THE GLOBAL FINANCIAL CRISIS: MANAGEMENT OF DEFICITS AND DEBTS

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Abstract
The boom of world trade, the unprecedented openness of domestic markets, regional integration, and the persistence and magnitude of globalisation are as many challenges to the management of the internal balance between revenues and expenditures, both in the context of international, regional, national, and company mechanisms, and for the individual households and consumers. The coexistence of foreign deficits/trade and domestic deficits/ budget at macro level, at the same time with the accumulation of high levels of indebtedness of the states, non-financial corporate entities, and individual households requires, in the context of the present global financial crisis, new theoretical and practical approaches, new institutions, and new policies capable to secure the sustainability of growth, and to diminish the risk of increasingly unpredictable disturbances.

Keywords: global financial crisis, deficit management, indebtness rate, net landing and net borrowing, foreign/trade deficit, domestic/budgerary deficit

JEL Classification: F34, H63, H74

Introduction

Romanian people are not prone to thrive on loans and to live in debt. The debt-free culture is as old as the hills among Romanians, but this proclivity has taken the form of a clear-cut concept particularly during the past two hundred years, since money-lenders and incipient banking became fairly common in the Romanian territories.

Equally old is the still existing biblical belief that financial institutions are "parasites". This is due to the fact that, banks in Romania have never in history been Romanian, and consequently never took care of depositors' savings and never tried to save their clients in

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debt by brokering transactions for them. A proof of this is the fact that, currently, over 90% of the capital of the banks operating in Romania is held by foreign shareholders.

In modern times, the resentment to being indebted was kept alive in the '80 through an efforts made of paying off the foreign debt.

After 1990, more and more often an opinion favorable to indebtedness was aired by politicians, and by would-be scientists trying to induce the idea that having debts is an advantage rather than a disadvantage in the pursuit of economic growth and if we want to “improve our image in the eyes of international financial institutions”.

As a consequence, Romania’s external deficits have grown almost exponentially within the past ten (10) years (1998-2007), with the current account deficit rising from 2.6 billion euro to 16.7 billion euro (6.3 times), and accounting for a GDP share that went up from 3.7% in 2000 to 13.5% in 2007; the trade balance deficit leaped from 3.1 bn euro to 21.8 bn euro (6.9 times), its GDP share more than doubling, from 8.4% in 1998 to 17.6% in 2007.

During the same reference timeframe, the gross domestic product increased from 37.4 bn euro to 123.7 bn euro (3.3 times).

The conclusion is that for every GDP unit added, it takes a doubling of the foreign deficits.

1. About domestic indebtedness

The net borrowing of the Romanian economy followed a continuously ascending curve from 1.3 bn euro in 1998 to 8.07 bn euro in 2006 and 22.1 bn euro in 2007 (Table no. 1); in other words, in the first year after accession the net borrowing grew over 2.5 times.

Table no. 1: Net lending (+)/net borrowing (-) by institutional sectors (billion lei, current prices)

	1998	2000	2001	2002	2003	2004	2005	2006	2007
Total sectors	-1.3	-2.9	-7.8	-10.7	-18.3	-19.1	-24.6	-28.4	-73.7
Non-financial corporations sector	-1.7	-8.0	-8.8	-17.7	-25.2	-22.1	-47.4	-16.3	-64.5
National Bank	-0.3	-0.7	-0.7	-1.2	0.1	-2.9	0.1	-4.8	-2.1
Other monetary financial institutions	-0.4	0.5	-1.7	-0.2	-1.1	0.9	-2.4	10.4	-0.8
Other financial intermediaries	0.4	0.3	0.2	-0.1	0.6	-0.4	0.2	0.7	1.8
Insurance corporations and pension funds	-0.04	-0.3	0.1	0.2	-0.2	-0.6	0.2	0.03	-1.0
General government	-1.2	-3.5	-4.2	-3.0	-2.9	-2.9	-3.3	-7.6	-10.5
Households	1.8	8.7	6.9	10.0	9.9	7.7	24.0	-13.6	2.1

Source: Own calculations based on "Conturile naționale financiare 1998-2007", National Bank of Romania, Bucharest, 2008.

