

## ECONOMIC EVOLUTIONS IN ROMANIA AND IN THE EUROPEAN UNION IN CRISIS CONDITIONS

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### *Abstract*

*The global economic crisis is magnifying every day, and Romania began to increasingly feel the economic recession, to which economists from the whole world fail to find an antidote. Economic crisis will hit Romania fully. And there will not be a little crisis, as some still say, but will be a system crisis, an economic crisis, which if we don't understand and don't treat properly, will produce devastating effects.*

*Is the same as in the years '29 -'33, when the capitalist system of manufacturing bankrupt and it was replaced at that time with a capitalist financial system. Today, the financial capitalism is too in bankruptcy and must be replaced by another system. What will it be? The world is looking for it.*

*For Romania, in the present situation, it is extremely important to be aware of the crisis in its true dimension and try to keep manage.*

*Regarding European Union, in many ways the current economic crisis is a severe test for it. There is no secret that until now the national interests prevailed in all essential matters, beginning with that of energy security. But despite this, rhetoric typical of Brussels has managed so far to alleviate asperities moving tactically discussion in areas where septic joint positions are more easily obtained. Will be much more difficult now. Already due to political and economic pressures at home, governments of all member countries appear less willing to take into account the views of Brussels map.*

*So far the European Union authorities have officially recognized that the Euro zone fell into recession after the third quarter of 2008 was the second consecutive quarter of negative growth estimating that GDP will decrease more in 2009.*

*On these coordinates we intend to analyze the effects of economic crisis on Romania and the European Union in general, also trying to formulate possible ways to follow for decreasing the negative effects as long as their removal does not seem possible.*

*Key words: crisis, GDP, evolution, unemployment.*

### **1. SIMILARITIES AND DIFFERENCES BETWEEN THE CRISIS OF 1929 AND THE CURRENT ONE**

The context is new. Mechanisms and possible effects of financial crisis may be encountered, even partially, in the recent history of Romania. It happens almost eight decades ago - during the Great recession. **1929: "Black October"** In the recession of the last century things stayed the same as now: the approach path and unprofessionally crisis. A few months before, the economy "roar" and a few months after it collapsed, banks were desperate calls for the lion's fragile support. In 1929, at the end of a golden decade that

dimmed the memory of the First World War, the crisis hit full in Romania. Scholarships were collapsed, large companies began to stagger to the ground, and "unemployment" became, from a simple word, a daily reality alarming.

Nor never seemed more obvious than the capitalist citadel, in the following months and years that followed the "Black October" of 1929.

It have been almost eight decades since then, and Romania beats at the gates of a new economic crisis of proportions, and the comedy and tragedy still up dough from which the country is prepared the anti-crisis solutions.

Wall Street entered in collapse the first time on 24 October 1929. In Bucharest, news get more difficult to people. Internet was not yet processed thousands of miles away-in seconds. Three days later, the biggest Romanian newspaper of the time, "World", dedicated, finally, a "box" event: "The Exchange effects in New York were trading on a number of about 14 million shares. The meeting went extremely rugged and partly in an atmosphere of panic, with considerable decreases in huge classes of most papers.

No "Morning", the newspaper political of the Left side is not very much in a hurry. Only on November 1 on the first page they are announcing "catastrophic spill from Exchange in New York, describing in detail the chaos in the American stock exchange.

When it comes to Romania, optimism is in bloom. Crisis is always "them", others, always elsewhere: "In general, the National Bank's balance sheet shows that the economic situation began to focus on a very thorough and entitles the hope that, as we will capitalize the new harvest, improvement to stress.

Furthermore, on November 7, it was held in Bucharest Extraordinary General Assembly of the Industrialists, in the this meeting is absolutely nothing mentioned about the crisis.

On November 10, 1929, Ion Mihalache, at that time Minister of Agriculture published an article advising farmers to use them with confidence the bank loans, saying nothing about the eminent danger of economic crisis and the implications of credit to farmers.

And if the current economic crisis began with the blockage of scholarship in America, the war with Iraq, followed by blockage in the real estate market, instability of the European currency euro, which in 2008 saw dramatic fluctuations, increasing unemployment and other implications other plans. And Romania as in the case of crises, there has begun to counter the crisis when it almost loom.

