The decline of real estate credits in U.S. His is the sub-heading

The fall of housing and real estate market prices in The United States lead to a liquidity crisis and a credit crisis which tend to get globally. The depth of these crises as well as their possible period of time remain unknown. The signs we have suggest a serious problem which can degenerate to a global actives crisis.

Without any other comments, we will mention the fact that the great international investors whom had suffered losses because of the CDO trading have confronted with a liquidity shortage. This lack of liquidity proved to be acute because, in no time, it was raised the problem of financing the current operations. It's high time we mentioned that a CDO which is a Collateral Debt Obligation is a credit issue, generally issued by a bank or another lender on the housing market, having as an supporting asset some house or real estate took on credit by clients, as well as the collateral bank deposit formed by the clients and, in some cases, by their debts.

The extending potential of American real estate crisis

The great international investors are present on all markets and in all economies. The 2001 – 2007 period of time was obviously a benefic time for the world economy; the US Economy continued to rise, influencing this trend into Europe and South Eastern Asia. In Europe, the adhesion to UE was done for a while by accepting the Eastern European countries. This fact raised the economic optimism level globally; In Asia, China was getting more and more recognition globally; In Russia, the economic parameters were stabilized, generating a healthy raising economy trend.

In this context, in the Eastern Europe's capital markets, have been noticed important risings, offering the investors even spectacular rates of return. The risings on the capital markets of the emergent economies coincided with risings of real economies of these countries. We must also mention that in spite of the efforts of economical restructuring of the authorities in these countries, the risings were more based on the risings generated by the reevaluation of the actives than on the high added-value taxes of goods and services produced in there countries.

It is obvious that, at the middle of 2007, the investors which had important positions on the capital markets of the emergent economies and who started to loose because of the CDO trading started to liquidate these positions hold in the need of liquidities. The high rates of
return obtained by these investors on the emerging markets justified their get away from these markets. We can easily question whether these getaways were justified by economic facts, in terms in which the actives on the emergent markets seem to be still undervalued, and these countries’ economies try hard to restructure and modernize. Furthermore, many local issuers on the emergent markets obtained outstanding results, especially at the operational profit level.

The emergent economies are still seen, by the great investors, as being really risky. When it comes especially to the Eastern Europe, this perception is clearly justified. In spite of their efforts, these economies still remain strongly energy- eager, with a not adapted infrastructure to the modern requests and with a weak supply. It is obvious that because of the temporal incapability of producing high added value goods and services in their real economies, these countries have agricultural problems, the rest of the economy could not grant financial aid to agriculture at the level on which their partners do it in the Eastern Europe. In financial terms, we can say that these emergent economies do not actually generate liquidities at a satisfying level.

The rising of these economies have been made on actives and these actives have been actually really few: we speak about houses, generally built until 1945, about apartments in blocks of flats, which, because of the opening of capital markets and the labor market, received an inflow of liquidities which came part from the citizens whom came from who were working in countries with an ample economy, part from people who were not residents but came from ample economies and were working in those countries. Of course, we have to consider the case of the industrial actives (halls, spaces of production) which, after the fallout of the economic activities which took place there tempted the foreign investors, as well as the corporal actives; they actually formed the most important goal for the foreign investors during the privatization process.

The process of buying actives in the emergent economies was a short one, but really consistent. It is obvious that the price rising process of these actives followed the same trend. The implementation rhythm of economic activities which can generate high added value products is a slower process compared to asset-buying. As a result, as the economic activity slowed down globally, some investors were tempted to sell again these actives because of the price rising.

In some cases, the investors could not buy actives by directly negotiating with the emergent countries’ governments, so they bought from the capital markets some local issuers’ stocks. They were more attracted by the value of the actives, rather than by the value of their intrinsic economic activity. Obviously, once these actives were sold, the reorganization of the economic activity was not fulfilled.

As a result, the investors were put face to face to a liquidity crisis, so they had to choose what they should sell and on what markets in order to have cash. The country’s risk was vital in taking those kinds of decisions.

The emergent economies are actually really risky. They can not satisfy the internal pending for goods and services, especially the ones with high-added value from their own production, so they based on imports which generated shortages. In a small period of time, these shortages could be financed by the actives’ sale. But we find ourselves now at the end of the period of selling actives, so, in the absence of a real economic achievement, the financing of these shortages could be a serious problem. Furthermore, the penury of products which characterized the communist period created a communist habit over these economies, so that the inflation caused by the demand it is quite big.
A special case is the case of real-estates: houses and apartments. We have previously shown, in a brief way, how the rising of their prices have happened. We must take into consideration the natural need of propriety and comfort of the citizens. After the integration, economic growth and consumers' and investors' trust influenced the banks to start mortgage activities and that made possible a real big increase of demand. We can assess that, at the fundamentals, the rising prices on the housing market was due only to a really high but relative and conjuncture-related level of liquidities right after the integration. On one hand, a significant part of these liquidities had the direct acquisition of land, homes and apartments as special destination and, on the other hand, also significant capital inflows have convinced the banks to take bold positions in their mortgage activities.

