THE IMPACT OF GLOBAL CRISIS ON ROMANIA'S ECONOMIC DEVELOPMENT

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ABSTRACT: The world is passing through the most difficult economic and financial crisis in the history, which severely affects its stability in the long term, risking an uncontrolled slide into chaos and uncertainty. The housing market crisis emerged in the United States in July 2007, due to multiple interferences generated by the globalization, has spread to other regions, triggering the world economy into recession. The study is trying to present the main causes and characteristics of the crisis, with special attention to its impact on Romania, which has witnessed a severe economic downturn in the first half of 2009, registering a sharp decline in industrial production, construction sector, exports and also in the lending activity. To deal with high budget deficit and liquidity pressures in the short term a financing agreement with international organizations has been concluded. But, in the long term, the external debt burden is increasing, the sustainable development of Romania facing new risks arising from both the global crisis and the internal vulnerabilities.

Key words: international financial crisis, global recession, causes and effects of the crisis, anti-crisis remedies, external debt, sustainable development.

JEL codes: E44, F01, G01, G15.

Introduction

The acute adversity of the international financial crisis impact, we believe, lies not in the huge size of the losses it has caused (estimated at over USD 4,000 billion just for the financial system), but in the threat for the credibility of the development capitalist model, based on free market forces.

Investor's confidence in the capability of markets to automatically adjust its dysfunctions has drastically fallen and the rise of unemployment and poverty as consequences of the global crisis could severely damage the political and social framework, particularly in the less developed countries.

The turbulences on the international financial markets arising from the US housing market crisis emerged in July 2007, have turned drastic in the second half of 2008. Despite expectations of an intervention by the Federal Reserves and / or the U.S. government for its rescue, only one week after the nationalization of Fannie Mae and Freddy Mac, two giants of the financial world, at mid-September 2008 the investment bank Lehman Brothers, a reference name on capital markets, has been left to fall into bankruptcy, which has degenerated into the slump of the stock exchanges capitalization indices, all over the world.

The processes of globalization and liberalization of trade and free capital movement have proved to be factors, although we can not say that they have caused, but at least favoured the

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uncontrolled spread of financial derivatives, including bad mortgages-backed securities, which became "toxic" assets. In the absence of adequate financial transactions control and supervision of global risk monitoring and warning, the protection systems at the national level have failed one after the other, opposing a low resistance to the crisis force of expansion and contamination.

The market economy under the current global crisis, has been forced once more (if still necessary!), to show that competitive market forces can not solve alone the issues of economic sustainability, especially when the problems of the environment, production and consumption, at regional, national and international levels have worsened. For this reason, in many recent international meetings at high level there has been a common desire to find remedies to counter the crisis effects and to reform the national and international financial systems.

Causes of the global crisis and counteracting its adverse effects measures

To address the adverse effects of the financial crisis it is absolutely necessary to know the causes that have generated it and to implement policies and resources coherently connected on short, medium and long terms, at the local, regional, national and international levels.

The crisis that the world is going through reveals the combination of traditional causes of the economic and financial crisis in general, with other non-traditional, specific ones.

Among the main traditional causes of the economic and financial crisis are: the credit boom to excessive large scale; the sharp rise in asset prices, particularly in the housing market; lending over the exposures limits to economic agents or persons less solvent or even non-solvent (the sub-prime mortgage debtors); the failure in market discipline; the distortion of risk information and asset pricing.

Regarding the non-traditional causes, especially the ones related to the financial crisis, we can mention, first of all, the extent and depth of the sub-prime crisis concerning: the uncontrolled growth of a *sui generis* origin-and-distribute model; an inordinate appetite for profit that has fuelled the growth in demand for high risk assets; the ex-ante ignorance and ex-post uncertainty regarding the risk associated with stock market values, based on mortgages, derivative financial products and credit-default swaps transactions; the lack of an appropriate corporate governance and the excessive incentives for the financial institutions managers.

In our opinion, the root cause of the international financial crisis lies in exacerbating the role of financial instruments, of the nominal (monetary) economy compared to the real economy, in terms of ensuring the prerequisites for sustainable development. This exacerbation was based on the speculative component of the free market economy model, beyond its admissible and controllable limits.

It is worth mentioning that, during the years leading up to the crisis, the planet monetary axe dangerously slipped from the West to the East under the pressures of global financial imbalance deepening due to the accumulation, one the one hand, of huge international reserves in Asia (mainly China and Japan) and, on the other hand, of huge debt in the USA which generated uncontrolled capital flows.

