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EFFECTS OF FINANCIAL CRISIS ON EUROPEAN STATES. THE CASE OF ROMANIA

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Abstract: *For now, the forecast growth in terms of Romania for 2012 remains 3.5%, but is likely to be revised down, IMF experts believe.*

Current domestic and international situation still remains, a difficult and requires high-order budget constraints. Add to these difficulties related to the need to adjust the budget deficit and current account values that make it possible to finance them.

In this context, the new Government will promote a coherent set of policies and macroeconomic adjustment measures, coupled with monetary policy, to ensure sustainable economic growth, maintaining the investment attractiveness of Romania, and a favorable business development, market employment and living standards. During the high economic growth, fiscal policy was expansionary type and is inadequate. Construction budget and execution for 2008 have encouraged unwarranted increase spending on goods and services at the expense of investment. Reduced administrative capacity has led to low absorption of structural funds.

All this has led to slippage of the objectives set by the convergence program.

Keywords: *financial crisis, economic, obstacles, weather,*

1. INTRODUCTION:

On November 26, 2008, the Commission adopted the Communication "A European Economic Recovery Plan" ("Recovery Plan") to act to exit Europe in the current financial crisis. Recovery Plan was based on two mutually reinforcing main elements. First, short-term measures to boost demand, save jobs and restore confidence and secondly, "smart investment" to yield higher growth and sustainable prosperity in the longer term.

In the current financial situation, Member States have been tempted to act individually and, especially, to start a competition of subsidies to support their companies. Experience shows that such individual actions can not be effective and could seriously affect the domestic market. When granting support, taking into full account the specific economic situation today, it is crucial to ensure a level playing field for European companies and to avoid a situation where Member States would start a competing grants, which would not be sustainable and would be detrimental to the Community. Competition policy has exactly that role.

2. EFFECTS OF FINANCIAL CRISIS ON EUROPEAN STATES.

In the 10 years of EMU, significant economic differences between Member States were masked and recedes by European leaders, but fully settled by people exposed to further austerity measures. Efficiency and sufficiency of the nominal convergence criteria set by the Maastricht Treaty, the main conditions for joining the euro zone, have been shaken by economic developments in recent years. Gaps between euro area countries have been placed in the spotlight of international crisis, which deepened the financial problems and macroeconomic imbalances in poorly performing countries.

Even now, European leaders acknowledge the existence of a partial economic and monetary union with two speeds, ignoring causes deepening gap between the core of the euro area and the periphery. European policymakers have finally understood the importance of resolving the causes of disparities and imbalances in the euro area and acted. Many will say enough, but they acted. Was built, finally a preventive mechanism to monitor and alert for the European states.

Alert mechanism is the main tool of analysis built a dashboard based on 10 macroeconomic indicators. They capture both external imbalances and competitiveness, and those internal guidelines setting thresholds that serve as warning levels. Any deviation from the range indicator set indicates high risk.

First Annual Report of the Commission on the alert mechanism was published in the February 14, 2012 and identified 12 member states of EU macroeconomic risks require thorough analysis: Belgium, Bulgaria, Cyprus, Denmark, Finland, France, Italy, United Kingdom, Slovenia , Spain, Sweden and Hungary. States receiving financial assistance program of the EU and the IMF - Romania, Greece, Ireland and Portugal - are already under an enhanced economic surveillance.

Scoreboard emphasizes the loss of competitiveness and the risk of imbalances in weaker European economies over the past decade. In Ireland, for example, housing prices have increased by 55% before the international crisis, signal overheating real estate sector. Private debt has doubled, reaching in 2010 highest in the EU, 341% of GDP, and wages have increased annually by at least 10% by 2009. Greece has high trade deficits and spent more than disposable incomes constantly missing ranges for exports and debt. Public debt increased to 104% of GDP in 2001 to 145% of GDP in 2010, standing now at over 160% of GDP. In addition, unemployment was around 10% since 2001. So precarious situation of the Greek economy is not known yesterday, today, but there were clear signals, but neglected throughout the past decade. Portugal has the same problems and with high trade deficits and high levels of private debt, as it ranks 3rd in EU, after Ireland and Cyprus.

Scoreboard and the evolution of strong economies. In the 10 years of Economic and Monetary Union, Austria has never achieved the public debt limit of 60% of GDP - which is the one of nominal convergence criteria. Instead, Germany has missed it in nine years, and France in eight years, emphasizing more conceptual than practical character of the Maastricht criteria, included in the Stability and Growth Pact. In addition, France has consistently failed criterion of export market share dynamics, losing ground to other countries every year since 2001.

3. EFFECTS OF FINANCIAL CRISIS ON EUROPEAN STATES. THE CASE OF ROMANIA

Beginning (pre) visible current financial crisis are still in 2007.

Specialists have started from a fall in U.S. housing market. But no one was able to show the time derivative imminent crisis.

Understanding springs that caused the financial crisis is still incomplete. Like derivatives, is already hard to identify source, to reach base and tangible arguments

can supports a theory which tends increasingly to the theory of relativity.

Now there are two basic manifestations of the crisis, visible in the U.S. and the West:

(1) assets "toxic" invested in but which are capable of producing income and
(2) liquidity crisis based, above all, confidence.

These two factors are sufficient to start a spiral in which an element is an obstacle to solving the other and can pull drift and others (being, from this point of view, things are almost unpredictable).

