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The present crisis started in United States, the main motor of the present systemic crisis, as a financial failure. It spread rapidly in the economic area and also world wide. No economy was spared, and the emerging economies, among them Romania, were visible affected, even with a little later. Romania, facing a strong economic growth in the last decade, was confronted from Q4 of 2008 with an important slow down of the economy and financial disturbances, even almost all economists were hardly accepted the contagion effect on Romanian economy. But the current crisis could be not only a cyclical event, but even the crisis of the liberal economic framework.

Key words: Romania, crisis, government reaction

JEL code: E30, E32

1. Macroeconomic Development in Romanian Economy after 2000

The significant stabilisation of the macroeconomic environment achieved in recent years was stimulated by the prospect of becoming an EU member. Romanian GDP increased by a real 7.9% yoy in 2006 and 6% yoy in 2007. Economic growth was strong after 2000, and especially in the latest 3 years. As we see in the next table, GDP and GDP per capita were strongly growing, the inflation rate and unemployment rate slowed down constantly. However, the foreign trade balance, the external debt and the budget deficit were increasing. Widening external imbalances in the context of a general repricing of risk at the international level are, however, enhancing vulnerabilities.

Table 1. Economic developments in Romania, 2000-2007

	2000	2001	2002	2003	2004	2005	2006	2007
GDP, yoy, %	2,1	5,7	5,1	5,2	8,5	4,4	7,9	6
GDP per capita (lei)	3583	5211	6950	8758	11018	13327	15962	18791
Exchange rate (lei/EUR)	2	2,6	3,1	3,8	4	3,6	3,5	3,3
Inflation rate (%)	45,7	34,5	22,5	15,3	11,9	9,0	6,6	4,9
Unemployment rate (%)	10,5	8,8	8,4	7,4	6,3	5,9	5,2	4,1
Foreign trade balance (thou EUR)	-1876	-3323	-2753	-3956	-5324	-7806	-	-
External debt (thou EUR)	11163	13575	14969	15885	18298	24641	28628	36728
Budget Excess/Deficit (thou lei)	-3204	-3758	-3808	-4395	-3693	-2268	-5100	-9449

Source: INSSE

Economic growth was strong also in 2008, but the significant growth was reported in the first 3 quarters. Compared to other European economies, it appears the strongest growth (see Table 2).

Table 2. Growth of the GDP 2008/2007, %

	Q4	Year
ROMANIA	2,9	7,1
EU (27)	-1,4	0,9
Belgium	-0,8	1,2
Germany	-1,6	1,3
Estonia	-9,7	-3,6
Spain	-0,8	1,2
France	-1,0	0,8
Italy	-3,0	-1,0
Latonia	-10,3	-4,6
Lithuania	-2,0	3,1
Hungary	-2,3	0,5
Netherlands	-0,6	2,0
Austria	0,3	1,8
Poland	2,3	5,4
Sweden	-4,9	-0,2

Source: EUROSTAT

Although, in Q4, economic growth slowed down, as in all other European economies, emerging economies included. In 2008, the GDP achieved during Q4 was 31,6% of the yearly GDP, compared to the period 2000-2007 when it was of 32-33% (see Chart 1).

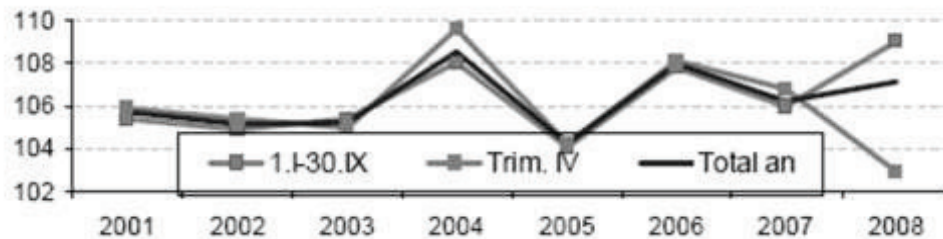


Chart 1. GDP development in 2001-2008, yoy

Source: INSSE

Despite this, construction and communication remain among the sectors with the best contribution to the economic growth recorded. Unfortunately, the biggest contributions are of sectors very pro-cyclical and a priori fluctuating: constructions and services, while industry has a very small contribution. .