The largest share of such borrowings appears in the ledgers of non-financial corporations and of public administration bodies (general government), which, in the reference period, accounted for 87.5% and, respectively, 14.3% of total borrowing in the economy.

Similarly, the annual end loans stock increased from a 21.5 bn euro equivalent in 1998 to 100.9 bn euro in 2007. The worth of the loans represented 47.5% of the GDP in 2000 and 81.6% in 2007 (Table no. 2).

Table no. 2: Loans by institutional sectors (final stock at the end of the year) (billion lei, current prices)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total sectors	21.4	27.4	38.2	57.8	77.7	103.5	129.0	169.6	237.9	336.7
Non-financial corporations sector	14.5	17.1	23.4	34.3	46.6	58.9	71.7	91.1	119.1	178.3
National Bank	0.6	0.8	1.2	1.2	1.4	1.9	1.3	0.8	12.1	*
Other monet-ary financial institutions	0.8	0.8	0.6	0.9	1.2	3.0	7.5	13.1	21.3	30.6
General government - loans	4.9	7.9	12.1	20.0	23.7	27.1	29.6	31.3	28.3	30.9
General government - titles	3.1	5.8	7.4	12.5	15.8	16.9	18.0	14.7	13.8	18.8
General government - total	7.9	13.7	19.4	32.5	39.6	44.0	47.6	46.0	42.1	49.8
House-holds	0.5	0.6	0.7	1.1	3.3	10.2	15.4	26.9	46.5	72.8
Rest of the world	0.1	0.1	0.2	0.2	0.6	0.4	0.4	2.5	5.0	10.7
GDP	37.4	54.6	80.4	116.8	152.0	197.4	247.4	289.0	344.7	412.8
% loans in GDP	57.3	50.2	47.5	49.5	51.1	52.4	52.2	58.7	69.0	81.6

Source: Own calculations based on “Conturile naționale financiare 1998-2007”, National Bank of Romania, Bucharest, 2008.

*Note: *- under 0.001*

Table no. 3 shows that the loan structure, too, underwent significant changes: first, of all non-government loans, foreign currency loans jumped from only 3% in 1990 to 55% in 2007; secondly, households loans rose spectacularly from 2.5% in 1998 (except for the slight drop to 1.8% in 2000) to 21.6% in 2007, while public administration slowed down the loans proportion from some 35% in 2001 to 9.2% in 2007.

Table no. 3: Loans distribution by institutional sectors (end of the year) (%)

	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Total loans	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Non-financial corporations sector	67.5	62.3	61.3	59.3	60.0	56.9	55.5	53.7	50.1	53.0
National Bank	2.9	3.1	3.1	2.1	1.8	1.9	1.0	0.5	5.1	0.0
Other mone-tary financial institutions	3.7	3.1	1.7	1.5	1.5	2.9	5.8	7.7	8.9	9.1
General government - loans	22.8	28.8	31.6	34.6	30.6	26.2	23.0	18.5	11.9	9.2
House-holds	2.5	2.0	1.8	1.8	4.3	9.8	12.0	15.9	19.5	21.6
Rest of the world	0.5	0.5	0.5	0.4	0.8	0.4	0.3	1.5	2.1	3.2

Source: Idem Table no. 2.

2. Sources of debt repayment

The aggregate worth of loans is generally compared to the gross operating surplus, the gross disposable income and the gross domestic product.

The data entered in the national accounts and the financial national accounts between 1998 and 2006 reveal that the overall gross operating surplus in the economy almost trebled from 18.1 bn euro equivalent to 49.6 bn euro, accounting for 48.3% and, respectively, 50.7% of the GDP (Table no. 4). In 2006, non-financial corporations accounted for 52.5% of the gross operating surplus, and individual households for 41.6%.