The growth of the number of financial intermediaries, of derivatives and other financial instruments has neglected the mathematical truth under which the derivative of 10 order of 0 is not otherwise than zero. Furthermore, in the real economy too, the multiplication of intermediaries in the relationship production - consumption, beyond their positive contribution to the improvement of performances in production and in economic and social efficiency of consumption, does not mean something else than a false, unreal value added, with obvious parasitic and inflationary characteristics, inducing entropy in economy and society.

Without intending to carry out a detailed list of causes, we would like to mention the major weaknesses in the work of national and international systems of financial accounting and of various rating agencies that have not been able to draw "early warnings" in due time in order to prevent the eruption of such financial turbulences on capital markets.

At the first signs of the financial crisis in the United States it was supposed that the advanced economies of Europe shouldn't be affected, but the real estate markets in some countries (United Kingdom, Ireland, Spain) entered the crisis in 2008, suffering significant losses and triggering panic throughout the financial sector. By the end of 2008, the effects on Europe had expanded both in territory (Germany, France, Sweden, Benelux etc.) and sectors (including housing and automotive industry). The primary capital markets have also entered the crisis, which required the States intervention through nationalization, in whole or in part, of the credit institutions with liquidity problems, spending huge amounts of public money.

The secondary capital markets, respectively, their indexes of market capitalization, have suffered a fall down to 20 percent in only a few weeks (end of September and the first half of October in 2008). Iceland was on the verge of financial collapse at the sovereign level, being saved in extremis, by the nationalization of three major banks, with financial assistance from the IMF.

Paradoxically, despite the insignificant proportion of toxic assets in their banking system, the emerging countries of Central and Eastern Europe, escaped from an experimental system of command economy and going through a transition to a market economy, have also been exposed to the effects of the crisis, mainly due to their excessive openness to the foreign capital, including the financial one, sometimes of pure speculative nature.

The effects of the crisis on emerging European countries have been multiplied by their super positioning to the persistent inflationary pressures caused by the rise of energy, raw materials and agricultural products global prices, during 2007 until the second half of 2008. Moreover, in this context, a flight of foreign capital has been noticed, some of these countries (Hungary, Romania, Czech Republic, Poland) facing a sharp depreciation of their currencies and the decline of investors appetite, which resulted in an increase in external financial imbalances. Among the emerging European countries, the Baltic countries seem to have been most affected, in October 2008 and April 2009, the international rating agencies having successively degraded their country risk.

In debating financial crisis topic, it is worth mentioning the consensus upon its effects on the real economy, taking the form of a global recession, which affects more or less every country in the world. At the end of 2008, the IMF experts, counting on the flexibility of market economies, still hoped for a quick recovery from the crisis, but in a context of a coherent response from the public authorities. However, during the first months of 2009 it was already clear that the economic fundamentals were not strong enough to improve the financial institutions in many key markets.

Accordingly, the IMF, having revised four times its figures in 2009 (lately in October), foresees a contraction of the global economy by 1.1 percent this year (see IMF, 2009, *World Economic Outlook – Sustaining the Recovery,* October). A UN report published in May 2009 predicts an even more severe decline in the world economy, by more than 2 percent (see UN, 2009, *World Economic Situation and Prospects 2009*, May).

The interim forecast (released in September 2009) of the European Commission foresee a decrease in GDP in each EU member country, particularly in Germany (-5.1 percent), Italy (-5 percent), the United Kingdom (-4.3 percent), Spain (-3.7 percent), France (-2.1 percent). In terms of relative size, the most affected are the Baltic countries, their economic contraction touching 2 digits, between 10-12 percent. More than that, Latvia is likely to enter a financial collapse in the event of public spending remedies failure.

The turbulences in international financial markets and their negative effects require decisive action at the national and international level to avoid an even more severe contraction of the world economy and to ensure adequate liquidity in international financial markets.

Given the overall impact of the financial crisis with a clear potential to trigger an economic crisis of major proportions and duration, the competent international institutions or organizations (including UN, World Bank, IMF, EU, etc.), to the various high level meetings of the Member States have discussed and agreed on a series of measures for counteracting the effects of the crisis and restoring the confidence in financial markets.

