

Review

Romania and Greece: Together or alone against the present global crisis

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The fiasco of the Lisbon Agenda and the latest EU Agenda 2020 are the main European political effects of the present global crisis. The paper analysed the effects of the global crisis on Greece and Romania because these countries have a lot of common historical, cultural and socio-economic characteristics and they became the greatest socio-economic problem for the EU27. As a result, was realised a comparative analysis connected to macroeconomic indicators during 2004 to 2010, using a neutral database, as Eurostat. We used this comparative analysis in order to highlight that the adhering to the EU was not able to solve the socio-economic difficulties of the member states. In order to support the analysis, the paper used GDP, investment, consumption, unemployment and inflation rates, foreign debt and other important indicators which gave the idea that the problems of these two countries are the same. A distinct part of the paper deals with the differences between Greece and Romania connected to socio-economic problems. But these common and different problems of these two countries had the same solution: a major foreign credit which had approximately 25 billion Euros from everyone. The main conclusion of the paper was that of the necessity of a new approach about the Euro area and the European Cohesion Policy. The paradox was that this conclusion came from a comparative analysis of two countries which have a different position inside the EU: Greece is a member of the Euro area and Romania wants to adhere here in 2014 to 2016. The ideas from this paper were supported by pertinent diagrams and tables.

Key words: Trade balance, unemployment, GDP, fiscal policy, foreign credit.

INTRODUCTION

The global crisis supports the idea that the regional economies, even European Union (EU27) or USA, are not able to face to the new challenges.

As a result, every EU Member State tries to face to this crisis as well as possible. The paper analyses the effects of the global crisis on Greece and Romania because these countries have a lot of common historical, cultural and socio-economic characteristics. Moreover, both countries became a wager for the EU27 and its future.

As a result, we realise a comparative analysis connected to macroeconomic indicators during 2004 to 2010, using a neutral database, as Eurostat. For the beginning, we focused on the evolution of the trade balance, unemployment, GDP, building sector and industry.

The next step is to analyse the evolution of the public debt and the effects of this crisis on the citizens' welfare. A distinct part of the paper deals with the differences between Greece and Romania connected to the socio-economic problems. The problem is that Greece is a

Eurozone member state and it becomes the first victim of an inadequate fiscal policy and of a deficient monetary union. As a result, the EU is constrained to adopt an efficient recovery plan for Greece, in order to demonstrate its socio-economic force and management performance and to prevent the same situation in Spain and Portugal, as well.

There is no other research about these two countries under the impact of the present global crisis till now. The paper represents a challenge for the EU27 policy approach, because it represents a tocsin against the idea that EU is able to overcome any political and economic obstacle.

ROMANIA UNDER THE GLOBAL CRISIS

The most affected economic sectors are those connected to export in the EU27. EU27 represents the destination for

for 73.5% (Romanian National Institute of Statistics, October 2010) of the Romanian exports. As a result, the net exports had a negative contribution to the GDP growth.

The GDP growth was faster, from 6.2% in 2007, to 7.1% in 2008. The problem appeared in 2010, when GDP decreased by 7.1%. The forecasts for 2010 and 2011 talk about a negative rate of growth, followed by a zero growth in 2011, even that the European Commission was more optimistically, of 0.8% in 2010 and 3.5% in 2011 (European Commission, 2010).

The IMF forecast talks about a rate of GDP growth by -0.5% in 2010 and by 0.1% in 2011 (Figure 1). The differences between these forecasts are significant.

The great fluxes of FDI in Romania stopped suddenly during the 4th quarter of 2008, as a result of a significant contraction of the international capital inputs, the growth of the investment risk and national economy vulnerability and the decrease of the disposable revenue. The FDI in Romania achieved 7.251 billion Euros in 2007 and 9.02 billion Euros in 2008 (Romanian National Institute of Statistics, July 2010).

The total investment in Romania decreased by 29.1% in 2009 (14.75 billion Euros) regarding 2008, as a result of the great decrease in investment in equipment. These last investment decreased by 44.5% regarding 2008. Moreover, the weight of the investment in equipment in total investment decreased by 9.4% in 2009 (37.4%) regarding 2008 (Romanian National Institute of Statistics, July 2010).

The investment in new construction works decreased by 13.8%, while the investment with other expenditures decreased by 25.3%. The most important part of investment were in trade and services (wholesale and retail, repair of motor vehicles 42.6%) and buildings (9.1%). The investment in agriculture had 2.8% of total investment, and the investment in other sectors had 3.7% (Romanian National Institute of Statistics, July 2010).

