

MANIFESTATIONS OF WORLD ECONOMIC CRISIS IN ROMANIA – CAUSE AND EFFECT

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1. Macroeconomic developments and trends

Year 2008 was marked by a considerable slowing of the pace of global economic growth, reaching 3% to 5% in 2007, estimate for 2009 was 0.5%. This trend, seen descending, was designed by the European Commission indicated that, for 2009, a growth close to zero and the risk of contraction of the European economy.

Negative projections were that, since the third quarter of 2008, the euro area has already entered into recession, in conditions of stagnation of private consumption, caused a reduction in employment and an increase in low real available income of families.

In this context, because of the announced risks in early 2009, the European Commission has revised the forecast for member countries for the first time before the term as an interim forecasts.

Estimates on the external environment	Percentage modification in the years:			
	2007	2008	2009	2010
<i>GDP – world economy</i>	5,0	3,3	0,5	2,7
<i>GDP –European Union 27</i>	2,9	1,0	-1,8	0,5
<i>GDP – euro zone</i>	2,7	0,9	-1,9	0,4
<i>GDP USA</i>	2,0	1,2	-1,6	1,7
<i>GDP Japan</i>	2,4	-0,1	-2,4	-0,2
<i>GDP Germany</i>	2,5	1,3	-2,3	0,7
<i>GDP Italy</i>	1,5	-0,6	-2,0	0,3
<i>GDP France</i>	2,2	0,7	-1,8	0,4
<i>HICP price consumption index) UE 27</i>	2,4	3,7	1,2	1,9

Source: Interim forecast of DG ECFIB – January 2009

New projection decline emphasizes the global economy, foreshadowed by the fall forecast. Production and international trade to reduce power rates, entering into negative zone. Confidence of investors and consumers alike, has suffered a major decline. Production has declined in many advanced economies, and amplified by the decline in domestic demand, which was narrower than previously anticipated. Escalating financial crisis and global economic, in

the last months of 2008, uncertainty has increased the prospects of growth in advanced economies, the same effects exist in emerging countries.

2. Fiscal-budgetary policy of Romania in 2008

In 2008, Romania's budgetary policy was expansionary, procyclical and lead to the accumulation of significant macroeconomic imbalances, manifested

by a current account deficit and high inflation rate.

The situation of public finances has deteriorated considerably in late 2008, the budget deficit reaching 4.8% of GDP, over twice the target set budget, sideslip considered unacceptable in terms of economic growth of 7.9%.

Excessive deficit has causes:

- an over income - income from the planned budget, amounting to 191 billion (51.9 billion euros), ie 37.2% of GDP in 2008 were achieved total revenues of 164.5 billion equivalent to 44.7 billion euros, or 32% of GDP;

- a dynamic excessive spending - in 2008 were carried out additional costs over the level of resources available that were not channeled to productive activities. Thus, current expenditure

recorded in 2008 an increase of 30% over 2007;

- a reduced use of European funds - amounts drawings of structural and cohesion funds were only 6% of the volume allocated, respectively 178 million euros, as an allocation of 3.1 billion euros (amounts accrued in the years 2007 and 2008);

- multiple budget corrections - have accentuated the inflationary and procyclical budgetary policy, increasing revenue and expenditure planned in an unsustainable way;

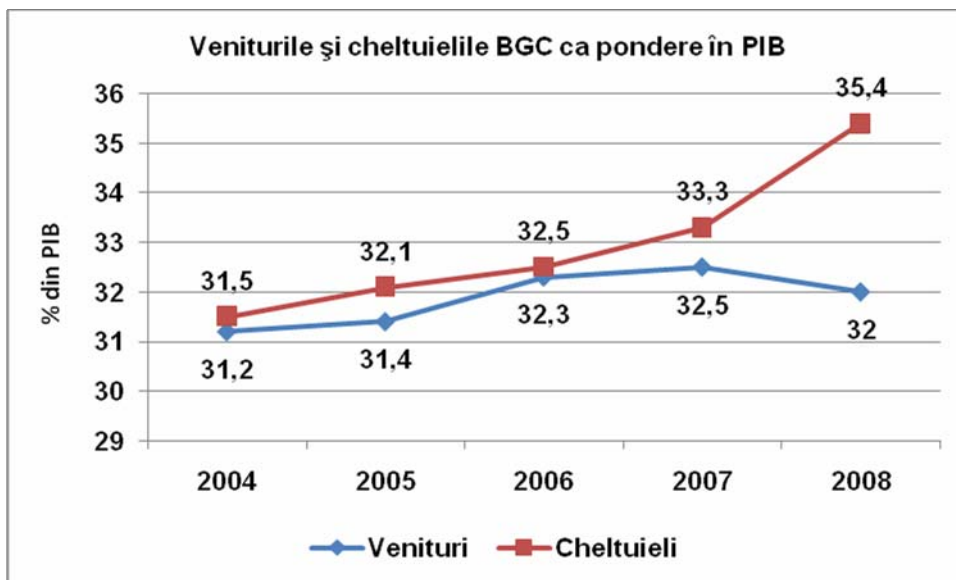
- an asymmetric implementation of the budget – general consolidated budget expenditures have increased quarter of 2008 by 30% over the previous quarter, while revenue budget decreased by 2.6%;