As we know, a number of European banks in difficulty have been saved, at least temporarily, by the state intervention in England, Germany, Belgium and the Netherlands. This suggests the need for a systemic plan for Europe in order to strengthen financial institutions, taking into account the fact that certain actions fragmentized at the national level may prove ineffective. Thus, a more intensive cooperation of the stakeholders in the stabilization and consolidation of financial markets seem appropriate, particularly for the implementation of reforms on regulation and supervision of financial markets. Any postponement of the implementation of reforms in this area may prove counterproductive in the medium and long run.

To understand and motivate better possible solutions we must classify the effects of the crisis according to their action on short and respectively on long term, this issue depending on the duration of the crisis on the one hand and its economic and social consequences on the other hand. In analyzing the effects of the crisis in the context of coherent anti-crisis programs and measures we must take into account not only their negative side but also the opportunities created by the process of "creative destruction" that must be highlighted.

The international financial crisis has drawn attention to the need, firstly, to take emergency measures and, secondly, to implement certain reforms in structural policies, to avoid a prolonged global recession.

Increasing and broadening the financial crisis, triggered in the United States and extended in other countries, is a matter of concern, at the highest degree, for the decision makers of economy and society, at macro, mezzo, micro and global levels. The evolution of this crisis, initially emerged as a problem of insolvency fuelled by a lack of confidence in the credit system, became more and more a factor of turbulence for the global economy. For this reason, considerable efforts have been devoted to the identification of solutions to rebuild the credibility of the credit system and to resume its normal functioning.

Although we can not say that there is a miracle solution ("one-size-fits all"), some of the experts view points regarding the consistent, clear and coordinated approach of the issues of security bank liabilities, separation of bad assets and recapitalization of the institutions concerned.

The idea of systemic plans for safeguarding the financial markets by increasing the prudence, the supervision and the institutional regulation is more and more accredited. From this viewpoint clearly emerges the role of public - private partnerships in the financial sector, reducing the rate of exclusiveness of regulation solely by the market forces.

Putting in place emergency measures such as the limitation of the borrowing through specific means is meant rather to overcome the financial crisis in the short term. Instead, the implementation of structural reforms of the global financial system on long-term aims at the prevention of recurrence of such crisis phenomena in the future and requires special measures. A better regulatory and monitoring framework should be designed to help the speeding up of financial innovation for the benefit of everybody and not for speculative purposes, by favouring a social minority.

On the agenda of the governments, as challenges for debates and exchange of experiences, pointing a long run horizon are, to varying degrees, financial issues related to competition, incentives for prudent behaviour, consumers' protection, improvement of financial education and of corporate governance.

At the global level, on the occasion of the high level Summit of October 2008, the EU countries have agreed, in principle, to form a common front against the global financial crisis, through a rescue plan of the banking system, by the allocation of about EUR 2000 billion from budget funds. This plan, called the "new Bretton Woods", was proposed by the President Sarkozy (France's presidency of the EU at that time), an idea resumed in Washington a month later, at the high level Summit of G-20. In this occasion, the world leaders committed to an Action Plan which was reviewed at G-20 London Summit in April 2009. The Action Plan set recommendations in order to strengthen transparency and accountability, enhance sound regulation, promote integrity in financial markets, reinforce international cooperation and reform international financial institutions.

During the G-20 Summit which was held in 24-25th September at Pittsburgh (USA) the world leaders recognized that the process of world recovery and repair is incomplete, in many countries unemployment remaining unacceptably high and the private demand being still weak. As a consequence, they agreed further actions to assure a sound recovery from the global economic and financial crisis, between them: launching a Framework for Strong, Sustainable and Balanced Growth, setting timetables for the reform of global financial system, mainly by raising capital standards and ending practices that lead to excessive risk-taking, establishing the Financial Stability Board at the G-20 level, in order to coordinate and monitor progress in strengthening financial regulation.

An IMF report on Europe (See *Regional Economic Outlook: Europe. How can we tackle the crisis,* May 2009) draw the attention on the rate at which the emerging countries of Europe will emerge from the crisis that could be determined by the banking sector. Thus, measures to promote access to credit through the recapitalization of banks, could help to prevent a tightening of borrowing, support consumption and prevent a too long recession in some countries. This mechanism plays a leading role in the programs supported by the IMF, which provide funds specifically for the recapitalization of banks. The strengthening of transnational coordination among central banks, supervisory bodies and the governments of origin countries of banks and those of host countries are also very important.