Table no. 4: Gross operating surplus by institutional sectors (billion lei, current prices)

	1998	2000	2001	2002	2003	2004	2005	2006
Non financial corporations sector	8.7	13.8	21.6	33.8	46.6	60.4	69.4	91.6
Households	9.7	21.2	33.3	38.8	43.5	59.5	63.4	72.7
General government	0.1	0.6	1.4	1.7	10.2	7.2	7.5	7.9
Financial corporations	0.2	0.8	2.6	2.2	1.6	2.8	2.5	2.0
Others	-0.6	-0.8	-1.6	0.1	-0.01	0.8	0.2	0.4
Total national economy	18.1	35.7	57.3	76.6	102.9	130.7	143.0	174.7
Gross domestic product	37.4	80.4	116.8	152.0	197.4	247.4	289.0	344.7

Source: "Romanian Statistical Yearbook", National Institute of Statistics, Bucharest, various editions and "Conturile naționale financiare 1998-2007", National Bank of Romania, Bucharest, 2008.

During 1998 - 2006, in nominal terms, the GDP increased 9.2 times, and the gross operating surplus increased 9.7 times, of which 10.5 times in non-financial corporations, and 7.7 times in individual households.

The place held by non-financial corporations (NFC) (Table no. 5) demonstrates that their share of indebtedness in the gross operating surplus (GOS NFC) diminished from 168.8% in 2000 to 129.9% in 2006.

Table no. 5: The financial situation of non-financial corporations (billion lei, current prices, %)

	1998	2000	2001	2002	2003	2004	2005	2006
Gross value added NFC (GVA NFC)	19.7	39.4	57.1	76.6	97.9	122.3	145.4	175.7
GVA NFC/GDP (%)	52.6	49.0	48.9	50.4	49.6	49.4	50.3	51.0
GOS NFC	8.7	13.8	21.6	33.8	46.6	60.4	69.4	91.6
GOS NFC/GOS total (%)	48.2	38.8	37.7	44.1	45.7	46.2	48.5	52.5
Loans NFC	14.5	23.4	34.3	46.6	58.9	71.7	91.1	119.1
Loans NFC/Loans total (%)	67.5	61.3	59.3	60.0	56.9	55.5	53.7	50.1
Loans NFC/GOS NFC (%)	166.2	168.8	159.1	138.0	126.4	118.6	131.2	129.9

Source: Idem Table no. 4.

The ratio between their loans and the gross value added (GVA NFC) stood at 73.5% in 1998 and at 67.8% in 2006.

For households (H) borrowers, the ratio between the worth of the loans and the gross operating surplus was 5.6% in 1998, 3.2% in 2000, 42.5% in 2005 and 63.9% in 2006 (Table no. 6).

Table no. 6: The financial situation of the households (billion lei, current prices, %)

	1998	2000	2001	2002	2003	2004	2005	2006
Households gross disposable income (H GDI)	25.8	58.7	82.5	101.7	116.5	156.3	176.7	204.4
H GDI/ GDP (%)	69.0	72.9	70.6	66.9	59.0	63.2	61.2	59.3
Households gross operating sursplus (H GOS)	9.7	21.2	33.3	38.8	43.5	59.5	63.4	72.7
H GOS/ GOS total (%)	53.7	59.5	58.1	50.6	42.7	45.5	44.3	41.6
Household loans (H loans)	0.5	0.7	1.1	3.3	10.2	15.4	26.9	46.5
H loans/ Loans total (%)	2.5	1.8	1.8	4.3	9.8	12.0	15.9	19.5
H loans/ H GDI (%)	2.1	1.1	1.3	3.3	8.7	9.9	15.2	22.7
H loans/ H GOS (%)	5.6	3.2	3.2	8.6	23.4	25.9	42.5	63.9

Source: Idem Table no. 4.

The households' loans represented 1.1% of the gross disposable income (H GDI) in 2000, and 22.7% in 2006 (Table no. 7).