During the last quarter of 2009, the total investment decreased by 39.9% (4.6 billion Euros) regarding the same period of 2008 (Romanian National Institute of Statistics, July 2010).

An important element, connected to the investment process, is the evolution of the gross fixed capital formation. After a significant decrease in 2009, the forecast is positive: 2.3% in 2010 and 5.8% in 2011 (Figure 2) (Ionescu, 2010).

The foreign trade had a negative influence on Romania's GDP, as a result of the powerful growth of the imports. On the other hand, the international markets are not full recovery and the demand is still low. As a result, the trade balance will have a negative impact on Romanian economy, even that it will decrease (Figure 3).

The good news is that the evolution of the Romanian exports will be positive: 5.5% in 2010 and 6.5% in 2011. But the bad news is that the Romanian imports will grow more in 2011 (7.6%) (European Commission, 2010). The

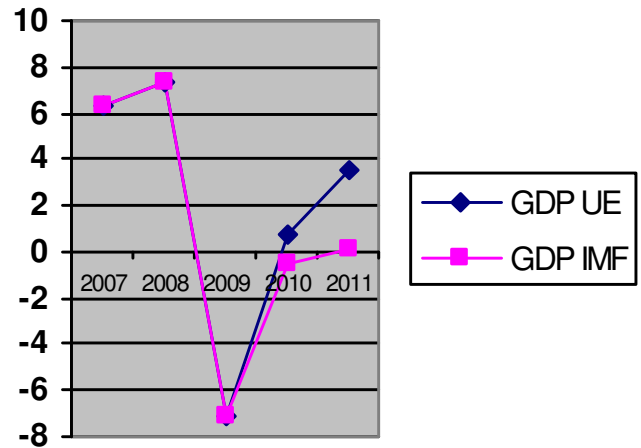


Figure 1. GDP rate of growth in Romania (%) [Source: Personal contribution using the IMF's database, October (2010)].

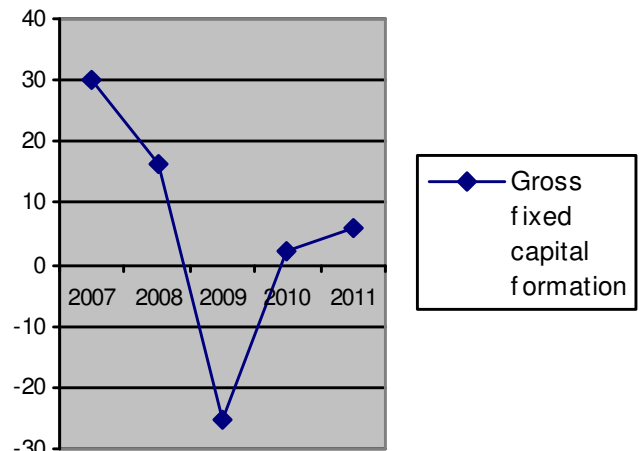


Figure 2. Gross fixed capital formation in Romania (%) (Source: Personal contribution using Ionescu (2010), p.115).

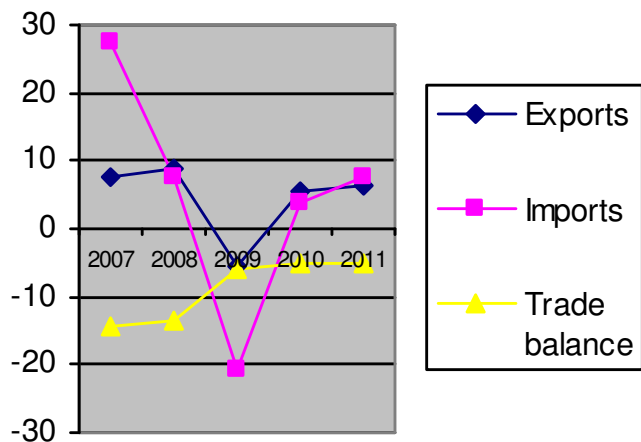


Figure 3. The foreign trade of Romania (%) (Source: Personal contribution using European Commission (2010), p.134).

growth of these imports is connected to the impossibility for the Romanian economy to produce goods which are necessary for the economy, even that the general level of the households' revenues will be smaller. Nowadays, Romania is set up, because it is not able to have a functional economy. Moreover, the SMEs sector is done as a result of the government policy, and the households have not enough revenues to support the domestic demand.

Until 2008, the consumption was the engine of the economic growth in Romania. The EU's forecast is too optimistic when it talks about a growth of the private consumption of 0.7% in 2010 and 4.2% in 2011. On the other hand, the public consumption has to decrease, as a result of the stand-by agreement with IMF (Figure 4) (European Commission, 2010).

