DEVELOPMENTS AND TRENDS IN ROMANIA'S ECONOMIC ENVIROMENT IN THE CONTEXT OF THE ECONOMIC AND FINANCIAL CRISIS

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The economic crisis has only just begun and nobody knows when it will end. History teaches us that any crisis, no matter how hard it may be, comes and goes. After the crisis, the economic life will resume its course. After the crisis will end, history will not be called back without paying a heavy price for it.

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"The biggest economic crisis since the Great Depression is not a natural phenomenon but a man-made disaster in which all play a role"
The Guardian, 29 January 2009

Even if the financial crisis wave has strongly spread in the Romanian economy and, therefore in the public sector, there is the necessary optimism of the governmental administration in order to avoid massive macroeconomic slippages.

The consistent measures imposed by monetary and fiscal policies, the reform of the public system with implications in improving the performance of budgetary spending, massive investments in infrastructure and, not least, investments in social protection and human development are the tools that can generate the attenuation of the damage caused by the financial crisis.

However, there are many voices who claim that this crisis will be a prolonged one, and their position seem to follow consistently a quite pessimistic scenario for the future of Romanian economic conditions.

Questions that have an uncertain answer, about how long will the crisis last and, especially how quickly can we get out of the crisis, seem to grind

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Romanian managers' confidence in the sustainable development of the Romanian economy. In this context, the present and future represent one of the managers' biggest challenges, being more than necessary to resize, at all levels, the management conception, both in private and public sectors. In the changing economic global architecture, but also national, we believe that a successful management of the economic and financial activity will become a key factor in accomplishing the set objectives and missions assigned to military entities. After a brief introduction concerning the emergence and effects of this phenomenon of global financial crisis, we will move on to the presentation, first at macroecomic level (GDP, inflation, industry, direct foreign investments, current account deficit, etc), but we will also say a few words about the impact at the microeconomic level, about how the life of each of us will be affected.

One of the basic conditions of strengthening market economy, is a fiscal system and a well-formed budget, in which fiscal and budgetary policies have an important role on the amplification of certain categories of commercial relations, stimulation and facilitation of economic activity, attracting foreign investments, all these being possible by changing tax rates, establishing a tax system appropriate to the requirements.

Our concern for the study of fiscal policy and state budget was due to the importance that a government must provide to these intervention tools. We believe that taxation is one of the most dynamic phenomena on the market economy, by which the public authority establishes not only the coordinates of the settlement, collection and taxes control, but more or less use them as a tool for management.

The development of fiscal policy is a very complex decision act based on efficiency, meaning the need for greater efficiency of it. It must ensure conscripting larger revenue, in the conditions of encouraging economic businesses, while promoting equity in contribution for each income, guaranteeing social protection.

At present, Romania's economy is not stable, taxes serve as a fiscal instrument. As the economy stabilizes, they must depart from this role and to perform the function of stimulation tool for economy, by supporting some of its branches, but not their maintenance.

Following the financial crisis, budget revisions and regulation of certain financial and fiscal measures, have made the budget of the Ministry of Defence to decrease year after year. The Minister board examined the effects of adjustments and, in the conditions of austerity budgets, had disposed rearranging or canceling some activities, to reduce costs and subsume in the adjusted budgets. In the Ministry of National Defence, allocation of financial resources is dependent on achieving the fundamental objective concerning the continuation of changing process for the military body to obtain a modern force structure, completely professionalized, deployable and sustainable, met with the capability to act in a wide range of missions, both on national territory and outside of it. At the same time, the national defence policy is influenced by the dual quality of Romania's membership of NATO and the European Union, national processes are harmonized with the strategic concepts regulations of the two organizations.

Thus, according to most experts, the international financial crisis, which led to very serious problems some of the strongest financial institutions in the world, was reflected on Romania indirectly by limiting capital flows, reducing investor risk appetite and the macroeconomic and microeconomic indicators to be treated briefly below.