Table no. 7: Households loans and gross disposable money income

	1998	2000	2002	2003	2004	2005	2006	2007	2008
H loans (bn lei)	0.5	0.7	3.3	10.2	15.4	26.9	46.5	71.5	99.2
Total net wage yearly found (bn lei)	6.7	11.9	20.8	26.7	32.1	40.8	48.5	61.1	73.9
% H loans /Total net wage found	8.1	5.7	16.0	38.2	48.0	65.9	95.9	117.1	134.2
Households gross disposable money income (H GDMI) (bn lei)	12.3	22.8	45.6	55.4	72.6	85.2	98.9	121.1	159.4
% H loans/ H GDMI	4.4	2.9	7.3	18.4	21.3	31.6	47.0	59.1	62.2

Source: Idem Table no. 4.

Of total household gross disposable money income, loans accounted for 62.2% in 2008, as against only 2.9% in 2000, and exceeded total households net wage revenues 1.34 times in 2008.

3. Comparative international approach and final remarks

In foreign deficit matters, the trend that gained ground, particularly after 1980 was deregulation, encouraged by the much acclaimed free movement of goods, services, capital, and labour force.

In the recent decades, competition has actually meant the strive of some countries to monopolise the purchasing power of other countries by massive exports.

Encouraging exports and managing the trade deficits generated the development of the theories regarding competitiveness, which, in our view, takes more than just productivity.

They translate, among other things, in slowing down wage raises in countries where wage levels are high, in granting low interest loans to exporting manufacturers, and more or less transparent state aid, in dumping practices and foreign exchange policies favouring national currencies.

The world is being more and more divided between 'price makers' and 'market makers' on the one hand, and 'price takers' and 'captive economies or markets' on the other. Capturing and monopolising the importing countries’ purchasing opportunities especially by targeting households resorts to every possible means, starting from advertising labelling and going to slogans like 'consumer’s supreme interest and welfare', and to an unprecedented boom of consumer loans schemes.

As far as Romania is concerned, export and import acquire an additional significance from the perspective of its double deficit (foreign/trade deficit and budgetary deficit), which is being sanctioned and fuelled both by high interest rates, and by foreign exchange rates detrimental to the national currency.

For the Euro Zone countries and for the USA, the strength and the supremacy of the two currencies seem to outweigh productivity.

What Romania needs is to have economic and trade policies tailored to its specific features, and capable to secure this country's autonomy in taking contra-cyclic measures of economic relaunch.

Managing deficits with the aid of a 'triangle marriage' of the three currencies (leu, Euro, Dollar) is like walking on a tight rope.

Consumer credits in lei or Euro, as an incentive to economic growth, may complicate the relaunch of domestic competitive economic growth.

The national supply of goods and services cannot adapt over the night to the frequent changes of exchange rates and interest rates, and even less so to the quality and diversity requirements.

Before thinking of export deals, Romanian manufacturers see themselves increasingly excluded from their own domestic market; recapturing the national market, which, after all, is a component of the global market, may therefore become their main target.

The Romanian nationals' purchasing power is low, like their salaries, and this makes it a sure 'victim' of cheaper imports. Low salaries mean a modest taxation basis and ever lower revenues to the various budgets, which pushes them into deficit. These many types of deficits kindle inflation, keep interest rates high, and bar economic relaunch either way: consumer-wise and investment-wise.

It is hard to believe that, given the present circumstances, the Central Bank could countermand, through monetary policies, the various effects of economic disturbances (such as the severe loss of value in some assets, or, conversely, the sky-high growth of asset value; the setting of the foreign exchange rates always in relation to the same two reference currencies, each of which is backed up by scale economies and by money supplies hundreds of times greater and more powerful; practicing domestic reference rates compatible with the inflation rate and with the economic growth requirements by loans). Interest is a lever of productivity that counts more than the wage level or the qualification of the labour force.

The very high interest rates that have persisted in Romania during the past two decades can be considered the main stumble block against modernisation and competitiveness of Romanian companies.

The fixed idea that low salaries can maintain competitiveness is, for many reasons, totally unproductive for economic growth.

It would be mistaken for us to think that the current global financial crisis is a mere accident; it would be much more profitable for us to try to understand and explain why the world has become, in the last twenty years, so dependent on borrowing in the attempt to sustain a growth much in excess of the internal supply capabilities of the various economies.

