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Economic Crisis Perspective between Current and Forecast*

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Abstract. *Almost every field of human activity there are concerns about disruptions that may occur within it and, therefore, investigates the causes, mode of occurrence and manifestations of their consequences. Crises are such failures. They have major implications in everyday life people, with unintended consequences almost always follow.*

Keywords: financial crisis; economic growth; macroeconomic analysis; global impact; the labor market.

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1. Introduction

Crises have characterized financial markets, both in times of economic integration and disintegration in the economy. Crises create inequalities and financial transfers between different social groups. Thus, participants receive important financial sector's privileged capital gains and small losses incur true.

Crises that affected several economies, most of them emerging during the past two decades, led to the emergence of different models, some of them ex post attempt to capture the causes of crises, without having a high degree of effectiveness in preventing future crises. . However, they are a starting point in building approach aimed at anticipating crises. Crises have the same effect on all classes of people and this despite the negative overall impact. Crises affect particularly disadvantaged by negative shocks to income and employment level of employment, rising inflation, relative price changes and reducing public expenditure.

2. Impact of crisis on the economies of the European Union

As parts of the economies of the European Union are interconnected and trade exchanges between them are strong effects of the crisis have spread extremely rapidly in all these economies.

The financial crisis has hit various Member States with a different degree. Ireland, the Baltics, Hungary and Germany are likely to present this year clearly exceed the EU average contractions of -4%. In contrast, Bulgaria, Poland, Greece, Cyprus and Malta seem to be less affected than most.

The level at which the financial crisis has affected individual EU Member States depends largely on their original state and associated vulnerabilities.

In the current crisis GDP growth and private components of domestic demand (household consumption, residential investment and business fixed investment) have fallen more quickly than in previous crises[(1)].

A first vector that causes the phenomenon of crisis is the level at which the real estate market was overvalued and oversized construction industry. Strong increases in real housing prices have been observed over the past decade, the United Kingdom, France, Ireland, Spain and the Baltic countries, and in some cases this was associated with buoyant construction activity – with the glaring exception of the United Kingdom where prevailing zoning laws ruin. What was projected contraction in GDP – around -4.5% – is far below the crisis in history.

Export dependence and the current economy is one of the first steps that led to the outbreak of the global economic meltdown. Countries that export demand was high and/or accounts recorded surpluses are more exposed to lower global trade (e.g. Germany, Netherlands and Austria). Countries that have large surpluses may also be exposed to adverse effects and correction, balance, in terms of financial assets markets. In contrast, countries that have large deficits could run the risk of capital flow reversals. Some Member States from Central and Eastern Europe are in this category. In some of these cases, the sudden stop of foreign financing forced EU governments to seek assistance, the IMF and World Bank for the balance of payments.

Major failures in the financial sector have been determined by the size of this sector and its exposure to risky assets. Countries that have large financial centers such as Great Britain, Ireland and Luxembourg, are obviously exposed to financial turmoil. In contrast, countries that are based across the border banking activities in emerging economies in Central and Eastern Europe may be more severely affected. European banks' exposure to emerging market risk is higher in some countries (notably Austria, Belgium and Sweden – the last being the most exposed Baltic economies).

Pre-crisis projects have provided a potential slowdown of the European Union at 2% per annum in the next decade, to just over 1% from 2020 on, due to aging. This slowdown is perceived as needing an overall adjustment of the balance of fiscal positions, as has been included in the Stability and Growth Pact – the set of tax rules that EU members have committed.

However, it is difficult to imagine that this crisis would have an impact on long-term potential growth rate in the immediate future, before appearing aging. Financial crises reduce investment opportunities because it is expected that demand will be low, the real cost of higher loan and credit will be granted very slowly. In addition, rising unemployment may prove to be structural, because they can be difficult workers to return to the labor market as the lead industrial organization, not least because wages are falling.

A range of industries, including financial sector and construction industries and machinery, will "right size" in the disproportionate expansion of credit fuel the frenzy. Moreover, productivity growth may be affected by the crisis; however the net impact is ambiguous. Development R & D activity is pro-cyclical, so innovation may be uncertain. But, on the one hand, since large chunks of capital stock may become obsolete, the less efficient parts disappear, and this can have a positive impact on productivity.

Fiscal costs of financial crisis are enormous deterioration of public finances is happening now. The decline in growth potential due to the crisis may add further pressure on public finances. In general countries that have sound fiscal positions to the onset of the crisis may be about 3% of GDP or even less this year and next.

The growing deficit, rising two floors of the GDP, will appear in Latvia, Great Britain, Ireland and Spain. UK and Ireland are important financial centers.

Major problem is the rapidly increasing public debt. Increasing public duty, nearly 20% of GDP by the end of 2007 until the end of 2010 is typical for an episode of financial turmoil(2).