What could rehabilitate Europe at this time? What is the origin and nature of the sources of instability in Europe?

A hawk-eyed about our current situation reveals that the sources of instability such as military, in Europe, are currently extremely low, almost non-existent, no state had an interest in confronting a gun in his hand.

Territorial claims, although they have disappeared completely - the case of former Yugoslav Federations - are heard more rarely, from groups with a strong extreme-nationalist character, what makes us say that there is a high degree of territorial stability, Poland, Czech Republic, Hungary, Slovakia, Romania cases.

An area requiring attention in the coming period is the economic-financial, economic imbalance - still existing between Western and Eastern Europe (in especially when states of the former sphere of influence of the USSR, among which Romania) - can become a source of instability that could lead to a crisis proportion in the EU. This should be encouraged that the eastern part of Europe out of the Cold War, characterized by a strong economic instability. Signs of economic weakness were felt on the line in Poland,

Hungary, Romania and Bulgaria, when involved in the pre-accession, these countries have made significant economic delays, some up today, persisting in - Romania and Bulgaria.

Also is known the Europe's dependence of external energy resources, it is said here the state of instability can be generated by separate or combined action of agents whose nature may vary from bomb attacks to cyber attacks.

Oil prices in particular and energy in general are very sensitive, any possible conflict may generate an excessive increase in prices, the effect is triggering a crisis, major, if an energy system such as Europe, which is forced to import the much energy.

## **2. EVOLUTION OF UNEMPLOYMENT IN ROMANIA AND THE EUROPEAN UNION.**

### **Evolution of unemployment in Romania**

In terms of statistical indicators which considers unemployment there are two ways:

- Absolute indicators;
- Relative indicators.

Absolute indicators or indicators relate to the actual number of unemployed. They are expressed in "people" ("thousand") and is determined for certain reference period: monthly, quarterly or annually. The number of unemployed is calculated and correlated with certain demographic variables such as age, sex, marital status, but also taking account of the preparation training, education or level of territorial division.

A unique feature tracked in terms of analysis duration of unemployment it is from this point of view, identify a short-term unemployment (less than one year) and a long-term unemployment (over a period longer than one year).

Unemployed, representing an economic category whose defining attracted numerous approaches.

In Romanian statistics, the number of unemployed is determined in two variants:

- **Registered unemployed** are persons who have declared that in the reference period were entered the offices of the labor force and unemployment, whether or not receiving the allowance support, unemployment or other forms of social protection.

- **Unemployed B.I.M<sup>1</sup> in effect.** are persons 15 years and over who during the reference period while satisfying the following conditions:

1. Have no job and no activity in order to achieve revenue;
2. Are looking for a job, using the last 4 weeks in various ways to find: the registration of employment and unemployment agencies or private placement, arrange to start work on your own ads or publication responses to ads, calling on relatives, friends, trade unions etc.;
3. Are available to start work in the following 15 days, if you would immediately find a employment;
4. Are also included: Persons without jobs available to work, waiting to be recalled to or who have found a job and is to begin work on a later date the reference period;
5. People who usually are part of the population of inactive (students, retired persons), but said they are looking for a job and are available to start working.

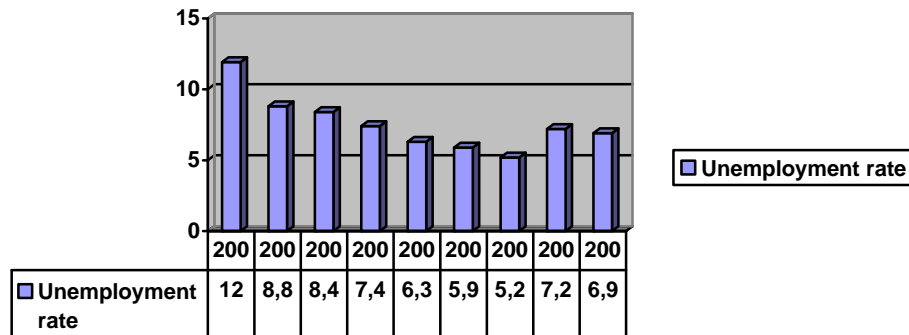
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<sup>1</sup> International Labor Office.