The huge sell that the big international investors have made on emerging markets targeted especially financial assets (stocks, bonds, local currencies). This fact leaded to really large cash outflows from the financial systems of emerging economies. We have to say, at this point, that, even the housing demand in these countries remain still strong, the solvable demand have drastically diminished. Without making any speculation, we assess that corrections of different magnitudes of home prices in the emerging economies might happen.

Romanian case

Strictly speaking about Romania, we strongly believe that the economic growth it have enjoyed in recent years were caused manly by the rising in the assets’ prices. The recent massive amounts capital that took off from the financial markets of the emerging economies have lead, in case of Romania, to significant corrections in price of stocks and the decrease national currency (leu) versus EUR and USD. Romania still remains an under-restructured economy, having only modest infrastructure and low internal goods and services offer. The depreciation of the leu had strong inflationary effects and forced the Central Bank (National Romanian Bank – BNR) to raise the interest rates. So, harder lending conditions added to the already existing liquidities shortage. This kind of situation has very negative effects on consumption as well as on the monetization of the entire economy.

Since the liberalization of its capital account and the rapid appreciation of the leu right in the aftermath, Romania has been forced to run continuously higher trade and current account deficits. Once the big privatizations have finished, the possibilities of financing these deficits on short term, by selling assets, have considerably diminished. In this kind of respect, we have to notice, that, despite the recent depreciation of the leu, a strong demand for imported goods and services – especially in the retail area – still remains in place. We assess that a weaker leu does have only marginal effects on the Romania's trade deficit. So, considering the poor performance of the added value of goods and services "made in Romania", the possibility of a sudden capital outflow from Romania still remains in place.

The government decisions in the last two years or so had little or no taken in to account the continuously complicated international economic environment. So, the budget constructions had a totally unjustified optimistic character, the financial discipline was poor and the salary policies were too permissive.

The danger of a recession in USA, due to the housing market crash as well as the increasing possibility of this recession to spread through the global economy have pushed the US Dollar to historical lows versus the Japanese yen and especially versus Euro. The GDP of almost all the main European economies (Germany, France, Great Britain, etc.) is made on exports of goods and services.
they made to USA. The current weakness of the dollar will have negative effects on these exports and, of course, on economic growth in these countries. Romania is not a big exporter. More else, a good majority of its exports (more than 60%) go to UE countries. It is highly expected that a slow down in growth of the UE main countries will lead to a decrease of the Romanian exports on these countries' markets. That will have a negative impact on the Romanian current account deficit and can drive a further depreciation of the leu which can have very strong inflationary effects on Romania's economy.

We can assess that the Romanian banking system is a healthy one. The main players on this market (BCR, BRD, BT, etc.) have issued healthy operational earnings. We have also to say that the biggest banks in the system are detained by some big western banking trusts (for example BCR-Erste is detained by Austrian group Erste and BRD by the French group Societé Génerale). Both Erste and Societé Génerale have to suffer from the US housing market crash, especially the last one.

We will address to the specific case of BRD. Despite the fact that the bank does run a really healthy operational profit and despite that the bank has a relatively low exposure on the Romanian housing market and having a good management, the bank has found itself in a quite difficult position due to the fact that Société Génerale was forced to declare huge losses caused by its CDOs trade activities. The naked truth is that Société Génerale is in a really difficult position and some advised people are already talking about bankruptcy. The French bank's management as well as the unions has already starting to watch over possible investors to take over the battered bank. So, BRD is forced to face consequences of an incertitude which the bank is not responsible about. Société Génerale could, in no time, repatriate a significant part of the BRD's profit in order to attenuate its own liquidity shortage. In such kind of situation, BRD could face liquidity shortages. We will not make any further speculation, but this kind of situation could have some serious consequences on the entire Romanian economy due to the fact that BRD is the second bank in terms of assets in the Romanian banking system.

Also BCR-Erste is confronting such a situation, but, of course, not of the same magnitude BRD is already experiencing.

The actual economic environment does suggest possible liquidity shortages in the Romanian banking system. So, the bank's possibilities of lending money are likely to diminish and the lending conditions for borrowers are likely to tighten. Even the banks which haven't yet taken over by strong banking trusts will become more prudent. In this kind of respect, the Romanian central bank (BNR) has already launched strong signals by tightening its monetary policy.

Again, we will not speculate, but in the current situation, the entire Romanian economy and especially the housing and real estate market could have to suffer. The recent increases of home and apartments prices were caused mainly by the large and rapid spreading of mortgage. Most of these assets are far from being paid off. Tighter lending conditions could lead to a decrease in the price of houses and apartments and, so, to a depreciation of bank-detained assets backed on real estate based guaranties. This kind of interdependency could feed by itself and could drive to really severe decreases in prices on housing market.