Like other sectors and the labor market in the European Union began to deteriorate considerably in the second half of 2008 continued during the years 2009 and 2010.

Increased internal flexibility (flexibility of oral arrangements, liquidation time, etc.) overlapped with nominal wage concessions to the stability of employment in some firms and industries.

Apparently they failed to prevent even greater losses probably only delaying labor. Even so, the unemployment rate in the European Union rose more than two percentage points and one percentage increase is possible in the next quarter.

According to a survey by the European Commission by the end of 2010 the unemployment rate will increase by 11% (11.5% in the euro area).

Until the financial crisis began in summer 2007 in the EU labor market performed relatively well. The employment rate of almost 68% of the workforce is approaching 70% target set in Lisbon thanks to significant employment rate of women and older people. Significant decline in the rate of non-partisanship has led to an acceleration of inflation. These improvements were driven reforms to increase labor market flexibility and increase the potential for additional work. Important is that in many countries, increasing labor market flexibility has been achieved even easier access to non-standard forms of employment(3).

Labor markets in the European Union began to falter in the second half of 2008, worsening during 2009. In the second quarter of 2009 unemployment rate increased by 2.2 percentage points from 6.7% a year earlier. The biggest problems of unemployment were recorded in the Baltic States, Ireland and Spain.

All progress in 2005 was unsuccessful when he got unemployment rate decreased from 9% and in 2005 a year all work has been lost.

The European Commission's report is expected to increase the unemployment rate to 11.5% in the "euro zero" in 2010.

Once you have created 9.5 million jobs in the European Union in 2006-2008, according to the European Commission between 2009-2010 employments fell to 8.5 million. The European Union Commission Women are less affected than men, the crisis hitting the first areas where employees were mostly men, automotive and construction.

Increases in unemployment sector were affected by a contraction in employment falling by 0.3% in the last quarter of 2008 and 0.5% in the first quarter of 2009. This may be due to the effect of discouraging employees.

Global crisis makes its impact felt on the Romanian economy and the new concern of analysts is not whether our country will be affected by the crisis, but when and how it will reach its peak in our country.

Deterioration of macroeconomic indicators, such as current account deficit, inflation and worsening the country's rating outlook led investors to lower interest for the Romanian financial market. Investor interest in the Romanian market declined due to decline in basic macroeconomic indicators.

Macroeconomic Analysis shows that the Romanian economy's evolution in the fourth quarter 2008, global economic crisis began to unfold in Romania(4).

Thus, in the 4th quarter of 2009 Romania's GDP declined sharply by 7.1% compared to 3rd quarter of 2008. IMF forecasts a growth of 0.5% of GDP in 2010, is a more conservative estimate of between -1% and +1%.

Industrial production decreased 1.6% in November 2009 after a return of 3.5% in October; this volatility is present throughout the whole year 2009. Agriculture has decreased by 11.82% in Q3 2009 to Q3 2008. Construction sector has been considered by the engine of economic growth in 2008, rose by 2.9% in November 2009 after a significant decrease of about 4% between July and October(5).

Romania's balance of payments deficit was reduced by 68.7% in 2009, following the strong reduction of the imbalance of trade and income balance deficit. As mentioned on the release of the central bank a decisive influence to reduce the current account balance had a trade deficit, which decreased by 64.7% compared to 2008. Current account deficit and trade balance so steep rise to effects such as declining tax revenues and increased unemployment. In November 2009 the foreign direct investment covered 81.6% of current account deficit even though it fell by about 45% over the same period of 2008.

In the first quarter of 2010 an annual inflation rate fell by 0.54 percentage points to 4.20%, falling within the range of ± 1 percentage point inflation target properly. With persistent contraction of consumer demand, good supply of food supply and the national currency's appreciation against the euro, deflation was seen both in the volatile prices and the inflation-adjusted basis(6).

The disinflation process has produced an adverse effect on unemployment, unemployment rate increased by 77% from 4.4% at the end of 2008 to 7.8% in December 2009. In Q1 of 2010 the unemployment rate rose only 0.2 percentage points from the previous year end.

3. Slowing global economic growth

Global economic growth has been achieved in the last decade of the following countries: Brazil, Russia, India, China and the US not least, an important contribution. However, a weak financial system in coming years removed from the US among countries that have adopted economic growth, remained the hope that other countries could restore economic disaster. Contrary to the countries mentioned above but the economy slows as a result of the crisis felt by consumers.

Such loans in Russia that supported the needs of consumers have been reduced.

In India, the employment offered by the subsidiaries of Western financial companies has begun to decline.

In China, property prices decrease consumers to alert them to reflect a longer time on possible acquisitions.

In Brazil, for example, export prices of raw materials have reported a significant decrease.

Unlike growth in European Union countries, growth in Brazil, Russia, India and China are going much faster.