However, in 2009, European leaders appeared to be overwhelmed by the events of the crisis and the rapid deterioration of the economic situation, the measures planned or implemented, not being able to calm the capital markets, characterized by a persistent high volatility. In addition, the idea of an EU institution charged with the coordinated financial supervision of capital markets in Europe (watchdog) has led some politicians to express their concern about the functioning of the market economy, in terms of intervention measures and protectionist constraints, including the banking system. The powers of a new European Systemic Risk Board (ESRB) and European System of Financial Supervisors (ESFS) still have to be agreed and defined in detail. Despite the unity of action displayed by the European leaders, there is an impression that, in fact, each one is trying to minimize the negative effects on their own account, within their national space.

The impact of the global crisis on Romania's economy

During the first quarter of 2009 the gross domestic product of Romania fell by 2.6 percent compared to fourth quarter of 2008 (adjusted data taking into account the seasonal variations) and 6.4 percent compared to first quarter 2008 (data not adjusted). The fourth quarter of 2008 witnessed a reduction of gross domestic product by 3.4 percent over the third quarter. The second quarter of 2009 saw another decline of GDP, by 1.1 percent compared with the previous quarter and by 8.8 percent compared with the same period of 2008. So, according to the technical definition of a recession, i.e. a decline in GDP for two consecutive quarters, Romania has entered recession in 2009.

The global crisis has seriously affected in 2009 the industrial sector, whose main branches are under the majority control of foreign capital and subsidiaries of multinational corporations, being more exposed to international markets. In the first seven months of 2009, the industrial production decreased by 9.6 percent over the same period of last year (see Table 1). On sections, a decline by 10.8 percent has been recorded both in extractive industry and manufacturing. On industry groups, more severe production drop was in intermediate goods (-15.3 percent) and durable consumer goods (-17.4 percent).

In the first eight months of 2009, compared with the same period of 2008, the biggest fall in the industrial production was registered in manufacturing of basic metals, manufacture of other non-metallic mineral products and textiles. Other manufacturing industries in decline were clothes, paper and paper products, chemicals and chemical products, rubber and plastics, petroleum products, furniture. Industries less affected by the crisis and where production has increased during the analyzed period (wood processing, publishing houses, printing and reproduction of recorded media, manufacture of electric equipment), even are not touching essential sectors of the economy, could see a more rapid recover.

Table no. 1

Indexes of industrial production in Romania

- percent -

	August 2009 as compared with:		**Jan-Aug. 2009/ Jan-Aug. 2008**
	July 2009	**August 2008**	
Industry – total	84.2	94.7	90.9
- on sections :			
Extractive Industry	103.5	84.4	88.5
Manufacturing	81.5	92.9	89.6
- on industry groups:			
Intermediate goods	93.9	94.1	85.9
Capital goods	62.4	91.8	93.1
Durable consumer goods	95.7	93.2	83.4
Nondurable consumer goods	88.4	89.8	90.8
Energy industry	100.9	107.1	98.3

Source: National Institute of Statistics, Press Release no 205, 7 October 2009.

Constructions and retail trade registered a decline in comparison with their "boom" in previous periods. Transportations and banking sectors recorded a significant fall in their activity; however, bankruptcies of banks did not occur, but lending activity entered a deadlock.

In the first eight months of 2009, the exports of Romania fell by 19.1 percent and imports by 36.6 percent respectively, compared to the same period in 2008 (see Table 2). The higher decrease rate of imports than the one of exports has led to the lowering of the trade deficit to EUR 5.8 billion in first eight months of 2009 compared to the deficit of EUR 15.4 billion in the same period of 2008. On the one hand, this reduction can be considered favourable in terms of short term improvement of Romania's external financial balance, but on the other hand it is unfavourable as regards the long term economic growth prospective.

Table no. 2

Exports and Imports of Romania in the first eight months of 2008 and 2009

- EUR million -

January - August								
Foreign Trade	Exports FOB			Imports CIF			Sold FOB/CIF	
	2008	2009	2009/2008 - % -	2008	2009	2009/2008 - % -	2008	2009
Intra UE 27	16085.7	13688.5	85.1	26680.2	17799.5	66.7	-10594.5	-4111.0
Extra UE 27	6868.9	4871.7	70.9	11712.0	6558.3	56.0	- 4843.1	-1686.6
TOTAL	**22954.6**	**18560.2**	**80.9**	**38392.2**	**24357.8**	**63.4**	**-15437.6**	**-5797.6**

Source: National Institute of Statistics, Press Release no 208, 12 October 2009.