The relative values that the intensity of unemployment is one of the most key of macroeconomic indicators: the unemployment rate. This is determined by reporting total number of unemployed to active population and is expressed as a percentage. The rate of unemployment and development is one of indicators depending on who is taking some measures to protect social or economic policy decisions.

It is noted in the chart bellow that the unemployment rate has tended to increase from 2006 to 2008, while unemployment in the period 2000-2005 has been controlled in the sense of a decrease.

**Table 1. Unemployment in Romania. Period 2000-2008:**



*SOURCE: The Annual Statistics of Romania*

Unemployment rate recorded at the end of December 2008, at the national level was 4.4% higher than the 0.3 percent in December of 2007 and than in November 2008.

The labor market in Romania was characterized by a constant rate throughout the year 2008 with a slight increase in December, the annual average was 4.0%.

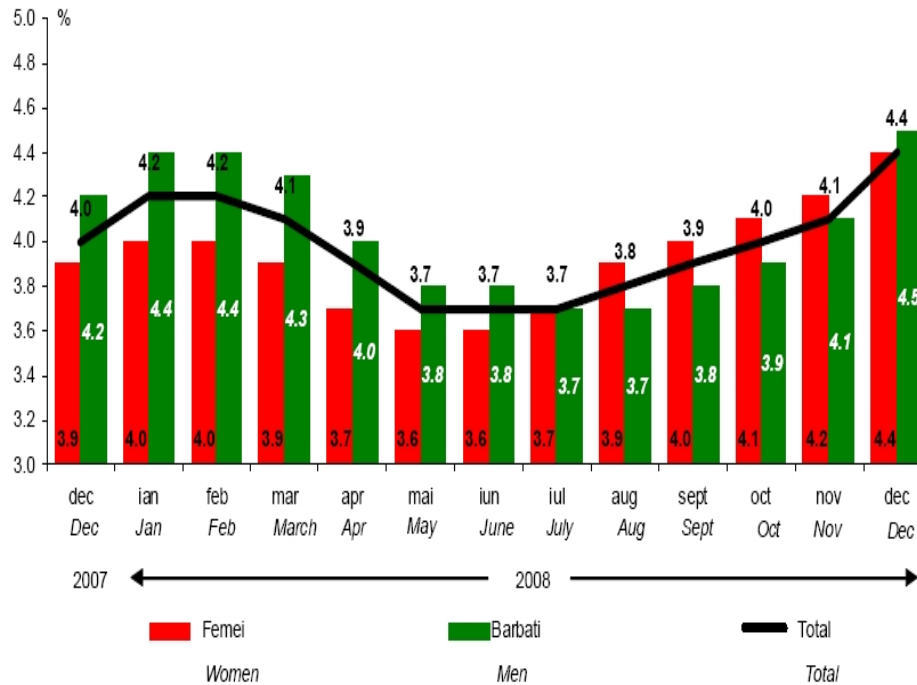
This shows again the direct link between socio-economic characteristics of each area and the development of unemployment, regional disparities that can be solved only in time, efforts and providing necessary resources.

#### **Evolution of unemployment in the European Union**

According to Eurostat<sup>2</sup>, unemployment in the euro area reached 7.2% in October compared to 7.3% in September. In the EU, the unemployment rate was in October, 7%, as in September, but 0.8% less than in 2006. The lowest unemployment rate in October was 2.9% in Denmark Netherlands and 3.15 and the highest in Slovakia was 11.2% and Poland 8.8%.

<sup>2</sup> Eurostat is the Statistical Commission of the European Union, the Romanian National Institute of Statistics of Romania.

**Table 2. The unemployment rate in Romania, in 2008**



*SOURCE: The monthly statistic bulletin no.12/2008.*

However, in 23 Member States recorded a fall in unemployment over the year, while four of them in the unemployment rate has increased. The largest decreases were recorded in Poland from 8.8% to 12.65 and the Czech Republic, from 6.75 to 55. The largest increases in unemployment were recorded in Portugal, from 7.8% to 8.5% in Ireland and from 4.2% to 4.4%.