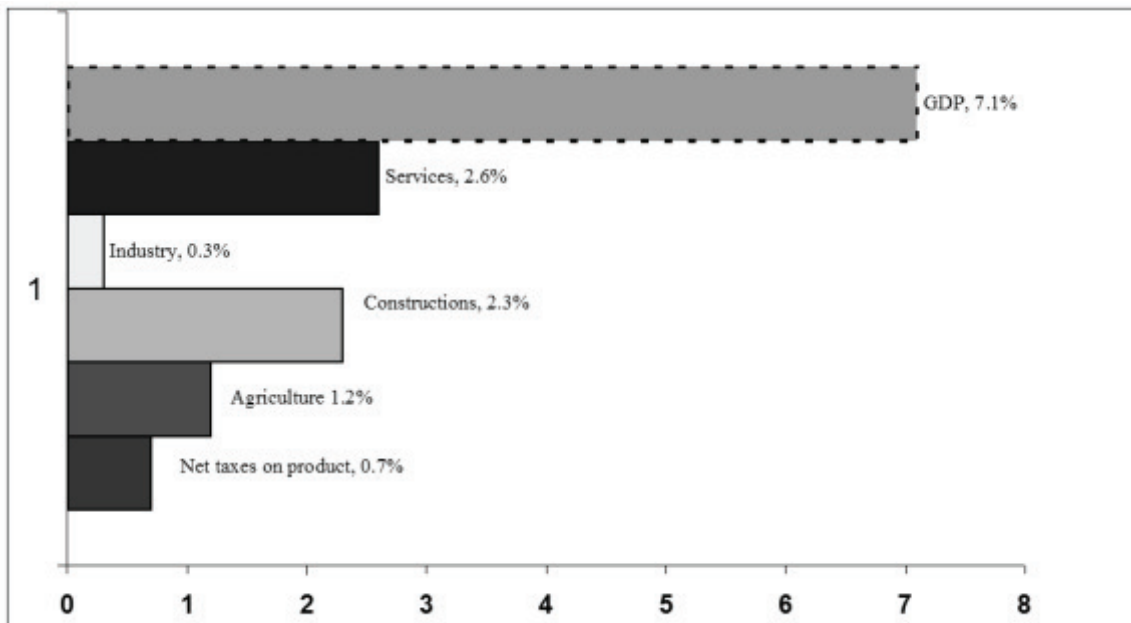


Chart 2. Contribution to GDP growth, by category of resources, 2008/2007

Source: INSSE

FDI continued to play a major role in shaping the future specialisation of the country. Foreign companies already represent 43% of total turnover and 72% of the total exports of Romania. The incoming FDI increased significantly, to 9000 million euros in 2008 (preliminary data).

2. The signs of the crisis

Romanian economy benefited from a favorable premise, e.g. the absence, to the local plan, of the toxic "financial instruments" of derived types, pertaining to the "sub prime" credits. However, as the credit crisis extended and the global financial crisis spread, the confidence between the financial institutions got lost, and the banks hesitate to grant credits whose repayment is not certain. The result was a financial blockage propagated in waves towards the Romanian financial institutions. A lot of them saw themselves obligated to stop the credit lines to the enterprises, with immediate effects on the production and investment expenses.

So, as world wide, and as occurred in the Great Depression, the current crisis began with a financial crisis. However, and unfortunately, the actual crisis is not only a financial one; it spread into the real economy. Moreover, it is not a liquidity crisis; it is a crisis of the velocity of the liquidity, intensified by the lack of confidence – a priceless public good.

As stated by the Recent Larosière Report, the current crisis has many causes: macroeconomic issues, risk management issues, Credit Rating Agencies failure, corporate governance failures, regulatory, supervisory and crisis management failures – excessive de-regulation. “Ample liquidity and low interest rates have been the major underlying factor behind the present crisis, but financial innovation amplified and accelerated the consequences of excess liquidity and rapid credit expansion. Strong macro-economic growth since the midnineties gave an illusion that permanent and sustainable high levels of growth were not only possible, but likely. This was a period of benign macroeconomic conditions, low rates of inflation and low interest rates. Credit volume grew rapidly and, as consumer inflation remained low, central banks - particularly in the US - felt no need tighten monetary policy. Rather than in the prices of goods and services, excess

liquidity showed up in rapidly rising asset prices. These monetary policies fed into growing imbalances in global financial and commodity markets⁹⁹.

