revenues, the decrease being felt also because of the devaluation of the national currency;
- As a consequence of the financial and economic crisis, the citizens have been affected by the reduction of the jobs and the increase of unemployment, the reduction of revenues, the increase of the number of beneficiaries from social aid and the reduction of the consumption expenses, the decrease of the quality of services delivered to the population;
- The increase of the costs of external financing and the reduction of its volume;
- The significant reduction of the investors' option of risk for the emergent markets;
- The diminution of the volume of autonomous capital inflows and the eventual anticipated repatriations of the foreign capitals capitalized in the Romanian economy;
- The decrease in demand for Romanian exports by reducing the prospects of economic growth in the EU Member States and dampened imports, especially those associated with private consumption, following the attenuation of the domestic demand;
- The necessity of the conception and application of new economic regulations.

In the process of financial recovery, Romania could commit errors by taking the decision to continue the development through the resources attracted by internal savings and by the perseverance of implementing, in the following years, the model of "economic growth" based on consumption.

Another consequence of the financial crisis refers to the reduction of the economic growth or the economic contraction (the red line of the financial crisis), which affects the production, the consumption having, ultimately, negative effects on the members of the society.

The economic entities, administrative, political and not only, fragile or strong, faced with a substantial lack of credits needed for the financial balance of these entities, of the State in general. However, the difficulties of accessing funding have short-term effects and long-term, since the implementation of the planned investments could be delayed or, in the worst case, abandoned due to insufficient or absent financial resources. Under these circumstances, public funds, European or national can constitute the saving solution for our country's economy, only if those funds are sized correctly and effectively oriented to redress the economy in our State.

The governmental and legislative power must make a selection between consolidating the financial conditions, on one side, and the „overhanging” of the economy at a level of cohabitation with the recession, having a high inflation, on the other side.

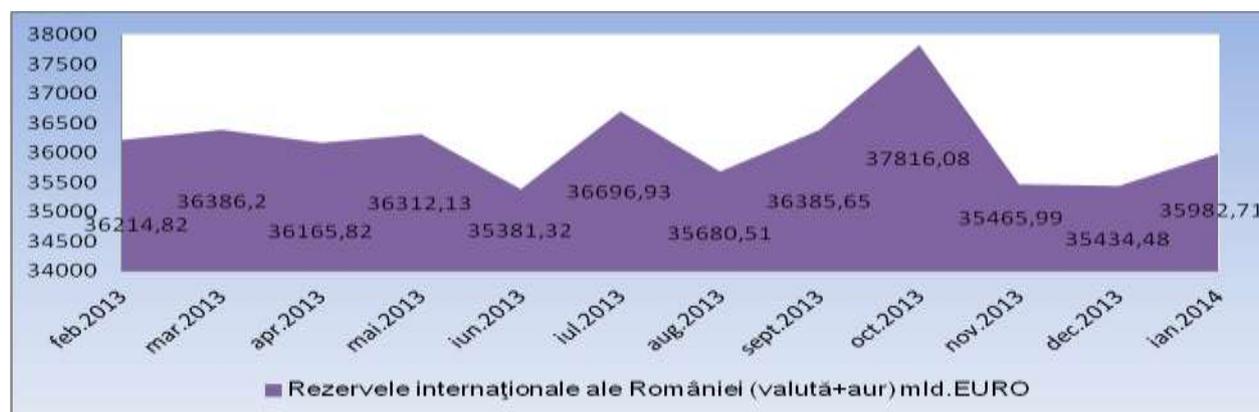
It is essential for Romania, as in the crisis period to have as a priority the implementation of the principles of sustainable development based on strategic planning and ensuring an efficient management of public policies. The gradual transition to the economic augmentation method based on excessive and irrational consumption of material, human and financial resources, to achieve a dynamic balance reported in both the economic development and also in maintaining a natural, clean and healthy environment, in forms that can be assimilated by the society. Also, our State must highlight the real competitive advantages by strengthening the national capital, strengthening of the property regime, encouraging entrepreneurial initiative eco-efficient in production and services.

At the same time, Romania should be able to stabilize the democratic procedures, and the professionalization of the executive functions at all levels, ensuring accountability and transparency in decision-making, guaranteeing human rights, etc. also, one solution is to initiate a national debate on which can manifest their opinions all the interested in the political, social, academic and scientific community, civil society, the business community field over the implementation of a new concept of sustainable development through the identification of new resources and attracting investments in order to improve the living conditions of all the members of the society.