The drop in exports and imports has been caused by the effects of the global crisis, mainly of EU market, that has contracted both the external demand for the Romanian products and the international offer for Romanian imports.

The consequences of reducing the Romanian foreign trade must be taken into account on short, medium and long term, especially with regard to macroeconomic performance. Now Romania is opened to international markets, first to the market of EU countries, which means a very important role of the external demand for the development of the national economy that has become much more vulnerable to the cyclical movements in the international businesses. This vulnerability is accentuated by the pattern of an emerging economy.

In 2009, despite the recession, or paradoxically because of it, the balance-of-payments current account has improved (see Table 3). Compared to EUR 11.5 billion current account deficit in January - August 2008, in the same period of 2009 the deficit has fallen more than 4 times, reaching only EUR 2.5 billion, mainly due to the contraction of the trade gap. The current account deficit was fully covered by foreign investments, amounted to EUR 3.2 billion during the first eight months of 2009.

Besides the effects, sometimes contradictory, in the short term - particularly the downturn of the economy - in the medium and long term it is expected that the international financial crisis and global recession should adversely affect the economic and social development in Romania.

Table no. 3

The BoP current account in the first eight months of the years 2008 and 2009

- EUR million-

	January- August 2008			**January- August 2009**		
	Credit	**Debit**	**Net**	**Credit**	**Debit**	**Net**
Current account (A + B + C)	**36 154**	**47 599**	**-11 445**	**28 760**	**31 209**	**-2 449**
A. Goods and services	**28 531**	**40 564**	**-12 033**	**23 291**	**27 283**	**-3 992**
a. Goods	22 955	35 436	-12 481	18 560	22 483	-3 923
b. Services	5 576	5 128	448	4 731	4 800	-69
B. Incomes	**1 507**	**5 222**	**-3 715**	**795**	**2 243**	**-1 448**
C. Current transfers	**6 116**	**1 813**	**4 303**	**4 674**	**1 683**	**2 991**

Source: National Bank of Romania, Press Release on Balance of Payments in October 2009.

Despite the fragility of any economic projection, which is susceptible to numerous revisions due to the volatility of international context, we will use the medium and long term forecast developed by the Romania's National Commission of Prognosis (NCP), trying to draw some conclusions concerning a preliminary finding on the crisis impact in the Romanian economy at the macroeconomic level.

According to this forecast (see Table 4), after a GDP decline in 2009 by 7.7 percent, in 2010 the indicator is expected to mark a modest recovery of 0.5 percent. In the years to come the growth of GDP is expected to accelerate, making possible the recovery of previous economic decline only in the late 2013. It is worth mentioning that, having in view the contraction of the economy during the first half in 2009 (6.2 percent in the first quarter and 8.8 percent in the second quarter as compared with the same quarters of 2008) a decline more sharp than expected of Romania's GDP would worse all macroeconomic projections.

The forecast for 2009 shows a drop of the gross value added in all sectors: industry (-5.8 percent), agriculture (-7.8 percent), constructions (-13.9 percent), services (-5.9 percent), reflecting the vulnerable structure of the Romanian economy and the adverse impact of the global recession.

In 2009, the final consumption is expected to decrease by 12.6 percent, due to the contraction by 12.7 percent in the individual consumption of households and by 12.0 percent in the public administration consumption.

Table no. 4

The projection of main macroeconomic indicators

- percentage change as compared with the previous year -

	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
GDP	7.1	-7.7	0.5	2.4	3.7	4.4	5,2
-Industry	1.3	-5.8	-1.3	1.0	3.1	4.2	4.5
-Agriculture	21.4	-7.8	1.6	2.8	3.8	4.9	2.9
-Constructions	26.1	-13.9	3.6	6.0	7.0	8.0	7.9
-Services	5.1	-5.9	0.6	2.3	3.3	3.8	5.3
Final consumption	8.0	-12.6	1.6	1.7	3.7	3.6	4.1
- individual consumption	8.4	-12.7	2.0	2.0	3.8	3.8	4.3
- public administration	3.7	-12.0	-2.0	-2.0	2.5	1.5	1.7
Gross Fixed Capital Formation	19.3	-11.0	2.0	5.3	6.7	7.5	8.0
Exports FOB(EUR mill.)	33628	28600	28970	30300	33060	37190	42050
Imports CIF (EUR mill.)	56337	37200	38320	40580	45700	51690	58430
The balance of trade (EUR mill.)	-22709	-8600	-9350	-10280	-12640	-14500	-16380
Current account balance (EUR mill.)	-16897	-5380	-6020	-6350	-6880	-7290	-7650
(percent in GDP)	-12.3	-4.6	-4.8	-4.7	-4.6	-4.5	-4.2
Inflation							