In 1990, there were 8.156 million employees and 3.577 million retired. The unemployment rate was about zero. Still 2006, the unemployment rate began to decrease, until 2008, when it achieved 5.8%. The unemployment rate grew as a result of the registered unemployment growth. In 2009, the unemployment rate was 6.9% and the unemployment stock was 625,000 persons. The unemployment rate grew even that evolution of the employment was negative until 2009 (Romanian National Institute of Statistics, July 2010, pp. 100-102, 128-131).

A worrying phenomenon is the age structure change: the growth of the demographic aging population as number and weight in the unemployment stock. This is a major negative trend which supports on long term the decrease of the total population and the labour supply.

The forecast of the EU is too optimistic again. The unemployment rate will be 8.5% in 2010 and 7.9% in 2011 (Figure 5) (European Commission, 2010, p.134).

The agreement between Romania and IMF established a significant decrease of the employees from the public administration sector. As a result, the official unemployment stock will achieve more than one million persons in 2010.

Moreover, about 500,000 Romanian citizens will return in Romania from Spain, Italy, Greece and France during 2010 to 2011 and they will support the unemployment rate growth (<http://www.dailybusiness.ro/stiri/companii/>).

On the other hand, the private sector faces to big problems in order to survive. The Romanian cars industry suffers as a result of the demand decrease, especially of the domestic demand. The export demand supports this sector as long as the prices of the Dacia cars will be less than of the other cars from the same class.

But the activity in the automotive components and assemblies suffers as a result of the demand decrease for the great auto companies output during 2009 to 2010.

The combined fertilizers company Azomures sent unemployed 2000 persons and the giant steel company ArcelorMittal used the dismissal request for more than 2500 persons (Mediafax, May 2009).

The growth of the production costs and the decrease

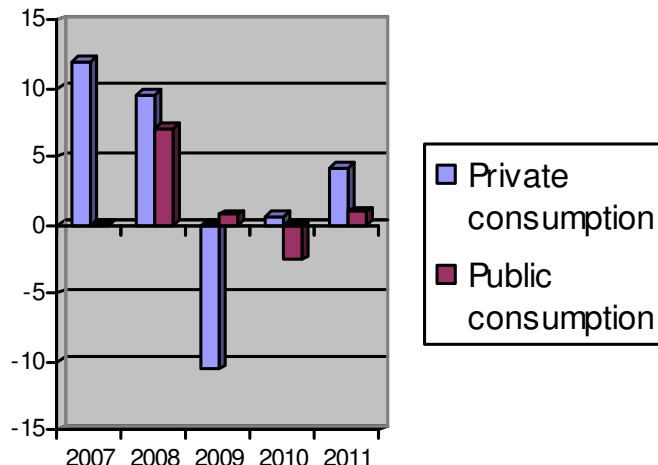


Figure 4. The evolution of the consumption in Romania (%) (Source: personal contribution using European Commission, 2010, p.134).

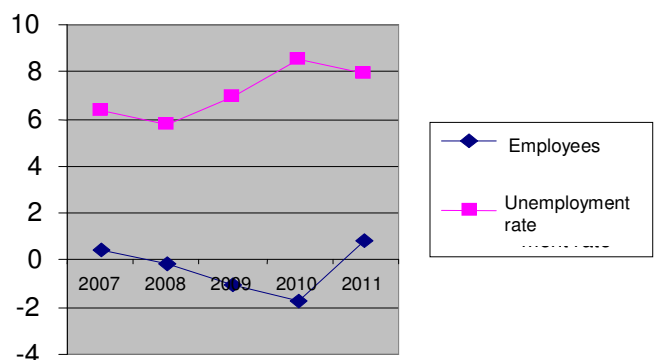


Figure 5. The evolution of the employment and unemployment rate in Romania (%) (Source: personal contribution using European Commission, 2010, p. 134).

of the exchange rate influenced the inflation rate in Romania. CPI inflation at the end of 2009 reached 4.7%, which is slightly above the National Bank of Romania's tolerance band of 3.5 +/- 1%. The central bank has now missed its end-year inflation target for three years in a row, reflecting continued rigidities in product and labour markets, as well as increases in fuel prices and indirect taxes (National Bank of Romania, 2010).

The inflation projections for 2010 are affected by recent increases in excise taxes on tobacco and petrol as well as the recovery in international energy prices. On the other hand, inflationary pressures may be somewhat offset by the sluggishness in domestic demand, particularly in the first half of the year.