Current account deficit (output-input of currency), while declining as a share of GDP (from 14% to 13%) will continue to fall well above the generally accepted 5-6% of GDP. Now, this deficit is financed at a rate of 60-65% of foreign investment plus the 6 -7 billions sent to Romania by Romanians working abroad. Given that approximately 70% of foreign trade is conducted with EU countries, the crisis is expected to lead to slower growth of imports and exports (with a slight advantage for exports to the effect that growth will be higher for exports) but it remains to be seen how foreign investments will grow and how much money will send home those working abroad (mostly workers are in Spain, and this is an EU member country most affected by the crisis). The current account deficit continued to decline in the first six months of 2012, reaching 2.4 billion euros, 29.4% less than the same period of 2011, according to data published by the National Bank of Romania. The main reasons of low income deficit are deficit reduction (difference of 525 million), increased transfer payments surplus (224 million) and the balance of services (218 million). The trade deficit is the one who pulls up the most current account deficit, imports of goods exceeded exports in the first half of 2012 to 3.5 billion euros. On the other hand, current transfers, mainly derived from Romanians working abroad, had a surplus of 1.6 billion euros.

Foreign direct investment: once, in 2008, foreign direct investments in Romania amount was 9.49 billion euros, while in 2009 they have reached nearly half, i.e. from 4.89 billion euros, the downward trend continued the first seven months of 2010.

Therefore, according to the National Bank of Romania (BNR) from January to July 2010, the amount of direct foreign investment amounted to 1.90 billion euros, down 35.8% compared to same period in 2009. Nonresidents direct investments in Romania have financed at a rate of 50.3% current account deficit, the first seven months of this year, which amounted to 3.79 billion euros. National Bank has revised downward FDI in 2011 to 100 million euros, 1.8 billion. This is the lowest value since 2002. External crisis and falling competitiveness of the Romanian economy have decreased interest shown by foreign investors in Romania. Initially, the central bank announced that foreign investment in 2011 were 1.9 billion, but the figure was revised down to 1.8 billion. The first four countries investing most in Romania, by the share of total FDI stock at December 31, 2011, in the Netherlands (21.7%), Austria (17.5%), Germany (11.4%) and France (9.1%), hierarchy unchanged from 2009. The economic sectors, the largest share of FDI in 2011 was recorded in industry (44.4%). Mining and quarrying accounted for 5% of FDI and manufacturing investment attracted 31.5% of foreign direct investment. In addition to industry activities have attracted more foreign direct investment are financial intermediation and insurance (representing 18.2% of total FDI), retail and wholesale (11.4%), construction and real estate (10.7 %) and information technology and communications (5.4%).

Public debt: in September 2010, Romania's public debt increased by 3.3% compared to August 2010, reaching 185, 28 billion RON, representing 36.22% of GDP.Therefore, the public debt advanced, in the first nine months with 25.7%, most of it of 93.9% being governmental and only 6.09% belonging to local authorities. At the end of September 2010, the debt in RON represented 44.5% from the total, down 3% compared with December 2009, while the share of loans in euros increased from 41.11% to 43.85%.

Romania had in the first quarter of 2012, the fourth lowest public debt as a percentage of GDP, between Member States of the European Union (EU).

In the first three months of the year, our country's debt rose to 211.32 billion USD, accounting for 36.3% of GDP. Compared to the first quarter of 2011, Romania's public debt was 164.08 billion lei (30.8% of GDP), and in the last quarter of last year to 192.85 billion lei (33.3%).

Inflation and exchange rates: although in November 2010 to October 2010, the annual rate of inflation in our country has fallen from 7.9% to 7.7%, Romania recorded for the fourth consecutive month, the highest inflation rate in the European Union (EU), according to Eurostat. On top of the highest rates of annual inflation in the EU, Romania is followed by Estonia (5%) and Greece (4.8%). In contrast there were Ireland (-0.8%), Slovakia (1.0%) and Netherlands (1.4%). In Bulgaria and Hungary, inflation was 4.0% in November 2010. In the EU last month, the annual inflation rate remained stable at 2.3%.

Romania had the second largest annual inflation rate in the EU, being surpassed only by Hungary, says the European Statistics Office data

(Eurostat). In October 2012, the annual inflation rate decreased compared with September 2012, the European Union and the euro area. At EU level, the annual inflation rate registered a slight decline last month, up 2.6% compared to 2.7% in September. A slight decrease was registered for the euro area, where annual inflation rate fell to 2.5% in October from 2.6% in September. Countries with the highest inflation rate was Hungary (6.0%), Romania (5.0%) and Estonia (4.2%). At the opposite end, Greece (0.9%), Sweden (1.2%) and Latvia (1.6%). According to data from the National Statistics Institute (INS), the annual inflation rate rose to 5.33% in September 2012 from 3.88% level recorded in the previous month.