Eurostat estimates that a total of 16.5 million people in the EU had a job in October, of which 11.1 million came from countries in the euro area. In October 2006, 18.4 million Europeans were unemployed, of which 12.1 million came from the euro area. Also during the economic crisis the unemployment rate in the United States was 4.7% in October 2007, while Japan was 4%.

### 3. EVOLUTION OF GDP IN ROMANIA AND THE EUROPEAN UNION

During the economic recession, a higher tax reduces aggregate demand and hence investment, leads to the redistribution of resources through occult parallel formal economy, and increases size of illegal economy. Rather, the stages of economic boom, the consumption is over, a tightening of fiscal measures is appropriate to reduce the phenomenon of "warming" of the economy and thus to circumscribe inflation in controllable limits.

With regard to the budget of Romania since 2009<sup>3</sup>, article 2, paragraph(2) State budget income is set at the amount of 103,856.6 million lei, and expenses in the amount of 117,032.3 million lei, with a deficit of 13,175.7 million lei.

Article 2. (2) The state budget for 2008<sup>4</sup> shall be revenue amounting to 67,004.7 million lei, and expenses amounting to 78867.9 million lei, with a deficit of 11,863.2 million lei.

It notes that the current slump, revenues have almost doubled, while costs decrease by one third, to achieve the rationalization of public money, the budget deficit increased very little.

Regarding the conditions of funding, currently Romania expects receiving loan from the International Monetary Fund, to begin unlocking the banking market, in this case the relaxation of loans, a resumption of lending activities, financing and restart economic activity overall.

Gross Domestic Product estimated for the quarter 2008<sup>5</sup> was 159,430.4 million RON current prices, up - in real terms - by 2.9% over the 2007 quarter.

Gross Domestic Product estimated for the first half of 2008<sup>6</sup> was 195,764.1 million lei, up 8.8% over the first half of 2007. In second quarter 2008 gross domestic product was 109019.1 million lei in current prices (GBP) growth in real terms by 9.3% over the same quarter of 2007.

Gross Domestic Product estimated for 2007<sup>7</sup> was 404708.8 million lei, up 6.0% over 2006. In IV quarter 2007 gross domestic product was 137768.5 million lei in current prices (GBP) growth in real terms by 6.6% over the same quarter in 2006.

Gross Domestic Product estimated for 2006<sup>8</sup> amounted to 342,418.0 million lei current prices (USD), increasing in real terms by 7.7% compared to 2005.

In IV quarter 2006, Gross Domestic Product was estimated at 112,475.7 million lei current prices (USD), with 7.7% higher than the same quarter of previous year.

The situation of public finances has been shown to be significantly better than expected in the autumn, because the average budget deficit fell from 2.3% of GDP in 2005 to 1.7% last year in the EU (from 2.4 % to 1.6% in the euro area), mainly due to higher revenue from taxes. This should have a positive impact throughout the forecasting period, showing a decrease in the deficit to 1.2% of GDP this year in the EU (1% in the euro area). It provides a further decrease for 2008 to 1.0% in EU and 0.8% in the euro area, the usual assumption on maintaining existing policies. It would be the lowest deficit since 2000 until now.

Despite this overall improvement, five Member States, including a country in the euro area, it still faced with a deficit exceeding 3% of GDP this year.

#### **4.CONCLUSION**

Given the current crisis, in my opinion, Romania will overcome this crisis in about 5 years.

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<sup>3</sup> LAW of the state budget for 2009, Chapter I General Provisions, published in the Official Monitor.

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<sup>5</sup> PRESS RELEASE, No.41 of 4 March 2009, National Institute of Statistics.

<sup>6</sup> PRESS RELEASE No. 172 of 1 September 2008, National Institute of Statistics.

<sup>7</sup> PRESS RELEASE No. 44 of 4 March 2008, National Institute of Statistics.

<sup>8</sup> PRESS RELEASE No. 41 of 6 March 2007, National Institute of Statistics.

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