As a result of these movements, HICP inflation is expected to fall slightly to 4.3% in 2010. Inflation is likely then to decrease further to 3% in 2011 (Figure 6) (National Bank of Romania, 2010).

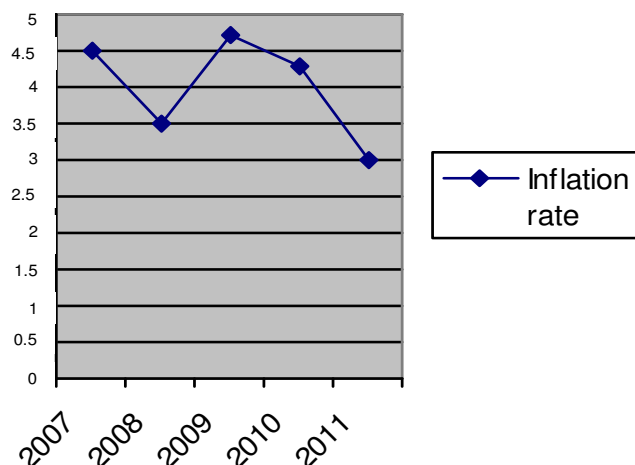


Figure 6. The evolution of the inflation rate in Romania (%) (Source: personal contribution using European Commission, 2010, p. 134).

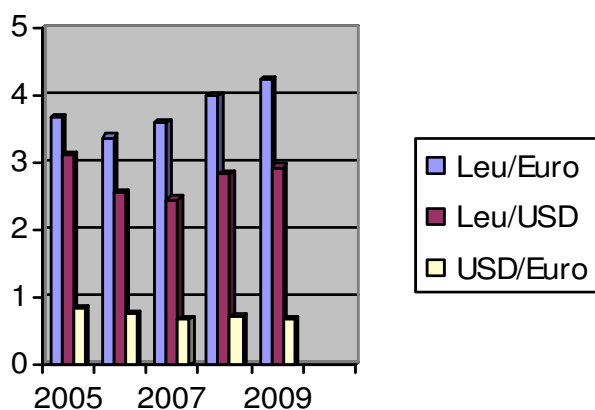


Figure 8. The evolution of the exchange rate in Romania (Source: personal contribution using x-rates.com).

These are the forecasts of the EU, but the recent growth of VAT, from 19 to 24%, will support new growths of the process in Romania (<http://www.codfiscal.money.ro/>). Romania started with a low foreign debt, but it grew fast. At the end of 2008, the average and long term debt of Romania achieved 58.7% billion Euros (+16.6%). The short term debt decreased to 17 billion Euros (-5.2 billion Euros) (National Bank of Romania, January 2010). The public direct debt grew, from 9 billion Euros, at the end of 2008, to 10 billion Euros, on August 2009. This debt covers the direct foreign loans of the Ministry of Finance and the local public administrations. The problem is that the foreign debt grew 3 times during the last three years (National Bank of Romania, January 2010).

The foreign private and public debt grew, from 30 billion Euros, in 2006, to 90 billion Euros, at the end of May

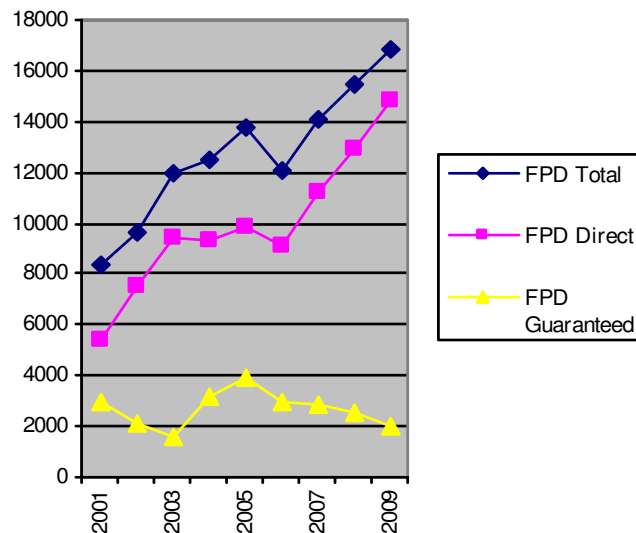


Figure 7. The evolution of the foreign public debt (FPD) in Romania (million USD)

Source: personal contribution using Romanian Ministry of Public Finances' Report, 2009, pp.21-27)

2010. This sum represents more than 70% of GDP. The risk is connected to its rate of growth, not with its dimension (National Bank of Romania, January 2010).