Contrary to Say’s Law, this supply did not generate the own demand in those economies; it is the supply of others, through prices and consumer credits, that sustains the demand, all while widening the gap between the real economy and the financial economy.

At present, the European Union rests on the antagonistic coexistence of three patterns: private indebtedness, hyper competition, and the European social model, all of them being called the 'triangle of European incompatibility'[1].

Under the Maastricht criteria, the indebtedness rate of public administration bodies in all EU members may not exceed 60% of the GDP; this has taken the indebtedness rate of businesses and individual households off the right course, because they are not controlled through convergence criteria.

Concomitantly, USA trade deficits and surplus in some strongly emerging economies (China, India, South Korea, etc.) continue to exist.

Speaking of deficits and debt management, of their magnitude and distribution by institutional sectors, it must be said that economic globalisation leads to unpredictable, and often perverse, results and effects. Brokering and recycling the deficits of some and the surplus of others fetches handsome revenues for the banking and financial sectors, but plagues the real economy of many countries.

The much acclaimed concern for the debts of the developing countries slowly but surely switched in the past decades towards the concern for the management of the debts of the developed countries.

The self-finance capacity of many economies is on a downward curve (Table no. 8).

[1] Jöel Bourdin, Yvon Collin (8 avril 2009) : *Rapport d`information no. 342*, Sénat France, p. 196.

Table no. 8: Net lending by countries (as % of GDP)

Country	Average 1997-2001	Average 2002-2006	2006
Belgium	4.8	3.9	3.4
Germany	-0.7	3.7	5.2
Ireland	1.6	-1.3	-4.0
Greece	-3.9	-8.4	-9.6
Spain	-1.4	-5.0	-8.1
France	2.0	-0.8	-2.1
Italy	1.4	-0.9	-1.9
Netherlands	4.6	6.8	7.3
Austria	-1.1	2.5	3.3
Portugal	-6.4	-6.7	-8.8
Finland	7.4	7.0	5.9
Bulgaria	-2.5	-8.0	-15.0
Czech Rep.	-4.0	-4.4	-2.7
Denmark	1.4	3.0	2.4
Latvia	-8.6	-6.6	-8.9
Hungary	-7.6	-6.9	-5.7
Poland	-4.1	-2.3	-1.2
Romania	-4.8	-5.5	-10.3
Sweden	3.9	6.1	6.3
United Kingdom	-1.4	-1.9	-3.2
EU 27	-0.3	-0.6	-1.8
USA	-2.9	-5.3	-6.1
Japan	2.3	3.4	3.9

Source: OCDE, Economic perspective, 1/2008.

The same table shows Romania's far from positive evolution. And yet, Romania's public debt share of the GDP looks better than that of some developed countries (Table no. 9).

Table no. 9: Government public debt (% in GDP)

	1996	2000	2005	2007
Belgium	127.0	107.8	92.1	83.9
Greece	111.3	103.2	98.8	94.8
France	58.0	57.3	66.4	63.9
Italy	120.9	109.2	105.9	104.1
Romania	…	26.5	16.1	13.1
USA	73.4	58.2	63.4	…
Japan	93.9	134.1	164.0	…

Source: Eurostat and "Conturile naționale financiare 1998-2007", BNR, Bucharest, 2009. *Note: (…) – no data available.*

On a European scale, Romania's public debt and aggregate corporate debt are still at a sustainable level (Table no. 10).

Table no. 10: Debts in Euro zone and Romania in 2007 (% in GDP)

	Public debt (1)	Non-financial corporate debt (2)	Total debt (1+2)	Public debt as percentage in total debt 1/(1+2)
Belgium	84.9	118	202.9	41.8
Germany	65.0	125	190	34.2
Ireland	25.1	218	243.1	10.3
Greece	93.4	101	194.4	48.0
Spain	36.2	200	236.2	15.3
Italy	105	108	213	49.3
France	64.2	140	204.2	31.4
Netherlands	46.8	205	251.8	18.6
Austria	59.9	135	194.9	30.7
Portugal	64.4	200	264.4	24.3
Finland	35.3	118	153.3	23.0
Average Euro zone	61.8	151.6	213.4	28.9
Romania	13.1	43.2	56.3	23.3

Source: Jöel Bourdin, Yvon Collin, 'Rapport d`information no. 342', Sénat France, 8 avril 2009 and 'Conturile naționale financiare 1998-2007', BNR, Bucharest, 2009.