Although the global crisis was already obvious in the developed economies, Romanian economists and especially politicians were very optimistic about the possibility that the crisis extend itself in Romania. This is due to very strong economic growth and the absence of integration with the world financial system. However, in an economy where almost 90% of the bank system belongs to foreign banks, the risk of contamination was very high. Indeed, the crisis occurred and its first signals were obvious in the fourth quarter of 2008.

In the real economy, the first clear signs of slowing were noticed in Q4. Despite the strong economic growth of near 9% yoy in the first 3 quarters of 2008, this growth proved to be unsustainable, based mostly on consumption by credit of import goods. Indeed, GDP growth rate slowed down to 2.9% in Q4, proving the Romania's vulnerability and exposure to the global financial crisis.

Inflation rate recorded a 9% peak in inflation in July 2008, but disinflation started to gain pace in H2/2008. The disinflation process is expected to go on in 2009, on the background of economic crisis (see Chart 3).

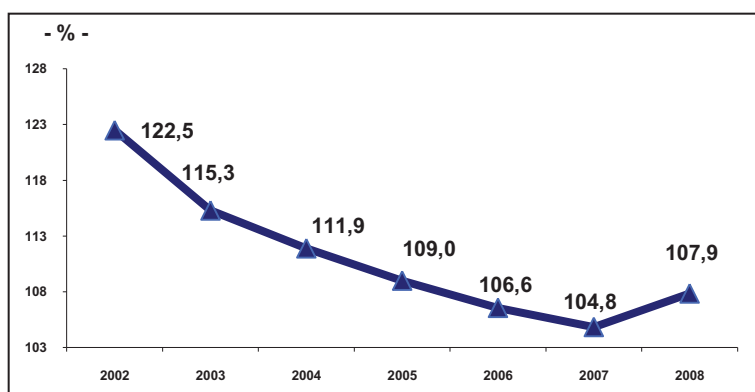


Chart 3. Consumption prices index, 2002-2008 - previous year = 100 -

Source: INSSE

Unemployment rate increased from 5.4% in Q3 of 2008 to 5.8% in Q4, and the occupancy rate went down from 60.5% in Q3 2008 to 58.3% in Q4 2008.

The current account deficit is a significant threat to the macro-economic stability, and financing the gap a concern, even in Q4 imports strongly contracted (export growth remained negative). This correction allowed the full year 2008 current account deficit to reach “only” widen 5% on 2007 to reach 12.7% of GDP, down from its peak of 13.7% of 2007 (see Chart 4).

99 High level group on financial supervision - de Larosière Group report, http://ec.europa.eu/commission_barroso/president/pdf/statement_20090225_en.pdf, p. 7

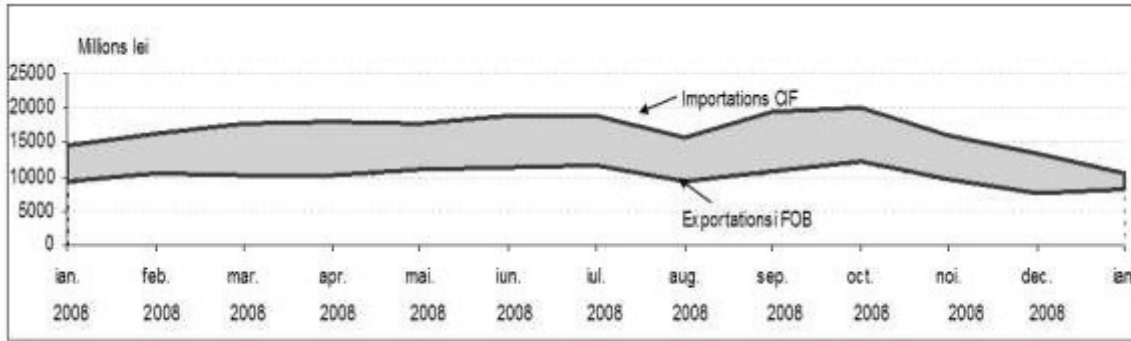


Chart 4. Exports (FOB), imports (CIF) and FOB/CIF deficit, January 2008-January 2009
Source: INSSE

The RON depreciation, beyond the uncertainty, exerted a positive effect on the C/A deficit correction. Thus, the exchange rate depreciated as follows: December 2007: 3.53 RON/EUR, December 2008: 3.92 RON/EUR, March 2009: 4.2 – 4.3 RON/EUR. The import prices raised and thus stopped the import-oriented consumption (-17% yoy drop in November 2008). As coverage the external financing needs was a major source of concern, the recent IMF agreement is meant to respond to this threat.