The main generator of the foreign debt speed of growth was the agreement with the international financial institutions, especially with IMF. Last spring, Romania borrowed 20 billion Euros, even that its public debt was only 11 billion Euros. That credit was used against the risk of the foreign banks and companies' private debt. (IMF, October 2010, pp.1-8).

On the other hand, the economic boom from the previous years supported the growth of the private debt in Romania, from 18.2 billion Euros in 2006, to 54.6 billion Euros in 2010. The problem was that the private debt became public debt, as a result of the minimum reserves' decrease for the currency liabilities, from 40 to 25%. The first effect was that the IMF money entered on the market and went to the parent companies, even that those companies got commitment to maintain the given financing on local and to support it by capitalisation (ziua.ro/news.php.data=2009-07).

As a result of the new FMI credit from 2010, Romania will postpone the payment terms, but it will have greater debts, as well. This process will continue as long as the government will not be able to reform the social assistance system and to have a prudent public expenditures policy. The evolution of the foreign public debt in Romania is presented in Figure 7 (Focsan L., Iatagan A., 2010).

An important element, which influenced the evolution of the foreign public debt, was the trend of the exchange rate. The exchange rate fluctuated massively during the last five years, as in Figure 8 (x-rates.com).

On the other hand, the number of the Romanian citizen with outstanding bank and their total debts grew very much, as a result of the unemployment growth, of the wages decrease and of the fall of the economic environment.

During December 2008 to August 2009, for example, the sum of the owing payments older than 90 days grew, from 1.1 billion lei to 3.1 billion lei (+180%) (Radu, 2010).

Nowadays, the sum of the individual owing payments greater than 5,000 Euros is about 1.5 billion Euros and it grows continuously (Radu M., 2010).

In 2010, the number of bad debtors achieves 700,000 persons, and it will grow as a result of unemployment growth (Radu, 2010).

GREECE UNDER THE GLOBAL CRISIS

In 2008, Greece faced an economic crisis, as a result, the GDP grew only 2.0% in 2008, regarding 4.5% in 2007 (European Commission, 2010). The main causes of this evolution were the private consumption and the investment decreases (Figure 9).

Moreover, the credit terms became more rigid, the financial uncertainty grew and the constructions collapsed. After a positive evolution, during the first two quarters of 2008, the corporate investment felt heavily (European Commission, 2010).

On the other hand, the unemployment rate grew, especially in Athens, as a result of the jobs' decrease in constructions and tourism. During the first two quarters of 2009, the unemployment stock grew by 19,000 persons only in tourism, after the decrease of the tourists' number by 9.6% (Business Monitor International, September 2010).

The tourist sector in Greece is important for the Romanian labour, because a lot of Romanian citizens work in the Greek hotels and restaurants especially in the summer. Even that the labour supply will decrease during 2010 to 2011, the unemployment rate will grow very much. During 2010 to 2011, the unemployment rate will be two-digit and will grow significantly (Figure 10) (European Commission, 2010).

The portfolio investment represents the main financing source and Greece's position on the international market becomes more vulnerable.

The contraction of the economic activity will lead to the employees decrease and to the growth of the unemployment rate. But the nominal wages from the private sector will grow faster than the productivity and the unit labour costs whole economy will be greater than Euro area average. This trend will have a negative effect on the Greek goods' competitiveness, especially on industrial goods.

The inflation rate decreased significant in 2009 (2.1%) and the EU's forecast talks about the same rate in 2011 (Business Monitor International, September 2010). This

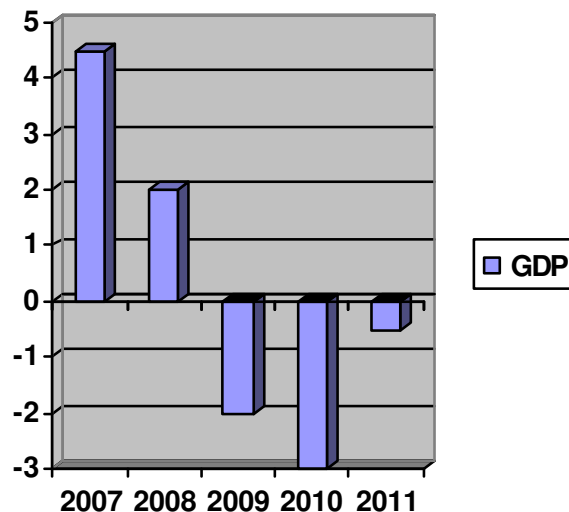


Figure 9. The evolution of the GDP in Greece (Source: Personal contribution using European Commission's forecast (2010), p. 90).

