

# THE PREPETUAL CRISIS OF THE ROMANIAN ECONOMY

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**ABSTRACT:** *Actually, the crisis accompanied permanently the Romanian economy during the past half of the century. Currently again a period of crisis has fallen over the Romanian economy. Every time the causes have been analyzed by the economists yet the necessary actions were never taken or finalized, which is even more serious due to the fact that any change triggers investments.*

**KEYWORDS:** the crisis, causes

## 1. INTRODUCTION

The economic crisis is a period of economic decline, it can have many causes, as such it appears in the world time of capitalist crisis due to overproduction., which within 1929-1933 was characterised by a dramatic drop in the entire world's economic activity. But these crises appeared even in socialist countries, the main cause is probably polarization of a small group of those who have money, the rest of the population especially those from the third world being poor, thus reducing the product market.

In our country the transition started in 1989 and marked a new era of economic change throughout the social system as a whole. Hence the immense importance of theorizing and analyzing this complex and lengthy process derives.

Given the scale of the problems and interdependencies we start from the general context and analyze domestic and international situation in which the Romanian transition carries on while demonstrating the difficulty in which the science and economic practice are in new contexts. Given the scale of the problems and interdependencies we start from the general context and analyze domestic and international situation in which the Romanian transition carries on while demonstrating the difficulty in which the science and economic practice are in new contexts. [1]

Today mankind is concerned with finding some forms of social and economic and political development, forms able to ensure peacefully economic, social and political progress.

The term economic crisis can be applied to a wide range of situations in which some financial products abruptly lose a significant part of their nominal value. In the XIX and XX centuries many economic crises have been associated with "bank runs". Likewise, many recession periods have coincided to the panic. Other situations which are normally called economic crises include stock market collapses, crises in the foreign exchange market.

Economic crises result in loss of money (wealth on paper) but not necessarily any changes in the real economy. In the present they have become accustomed to associating the term crisis to situations of dysfunctionality in the normal course of the economy as a result of the free market play and minimal intervention in regulating the economy.

## 2. THE CRISIS OF 2008

The current situation of the Romanian economy is the result of the combined action of several forces. First of all it is essential to try to situate the world's economic system, but also

to analyze the recent past and the causes that have placed Romania in stage stage it is in at the moment.

The origin of this crisis was in the financial sector and quickly contaminated the world economy, being the result of a combination of factors that acted simultaneously, namely: the accumulation of balance of payments imbalances in many countries (chronic deficits / surpluses) and a global volume. excessive credit in relation to the dynamics of the real economy, a phenomenon achieved by massively relaxing the creditworthiness standards of debtors.

Romania's economic growth was achieved on principles that did not ensure further development, such as investments in infrastructure or production bases. All this was compounded by government populism in the 2008 election year, which raised state spending, reaching a record deficit. The 2009 presidential election and a long series of controversial decisions, many of them political, made it impossible to resort to external borrowing or austerity measures, all of which were postponed to 2010.

Romania's economy was severely affected in the difficult years of the crisis, the exit from that shadow cone being found only between 2013-2015. Paradoxically, however, is the fact that in 2015 a GDP was obtained by 200 billion lei higher than in 2008, with the active population by 800,000 people lower, with the number of employees by 2.8 million people less and the currency significantly depreciated against major currencies.

The difference between the 1929 crisis and the 2008 crisis is the Internet, mobile phones and technological systems, in short the acceleration of general development, lifestyle and information transmission, the effects of the crisis spreading much faster. Most people suffer during these periods, but there are also some who benefit from them and "use" them to prosper. People who have resources can achieve in a short time what they cannot do for a long time in a prosperous economy.

The standard of living of about 400,000 Romanians suffered a year after the crisis in the United States, throwing them below the threshold of absolute poverty. In 2016, ie one year after the recovery of the Romanian economy, several hundred thousand Romanians fell into this category. In total, the economic crisis of 2008 threw at least 1,000,000 Romanians into severe poverty. As expected, the most affected by the impoverishment phenomenon were farmers, the unemployed, the maintenance of families with children, especially those with three or more minors, housewives, those living in eastern and southern Romania, especially those in rural areas and from small towns.

One of the biggest disadvantages felt in Romania is the "braindrain" effect, which means the migration of young schoolchildren and intellectually developed in Romanian education systems, in other countries, due to low salaries and lack of jobs related to their training.

**The financial crisis that began in the fall of 2008 would bring Romania a brutal economic downturn, of 5.5% in 2009 (from an increase of 9.1% a year earlier) and 3.9% in 2010.** In order to be able to estimate the economic evolution after the end of the Coronavirus pandemic, we must analyze the changes that will take place in society. Without pretending to exhaust them we try to identify the most predictable:

### **Health and consumption**

Social distancing measures, absolutely necessary, have a negative impact on the economy - production capacities are closed, value chains are interrupted, people no longer go to work, etc. so in the first phase we were talking about a massive reduction in supply.