Slowing global economic growth has changed the ranking of the largest economic powers on the basis of GDP expressed in dollars, and the recession has propelled China into the second position in the world now in 2010 at the expense of Germany and Japan.

US retains its leadership position in terms of Gross Domestic Product with a turnover of 14.334 billion US dollars in 2008, $ 14,571,000,000 in 2009 to $ 13,808,000,000 in 2007.

Britain has fallen in the rankings of the largest economic power, due to recession and massive depreciation of the pound sterling against the euro.

Japan has maintained second position in the world in 2009 with GDP estimated at $ 4,803,000,000 to $ 4,844,000,000 in 2008. In 2007 GDP was $ 4,382,000,000.

In 2010 Japan was overtaken by China became the second economic power in the world.

Brazil is ranked 10 in the world in 2007, rising one position per year, one in 2008 and another in 2009.

According to statistics, economic crises and the effects can be truly tragic. Some examples could be the increased number of suicides, murders and fatal heart attacks, according to a study from a European publication appeared in “The Lancet”.

Each increase in the unemployment rate by 1% leads to a possible increased approximately 0.7% of suicides among the elderly.

But in some cases crisis may have positive effects, because people drive cars less, and decreases the number of road accidents resulting in deaths, with 1.39%.

Another positive effect of the current crisis is to reduce pollution in major cities around the world by burning fewer emissions. Lower real estate prices: the boom of the last three years on the housing market turned Romania into one of the most expensive markets in Central and Eastern European region. The crisis ended this "bubble", bringing housing prices down to earth.

Increased interest on deposits: "We'll meet soon too real positive interest rates on bank deposits". Currently, bank interest reached values very attractive to those who have cash, "said Mihail Ion, President of the investment management company Raiffeisen Asset Management. Banks have enough to pay interest over 20% for those with substantial amounts in lei they want to "store" them.

In this time of crisis you can buy a company with 500,000 Euros on the stock exchange crisis of the Bucharest Stock Exchange has made more accessible to small investors. Stock prices fell as much as 500,000 Euros would be enough for an investor to buy the smallest company on the stock market, Energopetrol Câmpina (ENP), which performs construction-assembly and installation. With the same money, an investor could buy the stake from the manufacturer of enamel pots Ves Sighişoara (VESY), recently promoted to RASDAQ market share.

The market is full of bargains and cheap assets: for companies interested in strengthening market position through the acquisition of players, the crisis has generated one of the most favorable contexts. Now companies can buy assets at prices which two years ago did not dream.

The crisis has taught us how important self-control, confidence and simple things. Witness the history making moments because we lived in 2009 and in 2010 we live in a few years you will find in history books.

4. Forecast for next period

Optimistic forecast before the deepening economic crisis show that over the next two years, it is expected that GDP growth will gradually switch to positive, with increased trade and manufacturing production. After stopping the recession this year, for which there is an almost zero growth (0.1%) in 2011 it is expected to revive economic activity, and on this basis, the gross domestic product growth of 2.4%. These rates take into account the assumption that the economic environment will improve and international financial market will stabilize, and incentives will encourage investment and private consumption.

In this context, it is necessary to a positive domestic demand (a decrease of 0.5% in 2010 followed by an increase of 2.3% in 2011), with the relaxation of lending and investment supported by resumption of investment. As good as the materialization of such a scenario depends on the capacity to absorb structural funds for Romania, which should have the effect of training in particular with regard to private investment. Therefore, gross fixed capital formation could be related to the levels in 2009 will have a reduction of only 0.5%. For 2011, amid positive developments in the area of savings and credit and the recovery of domestic demand is a positive investment return of the propensity for such developments would contribute to the recovery of gross fixed capital formation, which in turn could increase 3.5%.

The positive developments will lead to labor market orientation to a new equilibrium, with positive implications in terms of increased productivity and incomes of the population according to these developments. It is therefore apparent upward a new line of private consumption in 2010, given that for 2010 was expected to continue its tightening trend, but with a lower rate than in previous years, about 0.6%. It is expected that government consumption will continue to increase, with rates of 0.1% by the end of this year and 1.2% in 2011.

Foreign trade in goods and services was one of the areas where the private sector adjustment, especially in financial and economic crisis, was a remarkable. Amid global economic revival and European, positive contribution to GDP recorded in 2009 (2.6%) was reduced from 0.6% in 2010 because 2011 is expected to be slightly negative (-0.1 %).

It is expected that by the end of this year and the year 2011 to accelerate the investment process, as the share of gross fixed capital formation in GDP to reach the level of 31.4% of GDP, similar to that of 2008. Budget sector adjustment aims to achieve fiscal consolidation and continuation of coverage as large external financing needs through foreign direct investments, which are expected to arrive in 2011 to 3.8% of GDP. One of the sources of financing for investment (gross fixed capital formation) will become domestic saving. Domestic savings will cover a greater proportion of the planned investments will grow from 60% in 2008 to 82% in 2011. In addition, it is expected to increase financing of investments by foreign transfers, including European funds, it will cause an annual reduction in borrowing from external sources to 1.1% of GDP.