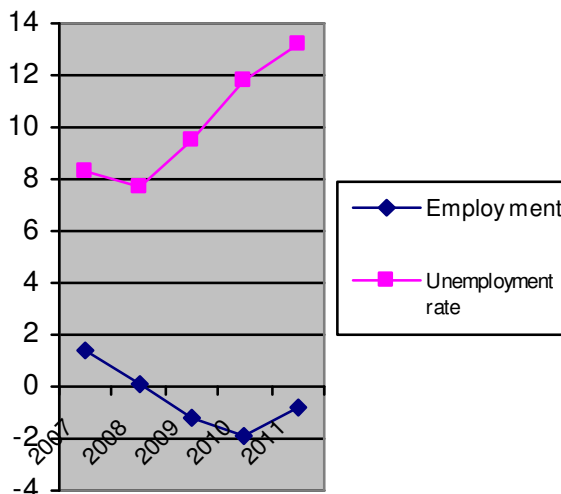


Figure 10. The evolution of the employment and unemployment rate in Greece (%) (Source: Personal contribution using European Commission's forecast, (2010), p. 90).

trend is the result of the development of the processed goods and crude oil markets (Figure 11).

Under the new challenges of the economic crisis, Greece was forced to adjust its foreign trade. As a result, the Greek exports will return on positive evolution in 2010 and 2011, while the imports will decrease during the same period. This is why the trade balance has a positive trend during 2007 to 2011 (Figure 12) (European Commission, 2010).

The problem of the Greece's debts represents a major test for the 12 years history of the Euro currency. On December 2009, the Greek government announced a

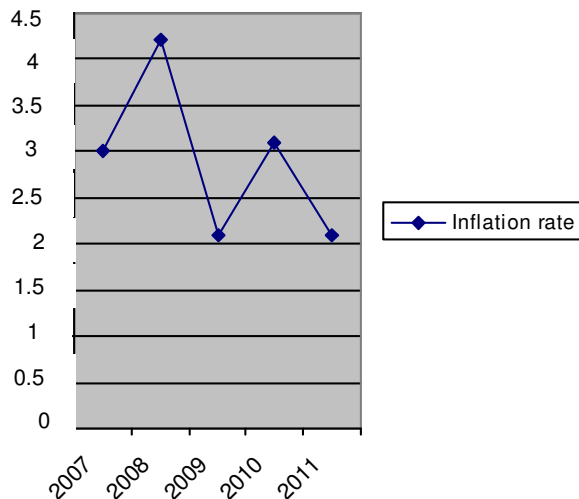


Figure 11. The evolution of the inflation rate in Greece (%) (Source: Personal contribution using Business Monitor International, Greece business Forecast Report).

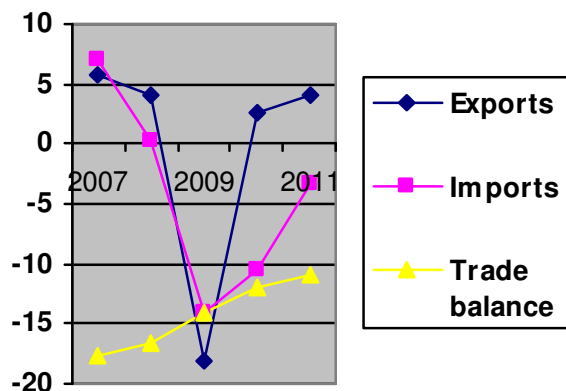


Figure 12. The evolution of the Greek foreign trade (%) (Source: Personal contribution using European Commission's forecast (2010), p. 90).

10% public expenditures decreasing plan. Moreover, the Parliament adopted a new plan to decrease the budgetary deficit, from 12.7% of GDP in 2009, to 9.1% in 2010 (Kontogiannis, 2010).

On the other hand, the general government gross debt grew during 2007 to 2011 and it will achieve a peak of 133.9% of GDP in 2011 (Figure 13) (European Commission, 2010).

Nowadays, Greece faces to an unprecedented financial crisis, as a result of the growth of its deficit and public debt. The Greece's accounts are placed under European supervision.