(annual average)	7.85	5.5	3.7	3.2	2.8	2.5	2.3
GDP, current prices (EUR mill.)	136845	117403	125365	135393	148527	163492	180149

Source: National Commission for Prognosis of Romania, September 2009.

The most severe drops in 2009 are estimated for imports (-34 percent) and exports (-15 percent). It is interesting to note that after this major decline, starting with 2010 imports and exports are expected to resume their growth.

The exchange rate lei / euro is expected to deteriorate in 2009 up to 4.25 and, after that, a modest improvement is foreseeable, depending on the recovery of exports.

It should be noted that the crisis will bring changes in the geographical directions of Romania's foreign trade, indicating a modest growth of the weight of the extra-EU trade, both for exports and imports. This can be explained also by the fact that in relative terms, the foreign trade of Romania has reached a certain level of "saturation" with the EU countries and, on the other hand, the globalization of markets and the openness of the Romanian economy are offering a wider choice for trade opportunities, mainly in Asia.

The biggest challenge for the prospects of Romania's development is related to the sustainability of the external financial situation revealed by the evolution of external debt both on short term and medium and long term (see Table 5).

Table no. 5

The short, medium and long term external debt of Romania

- EUR billion -

External debt	2003	2004	2005	2006	2007	2008	2009*
TOTAL	**18.4**	**21.5**	**30.9**	**41.2**	**58.5**	**73.4**	**76.9**
- short term	2.7	3.2	6.3	12.6	19.8	22.2	16.8
- medium and long term	15.7	18.3	24.6	28.6	38.7	51.2	60.1

* 31st of August 2009

Source: National Bank of Romania, Interactive Databank.

Under the circumstances of falling contribution of the autonomous flows (foreign direct investments) for covering the current account deficit and the increase of compensatory flows (external loans), the medium and long term external debt of Romania has risen more than three times over the last six years, exceeding EUR 51 billion at the end of 2008. The short-term external debt has increased even faster, almost ten times in six years, mainly due to the boom in imports and consumption credit. But an excessive rise of the short-term external debt puts great pressure on the currency market, risking a crash of the national currency. On the other hand, the accumulation of a large foreign debt in the medium and long run, accompanied by high levels of annual services, could weaken the international position of Romania and undermine its sustainable development. In 2009, the medium and long term external debt of Romania continued to grow reaching EUR 60 billion at 31st of August, mainly due to the loan from IMF and other international organizations.

Prerequisites of the financing agreement with international organizations

To deal with the foreseeable difficulties as a consequence of the financial crisis, Romania has concluded a financing agreement for a two-year total loan of EUR 20 billion with IMF, EU, EBRD and World Bank, under the conditions of reducing the budget deficit and freezing wages in the public sector. Regarded as a "safety belt", the loan is intended to support the budget deficit and economic activity, to maintain the euro-lei exchange rates at sustainable levels for the economy and population and to boost the recovery of lending activity. The financial assistance and the economic policies are intended to cope with liquidity pressures in the short term, to improve competitiveness and to redress the macroeconomic and financial imbalances.

The real causes of the accelerated growth of Romania's external financing requirements are related to growing vulnerabilities of the financial situation which resulted from macroeconomic imbalances deepening, particularly the savings-investments balance, from pressures on external balance of payments emerged in recent years due to the deteriorating of current account and to the widening of trade deficit. The excessive increase in domestic private credit for consumption has fuelled the massive increase of imports. At the same time, reducing the relative contribution of foreign direct investment to financing the current account deficit has increased the short-term and medium-long term external debt mostly of the private sector (including banks). The deterioration of the current account is also explained by the slowing of current transfers from the Romanians working abroad and the increase in the income balance deficit, especially because of growing profits repatriation and/or reinvested by the foreign companies and also of increased interests related to the external debt. All these were accompanied by a modest rate of EU funds absorption in the first two years of accession, despite its low level of development, Romania being a net contributor to the EU budget.