Measures for adaptation at the financial crisis:

- ✓ The increase in domestic savings and the decrease of dependence on external savings through prudent and credible macroeconomic policies, especially in the field of structural reforms that stimulate direct investment inflows and to finance the current account deficit. At the same time, the entries of grants can reduce the current account deficit;
- ✓ The stimulation of investments and grant of facilities to small and medium size companies;
- ✓ The increase in the productivity of the labor force (the stimulation of the retraining and the process of searching for a job, attracting back Romanians who work abroad; increasing the efficiency of public administration).
- ✓ The increase of the absorption of European funds and their orientation towards key sectors of the economy. The absorption of the funds of the European Union, represents a huge stimulus in the economy (at 1 leu own resources – budgetary deficit can be performed budgetary expenses of 20 lei which becomes crucial in the context of restraining the fiscal discretionary policy imposed by the new fiscal code and by the reduced dimension of the automated stabilizers, not generating debt.
- ✓ The diversification of the sources of financing the economy and the development of capital market are necessary;
- ✓ The emergency application of some stimulation policies for the birth rate in order to increase the demographic rate.
- ✓ The efficiency of spending public money, for example, in infrastructure, where, unlike of Bulgaria, which with less budgetary resources allocated in investments has had better results compared to Romania;
- ✓ The improvement of the methods of collecting the taxes is a necessity, starting with the high fiscal
- ✓ Improving the methods of tax collection is a must, starting from high tax evasion as part of a very high proportion of the hidden economy;
- ✓ *The correlation of the budgetary and the fiscal policies with those monetary;*
- ✓ *Increasing decisional transparency;*
- ✓ *Obtaining and implementing investments in infrastructure after performing transparent auctions.*

BNR has an intrinsic role in maintaining the financial stability, starting from the responsibilities that come from the double role of monetary and prudential authority, by the surveillance of the institutions under its authority.[7]



Source of data: National Bank of Romania, www.bnr.ro [8]

Figure no. 5: The international reserves of Romania expressed in currency and gold

The currency reserves of BNR 35982,71 billion EUR recorded at 1 January 2014 recorded an increase of 548,23 billion EUR in comparison with December 2013 as a result of the operations:

✓ Entries:

- The change of RMO in currency ;
- Maintaining the account CE;
- Revenues from the administration of international reserves;
- Activities on the interbank market;

✓ Outputs:

- Changing RMO in currency;
- The payment of the taxes and interests afferent to the direct and external public debt guaranteed by the state;
- Financial activities on the interbank market.

The gold reserve of 3,335 billion gold ounces recorded a value increase of 160,03 billion EUR in January 2014 in comparison with December 2013.

BNR has no type of investments in sub-prime instruments, all having the AAA rate.

The cooperation between the NATIONAL BANK and other regulatory authorities and supervision of the various sectors of the Romanian financial system intensified gradually, as the current financial system in Romania is more comprehensive and more productive, leading to an osmosis at the institutional, organizational level. It is vital the cooperation between authorities that have responsibility for the authorization, regulation, supervision and control of markets of the financial system, in order to ensure the transparency and integrity of the financial structure and its components in compliance with applicable legal norms as well as resizing the national frame of the financial stability.[9]

3. Conclusions

The economic and financial crisis is far away from ending. The aggravation of the crisis can be sustained by the reduction of investments, the debts are higher and the blockage of the industry appears.

If the exit from the crisis is linked to the productivity, the technological boom, the orientation should take place by sectors with high growth potential. The idea is that the power of the Government to rely on increasing economic value and implementing effective measures to redress and not on fiscal destructive policies that can block even more the economic development.

In order to exit from the economic and financial crisis it is necessary to identify the risks and vulnerabilities of the financial system as a whole. However, the emergence of malfunctions such as inaccurate assessment of risks and the inefficiency with which capitals are allocated can affect the equilibrium of the financial structure. Some solutions to overcome the negative effects of the global crisis to which has been submitted to Romania are represented by the design and implementation of strong macroeconomic frameworks, reviewing and improving the capacity of institutional, organizational level, to ensure a sustainable and environmentally sound growth of the economy in the long run, for the benefit of the society in general.

The history has demonstrated the fact that Romania is capable to improve and mobilize forces in order to realize the well defined objectives, as for example, the adherence at N.A.T.O., obtaining the statute of member of the European Union.

Romania can become competitive through the adoption of a development strategy of the agriculture, energy, tourism sector, with an accent on the market dominated by commerce, in an active and important participant in the intra-community commerce.

The economy of our State requires infusion of perseverance, determination and the important vectors in the economy have a significant role in enhancing the economic sector, providing a highly qualified work force in conjunction with viable measures of retention of human capital by ensuring the coherence and efficiency of the implementation of the strategy of Romania, as a factor of extreme economic and social responsibility.

The future depends on the ability to maintain and develop responsible and competent leaders, having the ability to define a clear vision favorable to Romania.

It is essential for Romania, as in the crisis period to have as a priority the implementation of the principles of sustainable development based on strategic planning and ensuring an efficient management of public policies. The gradual transition to the economic augmentation method based on excessive and irrational consumption of material , human and financial resources, to achieve a dynamic balance reported in both the economic development and also in maintaining a natural, clean and healthy environment, in forms that can be assimilated by the society. Also, our State must highlight the real competitive advantages by strengthening the national capital, strengthening of the property regime, encouraging entrepreneurial initiative eco-efficient in production and services.

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