	2008	Medium	Trim. I	Trim.II	Trim.III	Trim.IV
	mil. lei	mil. lei	mil. lei	mil. lei	mil. lei	mil. lei
Income	164.466	41.117	41.584	41.454	41.252	40.176
% from total	100%		25,3%	25,2%	25,1%	24,4%
Dynamics regarding the previous trim.				-0,3%	-0,5%	-2,6%
Expenditures	189.122	47.281	41.824	47.043	43.549	56.706
% from total	100%		22,1%	24,9%	23,0%	30,0%
Dynamics regarding the previous trim.				12,5%	-7,4%	30,2%
Deficit	-24.656	-6.164	-240	-5.589	-2.297	-16.530
% from total	100%		1,0%	22,7%	9,3%	67,0%

Source: Calculus on the INS data basis.

- inefficient tax administration - despite economic growth in recent years, the share of budgetary revenues

in GDP stagnant around 32%, while public expenditure has increased significantly;



Source: Calculus on the INS data basis.

- the weak economy - high growth in the period 2005-2008 was accompanied by an increase in the activities of unobserved economy (reaching 21% of GDP in 2008 compared de 14.5% of GDP in 2004) and extension of tax evasion (only VAT evasion reached 24 billion in 2008, up from 7.4 billion in 2004);

- a wage policy and employment inadequate - staff costs in the budget have doubled over the period 2005-2008, the largest share in total costs of personnel, have a central administration, in constant growth every year until to 37.9% in 2008.

3. The effects of fiscal-budgetary policy of 2008, 2009

Applying for a fiscal budget based on unrealistic estimates of revenues and public spending increases led to the accumulation of macroeconomic imbalances. Moreover, expenditure incurred over the available resources were not channelled to productive activities, being directed mainly towards the costs of personnel and goods and services.

All these slippages fiscal budget of 2008 had repercussions in 2009, generating:

- **external effects** by:

- exceeded the ceiling of 3% of GDP budget deficit allowed under the Stability and Growth Pact, which made the situation in Romania to apply the excessive deficit procedure;

- reducing the sovereign rating by international rating agencies as investment grade category (at least BBB) with negative consequences for the costs of external financing at the government;
- erosion of confidence foreign investors, knowing the flow of foreign investment decreased, from 963 million in October 2008, less than 400 million in December, same year;

- **internal effects**, materialized in:

- artificial restriction of the volume of activity, particularly in construction consequences from undoing it's duties by the central and local government, by economic, worth 7.7 billion lei (1.5% of GDP);

- increase of 16.4 billion of government debt to 30 November 2008, compared to the end of 2007, as a result of financing a budget deficit larger than estimated, according to the turbulence on international financial markets, the

liquidity restriction to globally and increase yields obtained from the issue of government bonds in U.S. dollars.

4. Policy priorities of the budget of 2009

The effects of financial crisis and economic world have been felt strongly in Romania since early 2009. Thus, economic activity has experienced an increased trend of contraction. Plan for economic recovery and financial applied in our country as part of European strategy, **priority objectives** are:

- strengthening budget to a deficit of 2% of GDP, by restructuring public expenditures to reduce current expenditure purposes of administration;
- priority allocation of resources to projects with multiplier effect in the economy, as the main means of limiting and reducing the compensation of private

sector activity, which prevent entry into economic recession;

- compliance Golden Rule of public finance: „*deficit finance not only public investment, current revenue and finance current expenditure*”;

- ensuring debt sustainability and the use of external public debt as a source of economic growth; a multi-annual budget in accordance with a credible medium-term expenditure;

- full and efficient absorption of structural funds and cohesion of the Common Agricultural Policy as the main source of external financing of economic growth.

We believe that adherence to these priorities in the construction and implementation of the budget will ensure a reduction of the negative effects of global crisis and a recovery of national economy.

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