The gross financing requirements for 2009 estimated by the IMF and the National Bank of Romania standing for EUR 44 billion, from which a financial gap of around EUR 12 billion has resulted, to be covered by an external loan, is not adequately sustained in our view, at least according to published information, sometimes contradictory or confusing.

According to our estimates, the reversal of imports and exports growth rates in favour of the latter may lead to a positive contribution of the net exports to GDP on the demand side. It is expected that this contribution should partially offset the decline in domestic demand, which may bear a more favourable GDP trend in 2009 compared to the worst case scenario considered by IMF and NBR. The estimate for foreign direct investments of EUR 3.5 billion in 2009 seems to be under-sized, compared with the previous year (EUR 9 billion) and also with the amount of FDI during the first eight months of 2009 (EUR 3.2 billion), mostly under the circumstances of an expected improvement of investors perception about Romania, including due to the conclusion of the Stand-By Arrangement.

In our opinion, under the circumstances of many uncertainties in the international environment, which could suppose also the possible rebound of the world economy since 2010, a financing agreement over a shorter period would have been suitable. In case the pessimistic assumptions on the Romanian economy would be confirmed toward the end of 2009, an extension of this agreement could be negotiated. However, a much more advantageous financing solution for Romania, as an EU member state, would have been the qualification for obtaining a credit line on 6 months or one year from FCL ("Flexible Credit Line"), a funding modality initiated by the IMF in the month of March 2009 replacing SLF ("Short Term Liquidity Facility"). It is worth mentioning that, this new credit line is released for the prevention of crises in countries with very strong fundamentals, policies, and track records of policy implementation, which is not totally the case of Romania.

In fact, in our view, the logic of the agreement with the IMF is based on monetary coordinates designed inside the NBR perimeter. Starting with the top priority of Romania's accession to the Euro Zone in 2014 and thus of its entry into the ERM II (Exchange Rate Mechanism) in 2012, the strict conformity to convergence criteria (in particular those on inflation, nominal interest rates on long-term and exchange rate) has become the fundamental objective in the medium and long term.

The threat of a possible collapse of the national currency, due to internal and external pressures accumulation doubled by the lack of immediate liquidity of assets in which the international reserves of Romania have been invested and with the reduction of the minimum reserve requirements on foreign currency liabilities by commercial banks could trigger an uncontrolled inflation, missing the objective of joining the Euro Zone. It is worth mentioning that the external financing requirements in 2009 have arisen in the context of an imminent crisis on the currency market.

The inconsistency of tax and fiscal policies of government has worried the monetary authorities of Romania, but also the European Commission. Under these circumstances, the central bank has been forced to resort to international arbitration for imposing the fiscal discipline under a multilateral financing agreement: IMF, EU, EBRD and World Bank.

The Stand-By Arrangement with the IMF bring a number of advantages for Romania, implementing the necessary fiscal and monetary policies, including the fiscal discipline, ensuring the macroeconomic stability in the context of conditionality and performance criteria, improving the perception of foreign investors, stabilizing the foreign exchange market, ameliorating the predictability, sustainability and coherence of economic policies, supporting the banking sector and its strengthening, including the recover of lending activity, both for businesses and population.

Beyond these advantages, there are also several risks arising from the agreement with the IMF, such as creating a negative image regarding the financial situation of Romania, which would make a "bailout" necessary, limiting the government room of manoeuvre in the implementation of various economic policies, including the predictable reduction of the budget allocation in accordance with national priorities, such as infrastructure development, export promotion and environment protection. The loan of about EUR 20 billion will push the external debt towards excessive levels, with annual services potentially unsustainable in the medium and long run. The social effects generated by the loss of jobs, accompanied by the non-indexation of wages and pensions, can have adverse economic costs that are difficult to estimate. Any non-conformation of Romania to the conditions and performance criteria specified in the agreement, which involves postponements or worse, cancellation of the next instalments, could lead to adverse effects on the economy, including on the prospects of sustainable development.

A weak point of the procedures backing the agreement with the IMF stands for the lack of an alternative, for example compared with a loan from another country and/or with a launch of Romanian government bonds on national and international capital markets, considered too restrictive a priori. In this context, the comparative terms of loans could be made known, so that one can be sure that the most advantageous borrowing alternative has been chosen. In this way, speculations around the conditionalities imposed by IMF and the confidentiality of certain clauses of the agreement could have been avoided, the more under the circumstances of increasing the financial system transparency, considered as a primary remedy for its recovery.