In the time span 1999 – 2007, the ratio between corporate debt and the gross operating surplus in the euro zone rose from about 280% to approximately 390%, and the ratio between corporate debt and the GDP followed an ascending curve, from some 56% to 78% (Figure no. 1).

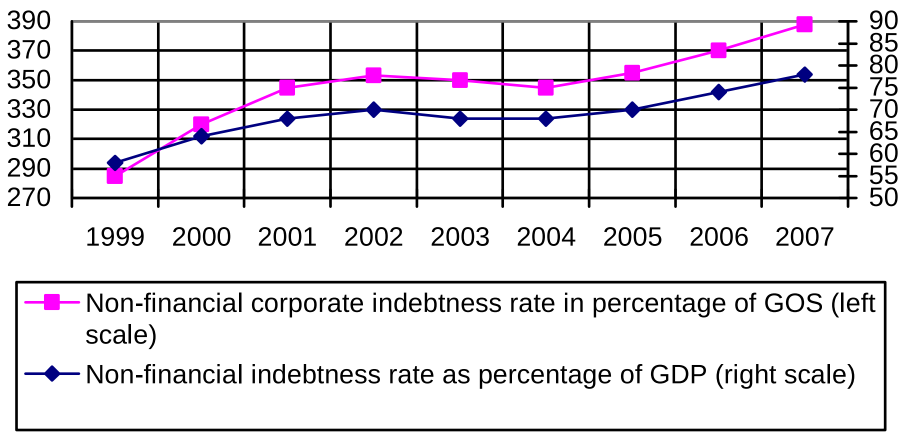

Figure no. 1: Non financial corporate indebtness rate in euro zone as percentage of GOS and GDP (%)

Source: Idem Table 10.

In Romania, the corporate debt versus gross operating surplus ratio followed a descending curve, from 166.2% in 1998 to 129.9% in 2006, and the debt / GDP ratio went down from 38.7% in 1998 to 34.6% in 2006 (Table no. 5).

In household debt, the comparison between Romania and various European countries reveals significant differences (Table no. 11).

Table no. 11: Households indebtness rate (as % of gross disposable income)

	1995	**2003**
Netherlands	120.0	200.7
United Kingdom	110.0	129.2
Portugal	63.0	111.3
Germany	92.0	104.5
Spain	50.0	92.4
Austria	63.0	75.1
Belgium	58.0	63.5
France	80.0	60.2
Italy	23.0	36.4
Romania*	2.1	8.7

Source: Bank of France, 'Conturile naționale financiare 1998-2007', BNR, Bucharest, 2009.
*Note: *-1998*

In 2005, the share of household loans in the gross disposable income grew to 15.2%, and in 2006 it stood at 22.7%. On the average, household loans versus gross disposable income ratio in the euro zone grew from some 72% in 2000 to 93% in 2007 (Figure no. 2).