For Romania, the issue of "toxic assets" is less important but the liquidity problem has already been imported and is manifested clearly. And here the big problem, liquidity, is that increased interest and that there are problems with loans. The big problem in Romania are older: chronic external deficit. And lack of liquidity makes it just very difficult to finance. Romania is now a family situation, metaphorically speaking, that constantly and kept postponing debt to pay its debts, always turned to credit cards and now the credit limit is already reached, in this case, the family can not reach by credit card or can not receive money from another bank. The only solution is to make financial savings, otherwise it will go into default, with painful consequences.

Therefore, the main financial problem is the external deficit of Romania. This is the problem and the solution to saving or expenditure restraint can not be avoided, it is clear that spending restrictions ahead.

Government will try (which is already) to limit those expenses which immediately turns the application, and private companies, affected both by the lack of liquidity and the declining demand will try to turn a reduction in expenditures. In this way, family, already indebted and poor funding opportunities will be faced with real crisis, one different than the TV. But one aspect worth discussing is the measure adopted by central banks to cut interest rates near zero funding. This should solve the problem of funding, banks now having access to almost free money. Technically, it probably is, but basically, the psychological factor (you can read: disbelief) seems to play a blocking role. And this distrust will continue as long as the crisis mechanism is not clear and will not be public.

Analysis of the 10 indicators in the year 2011 shows that Romania has no internal macroeconomic imbalances, falling within the proposed economic parameters, but identified two potential external imbalances and competitiveness. The first is the current account deficit averaged over the past three years, of -4.1% of GDP, slightly below the range of variation of -4% to +6%. The second is the net investment position of -63% of GDP which puts us beyond the maximum number of 35% of GDP.

In this context, the alert mechanism of the imbalances that occur in the European economies is more than welcome. The existence of such a mechanism during the last decade we would be protected from loans and speculation puzzling brutal austerity measures and would be significantly reduced global crisis impact on European countries. The presence of this European mechanism alert, Romanians will be better protected from economic measures bad, populist politicians.

4. CONCLUSIONS:

About Romania, IMF representatives said they still maintain the 3.5% growth forecast for 2012, but representative for Romania and Bulgaria the IMF, Tony Lybeck,

warned that in any revision of the agreement that we have completed IMF and European Commission are reviewed and the economic forecasts and that most likely they will be revised down.
Financial crisis are felt strongly in developed European countries, already faced with significant slowdown of global economic growth or even recession.

The main effects of financial and economic crisis currently facing Romania are:

• reduce liquidity in the banking sector, while increasing internal and external financing costs;

• access to credit crunch the population, economic agents and public sector;

• increasing the number of persons unable to repay bank loans and interest rates;

• lower domestic production with negative effects on wages, keeping the number of jobs and the profitability of companies;

• lower rate of growth in government revenue caused by the decrease in general activity in the economy (automotive, steel, nonferrous metals, construction, furniture, textiles, etc..)

• loss of purchasing power and quality of life;

• slowing GDP growth.

Effects of the crisis occurred and strong general government revenues, by reducing them even amid economic growth. General government deficit estimated for this year will be over 3.5% of GDP, with negative implications on the macroeconomic balance, especially the current account deficit, which remains at high - around 13% of GDP . The public deficit is above limits set by the Maastricht Treaty (3% of GDP).

The crisis will end, according to European Commission representatives that only when all European countries will implement macroeconomic and structural policies right after they start to show the fruits. Items as labor market flexibility, market more competitive, more educated workforce and more effective institutions can help restore sustainable economic growth, says Bas Bakker, one of the IMF report on economic developments in European countries. "One of the lessons we learned from the past is the difference they can make policies even if financial markets are sometimes pessimistic, a good combination of economic policies can make a difference. Our current forecast is that it will reduce economic growth in Europe from 4.4% to 3.4% in 2012. This is a slow, true, but not a disaster. Of course there are risks and it is possible for growth to be even lower, but the correct economic policies We believe that these risks can be controlled, "said Bas Bakker.

The collapse of government in Romania increased uncertainty, threatening the reforms and may therefore negatively impact the country's financing capacity, according to credit rating agency Moody's (note signed by analyst Atsi Sheth). "Although the new government announced that continued support from the IMF / World Bank / EU is a priority, the rhetoric of the past and unpopularity of austerity measures reduce the likelihood that the government in Romania to continue reforms before elections. Blocking reforms would worsen conditions obtaining loans by the government, which must refinance the 2012 debt of 13 billion dollars, "according to Moody's (Moody's is a rating agency, and one of the major rating agencies who kept Romania in the category of rating recommended investments throughout the financial crisis).

The political situation affecting financial soundness of Romania by three factors.
The first of these is the reduced likelihood of implementation of structural reforms that would boost GDP growth to 1.9% located in the fourth quarter of last year compared to annual average of 6.6% recorded in the five years preceding the crisis financial crisis. Moody's expects GDP growth to continue to slow in the first half of this year, due to difficult economic conditions on domestic and regional market.

The second factor is the increasing probability that some fiscal consolidation measures implemented in the last three years, as tax increases, pay cuts and benefit increases to be reversed before the election. Any reversal of fiscal consolidation measures

would delay reducing the budget deficit to 5.2% of GDP in 2011 to 3% in 2015, in accordance with the Maastricht criteria.

The third negative factor mentioned by Moody's political instability is likely to continue to discourage foreign investment, which depends Romania to finance the current account deficit (of about 4.7% of GDP in 2011) and the budget deficit.

Immediately after the fall of Ungureanu, analyst Atsi Sheth told AFP that Romania's rating stable outlook already includes political uncertainties will persist during the election, and any government, new or interim, will make the effort to maintain support from the IMF and EU. Sheth noted that the baseline then considered the rating agency, even before the vote of no confidence in Parliament, was that this year will be difficult fiscal consolidation, the impacts of economic contraction in the euro area on exports Romania and investment perspective.

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