Unemployment fell to 6.9% in the second quarter, from 7.6% in the previous quarter and from 7.2% in the corresponding quarter of the previous year, according to the National Institute of Statistics. In the second quarter of 2012, the employment rate of working age population (15-64 years) was 60%, while the population aged 20-64 years the employment rate was 64.3%, below the target 70% established national context of Europe 2020. The unemployment rate fell to 7% in late august 2012 and the number of unemployed persons was 694,000.

Unemployment: according to the Agency for Employment (AMOFM) Bucharest, the capital unemployment rate rose to 3% at the end of September from 2.8%, which was recorded on 31 August 2010. In September 2010 the total number of unemployed enlisted on AMOFM records increased by 586 up to 32,442 of which 16,384 is women.

The total number of unemployed fell in late October compared to September, with 24,794, reaching 645,794, according AMOFM. Thus, in October 2010, registered unemployment rate nationwide was 7.08% with 0.27% less than in September and 0.02% decrease from that recorded in October 2009. The highest levels of unemployment have been achieved in the counties of Vaslui (11.56%), Mehedinti (10.96%) and Teleorman (10.59%). In contrast, the first position is occupied by the city of Bucharest, with an unemployment rate of 2.69%.

Real estate and retail sector

Until 2007 inclusive, Romania that was an El Dorado in terms of housing, and this crisis will bring for the first time in the last 10 years, a relocation of the market. Speculators, who until now have dominated the transactions, will exit the market and leave the place to powerful real estate developers who will accept a lower profit rate (15-20%) in exchange for remaining in the market.

Old apartment prices will fall (on average, the price will not pass 900-1000/m2 €) the price of new apartments will stagnate or reduce thinly than (we will not see significant price drop considering the increasingly price in raw material and labor, but manufacturers who will increase the quality while keeping prices unchanged). The reason real estate prices will not drop significantly, is because of the high demand, demand that, although now largely insolvent, will continue to support these high prices. At this point, even taking into account price drop in recent months, the apartments (both new and old) are still extremely expensive and the views that we are dealing with a real estate bubble that will burst next year may have a certain dose of credibility.

In Western Europe and the U.S., there are two basic indicators, on which is valued real estate market: the first is related to the number of average salary that an employee needs to buy a house and the number considered the optimum is between 180 and Wages 220 (15-18 years of work) - in Romania this figure exceeds 400 salaries (i.e. 30-35 years). The second indicator is the ratio of property value and rent that may be charged if the property is leased. In the U.S., the monthly rent is about 1% of the value of real estate, in Romania it does not exceed 0.5% which means that either rents are too low or too high real estate prices.

The real estate market is in deadlock, as a result of differences between the budgets of buyers and prices charged by owners which increases from the beginning of 2012, 10% - 15%. While waiting for customers while significantly cheaper housing, more and more owners are hoping to get money from the sale of immovable property fabulous blocks from the '70s - '80s, which led to a housing price increase on average by about 10% - 15% from the first half of the year, "it said in a statement the company

The construction sector: in October 2010 compared with September 2010, construction works volume lowered 0.8%, the decrease was registered in first ten months reaching 15.1% according to the National Statistics Institute (INS). Based on the construction objects, the volume of construction fell to residential and non-residential buildings, 9.4% and 16.9%, but increased by 8.9% for civil engineering. Compared to the same month of 2009, the volume of construction works had a decline of 7.4%.

Romania occupied in July 2010, first place in a top construction downturn in the EU, according to the European statistical office Eurostat. If the U.E. Construction output decreased by 2.5% while the decline in the euro area was 3.1%, our country has registered a 28.3% decrease compared with June 2010, being followed at a great distance, the Spain (-10.3%) and Slovenia (-3.2%). In contrast, the highest increases were registered in Portugal (5.0%), Britain (4.4%) and Slovakia (2%). Compared with same period last year, construction activity fell by 24.9% in our country.

Due to the financial crisis and the construction sector for the period 2011-2012 was affected.

Car industry: the crisis hit hard the local auto market. Thus in the first ten months of 2010, new car registrations fell by 26.6% to 70,629 from 96,217, which was recorded in the same period in 2009, according to data published by the Department for Driving Licenses and Registration Certificates Vehicles (DRPCIV). However, in October 2010, the number of new cars entered in circulation increased by 9.4% to 8281 compared to the same month last year. Undisputed leader of the local car market was in the first ten months, Dacia, with 23,292 units sold, down 23.6% from the same period in 2009.