The panic in Greece decreased on 3rd of February 2010, when the European Commission approved the Greek plan to reduce its deficit until 2012. The Greek government will grow the taxes and will extend the

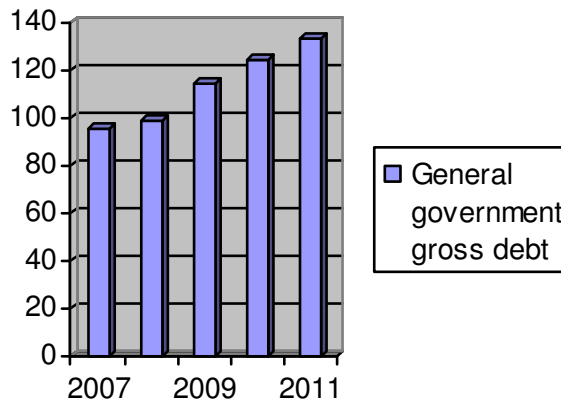


Figure 13. The evolution of the general government gross debt (%) (Source: personal contribution using European Commission's forecast (2010) p. 90).

measures of public wages' freezing. But the problems for Greece are not solved yet. The European Commission monitors Greece, in order to ensure that Greece will respect its commitments.

Greece has one of the greatest deficit (as percentage of GDP) in the world and it is forced to get back the markets confidence. On the other hand, Greece has a long history of fiscal problems. It had a deficit by 100% of GDP still it's adhering to the Euro area.

The adhering to the Euro area was a positive element for Greece, which benefited by low interest rates, which supported the Greek government to refinance its debts under more favourable terms.

Even that the economy grew by 4% until 2008, the powerful growth of the GDP covered the weakness of the public finances. The public debt decreased because the nominal GDP grew faster than the debts. The great deficits were supported by the fiscal policy relaxing in Greece, after it's adhering to the Euro area.

Fitch and Standard & Poor's (S&P) relegated the Greek bonds in 2009. On December 2009, the Greek government adopted a new plan to reduce the deficit, but the same ratings agencies put down Greece's rating, from 'A-' to 'BBB+' (Hugh Edward, 2009).

The economic crisis from Greece had a negative influence on the Euro exchange rate. From the first quarter of 2009, the Euro depreciated by 5% regarding USD, by 8% regarding the Chinese Yen and by 2% regarding the British Pound (Ferguson, 2010).

Moreover, Greece developed a developed underground economy, supported by a dynamic business environment. As a result, the unemployment rate was low for a long period. Michalis Massourakis, head of department at Alpha Bank (the second bank from Greece) declared, at the beginning of 2010, that about 35% of the Greek citizens are not employees and have unofficial jobs and do not pay taxes (Wenzel R., 2010).

The Greek government was forced to adopt measures

to decrease the expenditures, in order to receive the rescue package of 110 billion Euros from EU and IMF. The Greek authorities have to decrease the budgetary deficit from 13.6% of GDP, to 3% in 2014. This means a decrease of 30 billion Euros during three years, which will be supported by: the bonuses' cancellation and the public wages and pensions' freezing during at least three years. Moreover, the pensionable age for women becomes 65 years (Kapsalis, 2010).

VAT will grow from 19 to 23%, and the taxes on alcohol, tobacco and fuels will grow by 10% (Kapsalis, 2010).

THE CONNECTION BETWEEN GREECE AND ROMANIA UNDER THE GLOBAL CRISIS

Paradoxical, Greece and Romania have a lot of common problems. But they have different problems, as well. Romania faces difficulties connected to foreign trade, industry, constructions and the domestic demand decrease. The same challenges are for Greece, nowadays. Moreover, Greece and Romania have great underground economies and they are not able to maintain a fiscal discipline.

On the Romanian labour market there are no Greek citizens, but on the Greek one are a lot of Romanian citizens which work in agriculture and constructions. But these sectors collapsed. There are 60,000 new houses in Halkidiki which are not sold, nowadays (Georgiopoulos, 2010).

Both states face new challenges connected to the tourism. The number of tourists decreased very much, even that the tourists from Romania, Bulgaria, Russia and Hungary saved the tourism in the North of Greece. Romania suffers the competition of the Bulgarian resorts, which are better and cheaper. As a result, the number of German, English and French tourists in Romania decreased very much.

A difference between Greece and Romania is that connected to the strikes. There are areas in the North of Greece where the unemployment rate is 30%. During autumn, the transporters, farmers and other social categories start the strikes, which can block the frontiers. In Romania, there are not such strikes.

Both countries are in Balkan region, but Greeks are more Balkan than Romanians. In Greece, those which work in the public sector have more benefits than those from the private sector. Romanians work in industry and agriculture and do the heavy work. Greeks do not want such jobs and prefer to stay. The architects, professors and physicians have big revenues in Greece. In Romania, the same labour categories have low revenues.