Assuming this year to stop the recession and global economic recovery in 2011, exports of goods are expected to grow by 5.5% and imports by 2.8% in 2011 as they will be increased by 6.2% and 4.8%. Thus, the trade deficit will decrease by 4.3% this year but will increase slightly in 2011. For intra-EU exports are expected to increase by 3.5% below average by the end of the year and 3.7% in 2011, and intra-EU imports of goods will increase by 0.4% and 2.5 %. The level of current account deficit will remain at a value between 9 and 10 billion Euros, with its share in GDP of 6.5% in 2010 and 6.3% in 2011.

In these two years, the current transfers balance will experience stabilization at around 5.5 billion Euros, however, helping to mitigate the negative impact of trade balance and income balance deficit on current account. For 2011 it is expected to attract foreign investment worth 5.6 billion Euros. Finance the external deficit will be achieved in a significant proportion, reaching the end of 2011 to 80%. As the level of foreign investment will be steady, it is expected a decreasing trend in the coverage ratio of foreign direct investment while the deficit with substantial increase in the contribution of capital transfers mainly due to the assimilation of the European Union funds.

With the return of economic growth on a slope upward for 2011 are expected population increases by 0.6% and 1%, which makes it possible to improve the employment rate.

In 2011 the gradual reduction of administered price increases, wage policy and the continuation of structural reforms will maintain the disinflation process on a sustainable path. Thus, the inflation rate will fall gradually to the level of 3.2% in 2011.

For prices of industrial production, also foresees a gradual reduction of these to a level of 7%, the annual average in 2011.

In terms of wages following the draft law assumed by the Government it is assumed that the ratio between the minimum basic wage economy and maximum basic salary of staff paid from public funds will increase, the proportion of GDP projected expenditure of public sector staff are will reduce to 7% by 2015 compared to 9.4% as it is today, and the average wage in the period 2010-2015 will be 56% of basic salary as the main element of earning and is accomplished through the inclusion the basic salary bonuses of a general nature, so their share in total earnings not to exceed 30%[(7)].

Given that the current economic situation of Romania, forecasts changes from day to day, depending on the changes that the Government takes. From early 2010 until the present crisis measures aimed to: reduce salaries by 25%, decreased the number of public sector employees, reduce pensions by 15%, the government is directing to increase value added tax from 19% 24% to ensure the functioning of the Agreement of 20 billion International Monetary Fund, allowing Romania to fall in the deficit target of 6.8%.

Many economists believe that the decrease in pensions and wages will reduce GDP between 1.5% and 3% this year. A reduced earnings by 25% leads to a situation where between 60% and 70% of working families with a member state will not be able to cover current consumption needs compared to 25% in the previous period.

With regard to the VAT increase, as in the other cases of discounts the effects are multiple but we are talking mainly to a decrease in consumption, production staff and therefore lead to rising unemployment and increasing consumer prices. This increase in prices (4.2% believe some economists) leads to lower purchasing power of people, so ultimately to higher inflation. Specialists consider that the inflation will increase at a rate of 10%. It was an economic contraction this year.

Conclusions

Humanity is facing a period of increased financial uncertainty. The financial crisis has had an impact on the global economy, edited and produced economic indicators in the economic and financial instability. In addition, the financial crisis changed the ranking of the largest economies in the world according to GDP expressed in dollars.

Initially we looked to the United States of America's compassion on them. The next time the crisis has reached Europe, and many scholars and politicians were wrong forecasting that Romania will not be affected. Companies must understand that the past era of massive consumption and must refocus its business.

The financial crisis has brought waves of bankruptcies, stressed financial jam, blocking investments. Companies must shift their production and to relocate business relationships.

The thing is now the world needs is a rescue operation. To do this, government policy makers worldwide must make moving the credit to stimulate spending.

This task, putting into motion of credit is a very difficult task, but must be met as soon as possible.

After you turn on credit, will be strong need to reform the system so that such crises do not happen again.

Notes

(1) European Commission, Economic Crisis in Europe: Causes, Consequences and responses, 2009.
(2) European Commission, Economic Crisis in Europe: Causes, Consequences and responses, 2009.
(3) European Commission, Economic Crisis in Europe: Causes, Consequences and responses, 2009.
(4) Financial Stability Report, 2009, www.bnro.ro.
(5) Ministry of Finance, Report on the macroeconomic situation in 2009 and projection for 2010-2012, www.cdep.ro**.**
(6) Inflation Report, the central bank, in May 2010, www.bnro.ro.
(7) Source: National Commission for Prognosis.

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