On following places were located Skoda, Volkswagen and Renault who had respectively 6187 (-16.9%), 5962 (-27.3%) and 5899 (-22.5%) of cars. Czech Skoda car manufacturer announced that in September, it sold 75,790 cars, a historical record of its monthly sales. In total, Skoda sold worldwide in the first nine months of this year, nearly 570,000 cars, up 13% from the same period in 2009. The best sales performance since its establishment comes amid strengthening positions in the Asian car market in 2010 constructor Czech managed to sell in China, 134,470 cars. Note that despite the crisis, last year Skoda had also increased sales by 1.4%, thanks to markets in Western Europe and China.

European car sales fell by 8.5% in august 2012, the biggest drop since February. After the financial results of the first half of 2012 will be already showed the worst year in the last 17, Porsche and Daimler confirmed that the German automotive industry has reached crisis, while southern Europe is already severely affected.

Labor market and wage growth: according to data released by National Statistics Institute (INS), in August 2010 compared to July 2010, the net average wage fell by 1.2% reaching 1339 lei. The highest salaries were collected by the air transport sector employees, on average lei 3330 and the least have earned those working in hotels, restaurants, meaning 787 lei.

On the other hand, INS statistics show that in August 2010, the most substantial reductions in wages were recorded in the tobacco industry, 7%, the opposite are situated the earnings of those working in publishing activities (9.9 %) and mining industry (+9.5%). In the budgetary sector average net earnings dropped the most in education, 6.2%, while health and social care, it was lower by 0.5%.

No longer do generalized wage increases than perhaps in IT, but more companies will reward the management employees, who say they bring value to the company. In the "star" in terms of wage growth in previous years, such as banking, wages stagnate, because no banks nine months results were not encouraging. The average net wage in the economy will grow by about 4.2% next year, reaching 1,540 lei (360 euros), according to the autumn forecast, published on the website of the National Prognosis Commission (CNP), the projection of the main macroeconomic indicators for period 2011 to 2015.

From January 1, about 800,000 Romanian receiving minimum wage will receive higher pay £ 30, with the entry into force of government decision regulating the minimum wage increased from 670 to 700 lei. The new regulation puts pressure on the budgets of companies that pay their salaries at this level wage employees, but will increase state budget revenues from social contributions. Number of employees will continue to increase after the first ten months of 2011 over 100,000 employees us have entered the economy, their number reaching over 4.2 million people. Increasing the number of employees will come amid massive hiring plans announced by the company, but rather is a result of tightening fines Labour Inspection data. With the entry into force of the new Labour Code in May last year, the authorities severely sanctioned moonlighting, employers have even imprisonment. However, employment chances this year - and salaries, which start at 600 to 700 euros for the entry-level - will have connoisseurs of language and those who have a recognized certification in IT, they are ideal candidates Competence Call Center companies such as HP, Microsoft and IBM, which will make new employment this year. It provides a massive development outsourcing area, where more than 15,000 employees already working.

Since the economic failures are generating social problems, with serious consequences that can affect the stability of the state, they should be carefully monitored while measures taken must be reflected in a closely interdependency and in complementary relationship. Romania needs a radical economic plan to maintain economic growth of 2009 to an acceptable level and to reduce the economic gap with the countries of the European Union. Political leadership of Romania will have to adopt economic measures correlated with the European Union and IMF recommendations, which could lead to, the decrease of negative repercussions of economic crisis over Romania.

The current situation requires a policy of cautious investment and a greater attention to conservation of human and financial resources. Also, financial institutions must adopt an appropriate financial policy and, last but not least, to limit any expenditure of public money for purposes other than those of the utmost importance. Exiting the vicious circle of - economic crisis – reduction of the economic development - poverty is possible only through the concerted efforts of policy-makers in the legislative, executive and politics whose purpose should be decreasing the level of poverty and strengthen

Romania's capacity to solve their own problems and prevent the spreading of threats to national security. These efforts must include all dimensions of security because the economic problems of security are related to the political, social, cultural or environmental dimension. Thus, Romania needs more than ever, of a political will and a long term vision, to complete a stage that can not be done without national cohesion and pragmatism. Efforts in the areas of foreign policy, economic, financial and national defense should pass along, in harmony with the social dimension in order to provide solidarity and social partnership.

In conclusion, we consider that Romania must strive to overcome the crisis, not because he was attacked by the crisis, but that only took it out of ignorance and incompetence remained unprotected against its destructive effects. It resembles a patient is required to bear the convalescence of a disease that would have been saved if they had followed the warnings about the existence of outbreaks. But being convalescent, he is vulnerable to the most insignificant aggressive factors, so care must be found in all.

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