The bushy budgetary system, the high tax evasion and the high consumption supported Greece and Romania to go to the economic collapse. The fiscal artlessness and the bureaucratic inefficiency characterize Greece and Romania.

In 2010, the fiscal austerity measures supported the decrease of the consumption and investment expenditures. The specialists of the National Bank of Romania consider that the economy decreased as a result of the weak recovery of the private consumption and investment demand (Croitoru, 2010). The population afraid of jobs' loss and by credits and the companies face the impact of the fiscal policy. The recession will be at least during 2010.

At the beginning of 2010, the economists from the Roubini Global Economics (RGE) forecasted a decrease by 1.8% of the GDP and an inflation rate of 5.5%. RGE considers that a severe fiscal tightening will collapse the domestic demand and will exceed recession. Moreover, the long term political volatility is able to support the fiscal slippage and the suspension of the agreement with IMF (Roubini Global Economics, 2010).

VAT increase and the fiscal consolidation measures induced the economic and financial institutes to revise the evolution of the Romanian GDP, to -2 or -3% in 2010. VAT increase will affect the households' revenues and will decrease the consumption expenditures, as a result of the prices' increase. The companies will not be able to take over this shock and 2010 will be more difficult than 2009 (European Commission, Spring Forecast p.132).

The economy of Greece in 2010 is the result of a combination of factors, including over-expansion of the Euro area, and a combination of monetarist policy, tax evasion, pursued by local policy makers and EU central bankers (Firzli, 2010).

On 23rd of April 2010, the Greek government requested that the EU/IMF bailout package (made of relatively high-interest loans) be activated (Irish Times, 2010).

The IMF had said it was "prepared to move expeditiously on this request" (Los Angeles Times, 2010). The initial size of the loan package was €45 billion (\$61 billion) and its first instalment covered €8.5 billion of Greek bonds that became due for repayment (Bloomberg, 2010).

On 27th of April 2010, the Greek debt rating was decreased to BB+ (a 'junk' status) by Standard & Poor's amidst fears of default by the Greek government. The yield of the Greek two-year bond reached 15.3% in the secondary market (Wachman and Fletcher, 2010).

Standard & Poor's estimates that in the event of default investors would lose 30 to 50% of their money. Stock markets worldwide and the Euro currency declined in response to this announcement (Wachman and Fletcher, 2010).

On 1st of May 2010, a series of austerity measures was proposed. The proposal helped persuade Germany, the last remaining holdout, to sign on to a larger, 110 billion euro EU/IMF loan package over 3 years for Greece (retaining a relatively high interest of 5% for the main part of the loans, provided by the EU) (Irish Times, 2010).

On 5th of May 2010, a national strike was held in opposition to the planned spending cuts and tax increases. Protest on that date was widespread and turned violent in

Athens, killing three people (Gatopoulos, 2010).

As of 19th of July 2010, reports on evolutions in the Greek economy have been modestly positive, citing a 46% budget deficit reduction in the first half of 2010, major labour and pension system reforms and early indications of a recession milder than originally feared (Malliaropoulos, 2010).

RESULTS AND DISCUSSION

Even that the situation is different in 2010, the Greek tradition is present everywhere. Greeks are blocked to see the dimensions of the economic disaster by a strange mix of autarchies and local proud.

In Thessaloniki, the economic system breathes the thin air of the households' savings. The restaurants and the taverns are full, the malls are assaulted by buyers, and the streets are blocked by thousands of cars.

Greece seems to be a disrupted country. In Athens, the socialist government announced next three bad years to reduce the budgetary deficit. In the North, the farmers still wait for subventions. The industry and tourism are down and the financial system presses the households' revenues. As a result, the Greeks are ready for new protest and street battles with the police and against the EU's restrictions.

Romania has great disparities between regions or between the capital and other cities. Bucharest becomes a city of the entertainment. The number of casinos and night clubs grew spectacularly. There is no other city in Europe with the same number of Ferrari like in Bucharest. On the other hand, there are areas which still live in feudalism, without current drinking water, gas or electricity. The infrastructure is broken and the two speedways from Romania are just funny imitations.

There is a matter in it, because the similarities between both countries are awesome. The financial ignorance of these two countries represents the main cause of the present social and political stress. Both countries spent significant budgetary funds to satisfy a lot of social claims. The underground economy is too big and the level of the tax collection is too low.

Greece and Romania do not have only more or less percentages; they have a lot of unsolved problems: social unrests, illusory promises and finally the dissolution.

The solution has to come from the national governments, not from IMF or EU, because the governments lead these countries close to economic collapse.

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