According to the first review of Stand-By Arrangement, the report of IMF staff team, following discussions with the Romanian authorities ended at mid-August 2009, underline the contraction of economic activities much sharper than projected due to the combination of an unfavourable external environment and faster retrenchment of domestic demand during the first half of 2009. The IMF experts brought many significant corrections to the macroeconomic framework projected 6 months before, confirming our doubts previously mentioned regarding their adequacy. For instance, the new figure for the gross financing requirements stands for EUR 41.5 billion (instead of EUR 44 billion) for 2009, respectively EUR 2.5 billion less, following the corrections of current account deficit (down from EUR 9 billion to EUR 6.5 billion). The total financing resources were revised from EUR 32.2

billion up to EUR 34.5 billion, mainly due to the corrections of net foreign direct investments estimation from EUR 3.5 billion to EUR 5 billion. The most significant change suffered the estimates for the increase of gross international reserves - rather an adjustment parameter - respectively from 0 to EUR 4.5 billion, which made the amount of Romania's external financial gap (EUR 11.5 billion instead of EUR 11.8 billion) to remain almost the same, justifying in this way the amount of the loan from IMF and other international organizations.

Concluding Remarks

At global level:

- the financial and economic international crisis highlighted once more the weaknesses of the capitalist financial system and of the free market mechanisms, particularly as regards the relationship real economy - nominal economy, transparency, monitoring and management of banking and financial risk, the defective activity of rating agencies, the negative impact of tax paradises and the lack of cooperation at the international level to reform the financial system, which should be subordinated to the needs of the real economy and not to the interests of financial institutions managers.
- to clean up the toxic assets, the national and international mechanisms of prevention and also the "polluter pays" principle must be strengthened, by putting in place more efficient supervision systems.
- the anti-crisis remedies involve an intensification of public-private partnership, based on complementarities of the functions and objectives of the two sectors which must make compatible the economic efficiency, the justice and social equity that come along with social responsibility of corporations and good governance.
- the application of business ethics principle is proved to be indisputable in a new world, dominated by the power of money and profit. Ethics in business should coexist with the instruments against corruption, speculation and the economic and social parasitism of superfluous financial intermediaries.
- the determination and the decisions of the G-7 and G-20 Summits on reforming the international financial system represent a promising beginning that should be continued with more concrete measures and actions, mainly by raising capital standards and ending practices that lead to excessive risk-taking.
- if the anti-crisis measures undertaken at the global scale do not lead to the expected results, particularly as regards the reform of the financial system, the turbulences in the global economy might be prolonged indefinitely. If additional factors derived from other potential global crises (energy, food, environment) are interfering, there are more risks of adverse shocks for mankind.

For Romania:

- despite the negligible effects of the crisis on the banking system of Romania due to the limited exposure to the toxic assets, the measures for promoting the recovery of lending through the recapitalization of banks could help the rebound of the consumption credit support and the prevention of a too long recession.
- the impact of the global crisis which has contracted the external demand particularly affects the real economy. According to the decline in GDP over the first two quarters in 2009 Romania has entered into recession.
- viewing the economy vulnerabilities caused by the accelerated deterioration of the current account in recent years mainly due to the growth of trade deficit, Romania's external financial position was on the edge of a crisis, which, in any way, would have rendered an external loan necessary to cover the financial gap.

- the analytical foundation of the joint loan from the IMF-World Bank-EBRD-EU summing EUR 20 billion over two years is raising debatable assumptions, in our opinion, the real reason being imposed by the NBR needs to avoid a currency crisis, firstly because of the lack of immediate liquidity of international reserves, apparently reassuring.
- besides the negative impact on the Romanian economy, the crisis can stimulate the financial restructuring and reorganization, to develop new activities and gain new markets, taking into account the conditions of competitiveness and globalization, marked by challenges of the environmental crisis and the transition to a sustainable development.
- because of the crisis impact on the state budget by cutting public funds, including for R&D and for environmental protection investments, the government should promote strategies in order to develop high technologies for saving energy, for recycling and waste treatment, while respecting the environment parameters and the requirements of Romania's sustainable development.
- there is a series of other dilemmas and related risks in the future caused by the general need to reduce the interest rate in contrast with the high level charged by banks in Romania and also by the recommendation to continue the trade liberalization policies in contrast with the trade protectionism practiced by many countries during the current crisis.

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