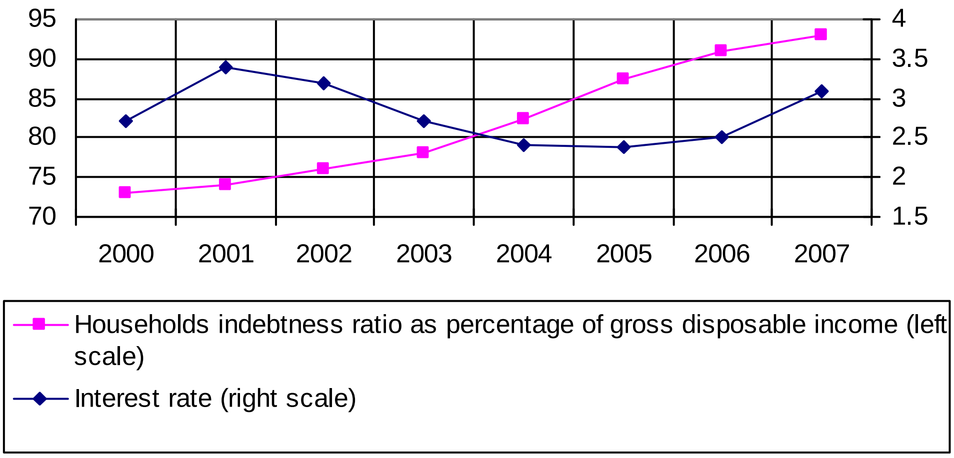

Figure no. 2: Households indebtness ratio (as percentage of gross disposable income) and interest rate in euro zone (%)

Source: Jöel Bourdin, Yvon Collin, 'Rapport d`information no. 342', Sénat France, 8 avril 2009.

These trends explain somehow the upsurge of consumer credit offers with which the banking sector tempted households in Romania in the period 2005 – 2008. The consumer's purchasing power was stimulated and captured through credits offered mostly to encourage the development of a market of imported goods generally tendered by hypermarkets. This process crippled, sometimes to annihilation, the Romanian manufacturers' effort to compete, with unequal arms: low pay for the workforce, and high productivity requirements.

The low salaries and high interest rate loans in Romania are the two levers that lead other foreign goods competitiveness against domestic production industries and exports.

Another indicator that sets different scores between Romania and other European countries is the per capita average debt: in 2004, in thousand Euros, this was 39.8 in Denmark, 32.8 in the Netherlands, 26.0 in the United Kingdom, 22.7 in Ireland, 19.7 in Sweden, 18.8 in Germany, 14.5 in Austria, 12.4 in Spain, 11.1 in France, 10.9 in Belgium, 10.3 in Portugal, 6.6 in Italy, 4.7 in Greece, and only 175 Euros in Romania; in 2008, the Euro equivalent of household debt as a capita average grew to 2,516 Euros.

At a first glance, this leaves the impression of a favourable trend in Romania, but when annual salaries are compared between Romania and other EU member states, the impression changes.

It is also worth remembering that interest rates in the Euro Zone has been a steady 2-3%, while in Romania the interest on Euro loans is at least twice as high, and on Lei loans is five times higher. Such rates are discriminatory for both corporate and individual clients, and force them into uncompetitiveness.

As a rule, when profits rate are higher than the interest rate, a corporate entity can borrow; the rule operates in the Euro Zone, where the 'norm' is around 15% for dividends or profit versus some 3% in interest rates.

It is not difficult to imagine what profitability a Romanian company should have to cope with the interest rates available to it in Romania, and it is a matter of common sense to see that equal treatment in respect of competitiveness and competition policies is just a beautiful theory.

The economic growth stimulated by inflating a country's debt after the creation of the Euro Zone triggered an increase of the money supply at a rate of 6-12% per year; concomitantly, marketable payment instruments (debt securities) grew in the Euro Zone by 15.7% in 2005, 54.5% in 2006 and 60.2% in 2007.

Financial markets 'inflate' the worth of the shares and of the capital, and salaries are traded on the stock exchange, which leads to the relocation of the manufacturing activities to other, low pay, countries, and to a 'recycling of profits' through financial engineering. This is how the price of labour and the price of capital, two decisive factors in any economy, are distorted.

Against expectations, the trade surplus of the low pay countries determines the deficit of their trading partners; and yet, there is nothing surprising about these tendencies. They should serve as lessons of business competence and knowledge, teaching people how certain economic theories and policies fail to stand the test of practice.

It is an established truth that when interest rates drop, the stocks exchange value and the market value of real property increase. In many countries these two values have been growing faster than the GDP.

This enables both households and corporations to borrow more, even though, physically speaking, the stock of properties and buildings stays the same. A house mortgage will in this way permit borrowings increasingly higher than the usual income.

Productivity, however, could not grow at a pace of more than 2 – 3% per year in the past few hundreds of years. Productivity is the result of knowledge and of rational choice, while the price of shares and the price of real property are the result of 'irrational exuberance'[2].