The monetary issues are even more complicated. RNB initiated a tightening cycle in November 2007 and raised its key policy rate, several times, from 7% to 10.25% in July 2008, trying to slow down the rate of lending and to limit the risk of overheating the economy, and also imposed several restrictions on the maximum level of household debt. As a reaction to the fast deterioration of the growth prospects, NBR turned its policy stance around in the early 2009, initiating its first cautious cut.

In this crisis of the real economy, the exporters are the more touched, because the demand and the financings of the European Union and United States, the main business partners of Romania, began to cut down at the same time with the extension of the crisis. The main factor that affected the business environment in Romania is the decreased demand, phenomenon related to:

- the availability of the credit
- the volatility of the exchange rate
- the apparition of the late payments and the problems of liquidity
- the availability of the credit:
- the uncertainty on the rate of exchange
- the financial blockages: difficulties to cash the production sold.

The crisis touches selectively the economy. The most affected are the companies in metallurgy, metallic constructions, metal products, and the industry of the transportation means, construction supplies, chemical industry and transportation¹⁰⁰.

3. Government responses

The government response to the crisis concerned in the first place two issues. First, on institutional level, it was created inter-ministerial groups for implementing anti-crisis measures taken by the government, as well as re-enforcement of the National Committee for Financial Stability. Second, on strategic level, it was adopted a program to offset the crisis, structured in more than 20 economic, financial and social policy actions. The most important component is the public investment in infrastructure and transportation.

100 *** Raportul anual de analiză și prognoză, SAR, 2009

Another response, the agreement with IMF is meant to respond to the issue of financing the major C/A deficit. A stand-by agreement for two years with the IMF for 12,95 billions euro, part of a multilateral financial support packet, was signed in March 2009. The total packet of external financing (IMF, EU, World Bank, EBRD) is 19.95 billions euro, as follows:

-IMF: 12.95 billions euro, interest rate of 3.5% per year, sliced until 2010, repayment until 2015

-EU: 5 billions euro

-World Bank: 1 billion euro

-EBRD and other financial institutions: 1 billion euro

The main goal is to improve the consequences of the strong fall of the incoming private capital in Romania and to implement the necessary economic policies in order to reduce the fiscal unbalances and to strengthen the financial system

The mission of the IMF agreed with the Rumanian Government a budgetary deficit of 4.6% of the GDP in 2009, under the condition of maintaining the present wage level and that all extra-revenues to be used exclusively for investments.

4. Conclusion. Is the current crisis the most powerful one after the Great Depression?

In the present context, there are a lot of similarities with those that followed the stock crash of 1929, such as: a period characterized by an excessive indebtedness followed by a massive deflation of the prices of assets, an analogous stagnation within the banking and financial system; an economic slowing that is quickly and spectacularly propagated to the whole world.

There also bug and important differencies. The unemployment rate exploded in the Great Depression to 24%, while now is above 10%. In 1929-1933 the bank system recorded hundreds of bankruptcies, it was not settled a system to deposit guarantees, the monetary policy was to reduce the money supply, and the world wide response was to enhance protectionism that drove to an increase of the customs tariffs. Nowadays, the government measures reduced significantly the risk of bank failures (but the price will be paid by the next generations!), it was pursued a massive recapitalisation of banks, and there are searched emergency saving policies to help the banking systems.

Even though the extension and seriousness of the crisis are not yet known, it is obvious the need to re-build the financial markets operating pattern, in the sense of more or at least better regulations. The economic growth, if not sustainable, will all the time result in more or less severe corrections. There is also needed a budgetary re-launchement globally co-ordinated. On a more extensive level, this crisis marks the end of an American-style capitalism and probably the crisis of the neo-liberal model. A new-etatism is ready to emerge, a new keynesism and perhaps a new global order.

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