In the second phase, there is an effect of reducing demand due to the reduction of the

population's income but also due to the increase in savings due to precautionary conditions in conditions of uncertainty. [2]

It thus enters a vicious circle in which the initial contraction of supply leads to the contraction of demand which again leads to a shock of supply reduction. What governs supply and demand is fear, dread. Both consumers and businesses are marked in their actions by fear. The global recession is inevitable.

At this stage, measures are needed to limit the spread of the virus, which leads to a massive contraction of supply and demand and finally economic activity. So the measures taken by governments should not stimulate economic activity but be focused on job retention.

However, it is obvious that not all companies are affected equally and therefore the measures must be oriented on areas of activity and the size of the company. We must point out that the measures must be thought of in the light of the way in which the request is made.

Thus part of the demand is not affected or even increases:

- Demand for food and basic goods, because people make supplies;
- Demand for communication services;
- Public sector employees whose income is not affected.

For these companies there is no need for financial aid but only for the fluidization of the supply at logistical level.

Another part of the demand is probably just postponed - we are talking about the purchase of durable goods, furniture, cars, appliances, and companies in the field will gradually recover from the resumption of activity. These companies need loans to ensure cash flow during closing periods. However, another part of the demand is lost during the economic downturn and even for a while after that. These are transport services, tourism, hotels, restaurants, cafes that require state aid to allow them to survive to a minimum necessary during the downturn.

To these support measures is added the pressure on the budget attracted by the return to the country of millions of migrants who have lost their jobs or worked illegally and do not benefit from the support measures in the host countries. They need to be integrated into income-generating activities that can take place during this period, such as agriculture, construction or the support provided by the authorities to high-risk categories - the elderly, single-parent families, people with disabilities.

In stage one, the fiscal-budgetary policy is the one that should be used mainly because the priority is to keep jobs and ensure a minimum income so that the effects of the pandemic do not add to an escalation of crime. This can be done through state aid, subsidies, state guarantees, tax and tax deductions, support with public resources for technical unemployment.

## CONCLUSIONS

Let's see now what could be the risk factors that could hinder their effectiveness.

### 1. Budget deficit

Economists forecast, in the case of Romania, a steep economic downturn in 2020 (not the size of 2009, however - but we are only at the beginning), of 0.9%, from an increase of 4.1% in 2019, and a budget deficit of over 5% of GDP.

Romania's targets, before the sudden onset of this crisis, were economic growth for 2020 of 4.1% and a budget deficit declining from 4.6% of GDP in 2019 to 3.6% of GDP this year.

Reductions in terms of economic growth and increasing budget deficits are foreseen

for all Central and Eastern European countries. But the peculiarities of each country will require different responses to the crisis.

For example, Poland, which had a deficit of less than 1% of GDP in 2019 and planned a zero deficit for 2020, will have no problem moving to a deficit of 4% of GDP. Romania, with a deficit of 4.6% in 2019, has in this case a narrow fiscal space. [3,4]

### **2. The waiting time from the end of the pandemic to the resumption of activity at levels comparable to the beginning of 2020.**

This time is primarily due to the fact that a crisis was preparing and it also exploded with the coronavirus epidemic but last but not least to the dysfunctions of the global economy model that cause more and more inequalities.

### **3. The situation of the Romanian business environment that makes it fragile and vulnerable to change.**

The European Commission on Friday adopted a temporary framework to allow Member States to use all the flexibility provided by state aid rules to support the economy in the context of the COVID-19 epidemic. Together with many other support measures that Member States can use in accordance with existing State aid rules, the temporary framework allows Member States to ensure that enterprises of all types continue to have sufficient liquidity and to maintain the continuity of economic activity. both during and after the COVID-19 epidemic. [3,4,5]

- direct grants, selective tax advantages and advance payments: Member States will be able to set up schemes to provide funding of up to EUR 800 000 to a company to meet its urgent liquidity needs;
- State guarantees for business loans from banks: Member States will be able to provide state guarantees to ensure that banks continue to provide loans to customers who need them;
- subsidized public loans for enterprises: Member States will be able to grant loans at favorable interest rates to enterprises. These loans can help businesses cover the immediate needs of both working capital and investment;
- guarantees for banks directing state aid to the real economy: some Member States intend to build on banks' existing lending capacity and use them as a support channel for enterprises, especially small and medium-sized enterprises.
- short-term export credit insurance: the framework introduces additional flexibility on how to demonstrate that certain countries present uninsurable risks on the private market, thus allowing the state to provide, when necessary, export credit insurance. short term.

Given the limited size of the EU budget, the main answer will come from the national budgets of the Member States. More than ever it takes a STRATEGY to get Romania out of the seemingly perpetual crisis it is in.

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