The annual growth rate of the price of lodgings (Table no. 12) has nothing to do with either the growth of the GDP, or with the curve of productivity or household income, so as the price of the shares seems to have no relation whatsoever to productivity, the GDP, or household income, salaries included.

Table no. 12: Annual growth rate for lodgings price (%)

Country	1981-1990	1991-2000	2001	2002	2003	2004	2005	2006	2007
Germany	-1.6	0.1	-1.9	-3.3	-2.0	-3.8	-2.0	-1.1	-0.6
Spain	6.6	1.3	6.5	12.8	16.3	14.9	10.9	6.3	3.8
France	7.1	0.1	6.0	6.2	9.3	12.5	13.2	10.1	6.8
Italy	1.6	0.2	6.0	6.6	7.1	7.6	5.2	4.4	3.9
Netherlands	-2.1	7.8	5.6	4.2	2.4	2.7	3.3	3.1	2.5
Finland	8.6	-1.8	-3.5	8.4	4.5	6.0	5.1	8.5	7.3
Denmark	-0.3	3.1	3.5	1.3	1.1	7.9	15.6	19.2	3.4
United Kingdom	6.8	1.1	6.9	14.6	14.5	10.3	3.5	3.8	8.3
USA	0.9	0.3	5.0	5.2	4.5	7.7	9.3	5.6	1.2

Source: Eurostat and OCDE data.

It has been calculated that, on medium and long term, some 3 to 5% of the price growth of lodgings reflects each year in an increased demand for all sorts of goods and services (consumer goods and services, luxury cars, refrigerators, holiday making, etc.).

Generally, deficit and debt are treated differently in countries backed by strong currencies. The deficit of the USA, for example, is other countries' surplus; the issue for the USA is not so much the size of its deficit, but how the other countries use their dollar surplus. If such surplus is invested in buying bills of exchange, bonds, shares, etc. in the USA, then the money comes back home.

The surplus realised by China and Japan have brought the exchange rate of their own currencies to a standstill, and have raised the value of the dollar. And this is how protectionism becomes, 'unwittingly' a global practice, not so much by trade policies but by foreign exchange rates.

[2] Alan Greenspan (2009): *Era turbulențelor*, Editura Publică, București.

Romania is far from commanding the necessary strength to join such global games, or at least not until it switches to the Euro Zone. Nevertheless, the current corporate and household debts may become a source of future gain for credit lenders.

If we only take the rise in the price of land as an example, further indebtedness seems to be a sure trend in the future. For example, the valuation of the market price of Romania's agricultural land amounted to some 5.4 bn Euros in 1999, to soar then to 13.2 bn Euros in 2005.

The worth of lands within city bounds followed a tenfold increase from 2.2 bn euros in 1999 to 20.6 bn euro in 2005. In the five years span of 2003-2008, according to estimations made by the Romanian Commercial Bank, the price of farm land has grown five more times, ranging now between 1,000 and 3,500 Euros per hectare.

Despite which, the price of farm land in Romania is still much below the price of farm land in Ireland (60,000 euro/hectare) or on the neighbouring countries (7,000-8,000 euro/hectare in the Ukraine and Serbia).

In consideration of the above, our view is that the real property market, even though temporarily frozen, may become an engine of economic growth, but also a future generator of instability. After accession to the Euro Zone, and with the gradual development of infrastructure, the land price differentials between Romania and other EU member states will no longer justify.

Generally, however, the surplus and the savings in the emerging countries are not consonant with the domestic power of investment and capitalisation, which is why the management of the developed countries' debts and of the surplus of the emerging economies is a challenge for the global financial system.

The global financial balance and the international financial market should not be an aim per se, they should be carefully structured in order to enable mankind to make the most of the Globe's resources.

For Romania, it is of capital importance for her citizens to know on what they are spending their money, because it is one thing to spend their money to finance imports and consumer credits, and another to spend it to develop, maintain, furnish a lodging, innovation to develop and manufacture new products.

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