Also, a rather significant number of Romanian citizens working in UE developed countries could face decreases in their incomes due to the slower economic growth in those countries. More else, some of them could lose their jobs. So, the money inflows Romania has been using to receive could severely decrease with bad effects on the Romania's current account deficit. This kind of situation could bring big
corrections in the amount of liquidities designed to home acquisition.

Like in any other country, people of Romania have perceived a home acquisition like a form of investment so, many citizens engaged into mortgages. A significant decrease in home prices could lead to a severe decrease in the real incomes of people exposed on mortgages and that could lead to really dramatic consequences on the entire Romanian economy.

Foreign investments into Romania meant, until now, only acquisition of assets. That means that in Romania only low added value goods and services are produced and that because poor investments in know how and in the labor force. So, the Romanian economy generates relatively small amounts of liquidity that could eventually to compensate a possible crash of the housing market and its influences on the banking and financial systems.

Considering the ongoing globalization process Romania simply can not avoid risks coming from the interaction of its own economy with the other ones. More or less, sooner or later, the global credit crunch will affect our country's economy. Our government, through its fiscal policies and BNR, through its monetary policy just simply can not avoid the impact of an international crisis on the Romanian economy. But some of such bad effect could be, at least, diminished by coherent fiscal policies and flexible monetary policies the way that the rest of the economy (not housing related) to remain in quite good shape.

At the end of this paper some statistics are shown. Those statistics show some good dynamics in the Romanian housing sector but also some contraction of it at the end of 2007. We also have to notice the high stake of public funds designed to home construction as well as some big differences between geographic areas that suggests a real lack of liquidity of the housing market (source: The National Institute of Statistics - INS). Also, watching statistics, we notice the big number of rural new constructed buildings in the total number of new buildings. There is highly unlikely that this kind of buildings ever to participate in the housing market. This fact doesn't necessarily mean good news for the housing market. It means rather that big migration to big towns is about to take a break and a good part of population of big towns already started to build new homes at the countryside for reasons like reducing costs and silence and comfort. This kind of situation could lead to a slower demand fin the housing market from big cities (where the biggest part of this market actually does exist) and to a decrease of prices on this market.

Romania's economy still has poor logistics and infrastructure. This situation has become more obvious in big cities where the car traffic reached already worrying levels. Speaking about the intrinsic value of city situated houses and apartments. The comfort of these locations does become more and more affected by car traffic and its toxic emissions. These kinds of facts are hard to find in statistics but they strongly do influence the housing market. More else, the problems related to infrastructure aren't likely to be solved on short term, so, they will continue to put pressure on the housing market of big towns the way that more people will be tempted to build or buy a home at the countryside rather than in a big city. The more global economy will slow down, the more this "out of town" trend will accelerate and the home prices will decline.

Also, the indoor comfort of houses is hard to catch in statistics. For the time being the level of this comfort counts a lot in the price of a certain home. Even slowly, the Romanian economy does restructure and that has and will have a lot of influence in the restructuring of the labor force and get it more flexible. It is highly expected that the active population of Romania to spend less time at home and more time on job and socializing.
The Romanian active population will start to drop down the idea that a house is an investment asset. Also, the migration of the Romanian labor force to the developed western countries is likely to continue. All of these are likely to add to some drops of prices on the housing market.

**Tendencies in Romanian’s real estate sector**

Romania becomes, even slowly, an investment based economy. The Romanian citizens will become more and more attracted to risk and investment. Actually, right now the Romanian citizens have at their disposal all financial investments instruments (stocks and bonds on local capital market as well as on capital markets from overseas and different kinds of investment funds). It is obvious that more and more cash will take the road of this kind of investments rather than to be invested on the housing market.

We are now experiencing a continuous increase in prices of energy and commodities and this situation makes the utilities of a house more expansive. It is likely that more and more citizens to drop some of housing comfort for investment activities as well as for investing in their careers. This is another reason why the home prices could see some decreases.

*Finance – Challenges of the Future*

Even the fact that is not so obvious, a connection between the insurance market and housing market does exist. Until now, except the imposed kind of insurances, Romanian had only little to do with the insurance industry. The main reasons for this situation were low incomes and poor risk perception. But now Romanian citizens have noticed that insurance is sort of investment. Confronted with bigger challenges related on their jobs Romanians have started to make life and healthy insurance. The more people will make insurances the less cash will remain available to go into the housing market.

More and more Romanians have started to understand that a successful career requires a continuous learning process and, so, a part of their incomes have to be invest in the best possible way: investing in themselves. A modern computer, an updated library has become necessities. These facts could also add to some decreases in home prices by relocating some cash out from housing market and drive the cash into career related investments. More else, individuals will start to travel more and to invest in their children's education.

We conclude that, taking into account all the facts mentioned in this paper, the home prices are, at least, not likely to increase and, maybe, we'll see some corrections.

**REFERENCES**

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