



## **ROMANIA DURING THE POST-CRISIS PERIOD: A LIMITATIVE EVALUATION**

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**PhD. Napoleon Pop**

*,,The free person is that individual who doesn't have to say any lie”*

*Nicolae Iorga*

### **Rezumat**

Cu riscul de a repeta unele lucruri deja menționate în paginile acestei reviste, credem că ele trebuie reluate prin prisma realității economice globale și naționale, în permanentă schimbare. Acum, când se „cochetează” cu ieșirea din criză, există opinii contradictorii și confuze privind exact stadiul ciclului în care ne aflăm, abordarea obiectivă fiind amestecată cu mult subiectivism și emoție. Nu în ultimul rând se stăruie pe „inovație”, care nu are nimic de-a face cu teoria economică sau cu manualul de ieșire din criză, ca să nu mai vorbim chiar cu *acquis-ul* comunitar voluntar acceptat. Acumularea unui imens volum de informații privind cea mai recentă și acută criză financiară și a efectelor acesteia asupra economiei reale, care a plonjat și ea într-o adâncă recesiune, ne dă posibilitatea observării că viitorul economiei globale depinde de o nouă geopolitică și geostrategie. În cadrul acesteia distingem o resetare de interesă în jurul diferitelor grupuri de tip „G” (G-7, G-8, G-20, un posibil G-2 etc.), ducând inexorabil și spre resetarea ordinii mondiale. Fenomenul în sine reflectă o realitate obiectivă de creștere a numărului de puteri economice în lume și a calcului rece că dorința de poziționare în noua ordine mondială aduce atât beneficii, cât și costuri. Gestiunea echilibrelor globale necesită un parteneriat extins, cu posibile specializări, iar aspirațiile spre a putea impune un punct de vedere trebuie însoțite de asumarea de responsabilități pe măsură. România post criză nu poate eluda aceste realități, ceea ce înseamnă că soluția la prima ei criză ciclică, după opțiunea pentru democrația de

tip occidental, are nevoie, pe lângă măsurile conjuncturale normale, și de o viziune pe termen lung. Această combinație de tactică și strategie are rolul de a acomoda actuala ieșire din criza economică cu reforme structurale întârziate sau de actualitate, care să-i permită un real progres pe termen lung, echivalent cu un proces de convergență reală spre standardele Uniunii Europene. De asemenea, lecțiile crizelor anterioare trebuie studiate cu atenție, întrucât soluțiile pe termen scurt, poate cele mai importante din punct de vedere al reactivității autorităților, nu pot divaga de la regulile simple, eficiente, spre inovații care accentuează efectele unei crize și nu au nici o legătură cu cauzele acesteia. Astfel de tentații induc în eroare și pot deveni extrem de costisitoare pe termen lung, iar reprimarea lor are ca bază apartenența noastră la un club economic de elită, la ale cărui proceduri am aderat de bună voie, iar acum fac parte din propria noastră responsabilitate în aplicarea lor.

### **Abstract**

It is our duty to insist, by repetition, on some aspects linked with possible exit from the present crisis, observing that the general approach has had the temptation to derail from the well known and very simple rules imposed either by theory or practice in connection with the business cycle development. A great deal of information, which has been produced on the topic of the international financial crisis and its impact on the real economy development plunging also into a dip recession, gives us the possibility to observe that the future of the global economy will depend more on the geostrategy and geopolitical approach. Within the framework of this approach we see a resetting of the interests around different „G” type groups (G-7, G-8, G-20, G-2 etc), bringing us to the unavoidable resetting of the international order. The process is reflecting by itself a new objective reality of increasing the number of economic powers around the world and the desire for a new positioning of them in the new global order giving benefits and assuming costs. The management of the global equilibrium needs an extensive partnership, with possible obligations sharing, and the aspirations for imposing an individual view must be accompanied by assuming accordingly responsibilities. Romania can not avoid these new realities out of a solution to her first cyclical crisis and having the decisive option for the western type democracy. She needs, beside short term measures, a full fledged long term vision, in order the exit from the present crisis to be consistent with the

structural reforms, both delayed or actual, if she wants a real progress to the EU standards within a the real convergence process. At the same time, the lessons of the previous crisis should be attentively studied, as the short term solutions, probably the most important from the point of immediately reaction from the authorities cannot diverge from simple knowledgeable and efficient rules. The temptation, that during a crisis, one should be too innovative proves to deepen the effect of the crisis, departs to far from the real dealing with the causes, it can be very costly on long run. It is better to be keen on the real solutions, based on the proceedings voluntarily accepted of the elite economic club Romania has joined, e.g. EU, proceedings which now are part of our own responsibility to be correctly applied.

**Keywords:** financial crisis, economic crisis, causes, effects, shocks, intervention, remedies.

**JEL Classification:** E31, E61, E62, H12, H63

**Necessity for a new approach on the causes of the crisis**

Almost three years after the start of the international financial crisis, we notice a huge accumulation of economic and politic information concerning not just this devastating phenomenon, but also the solutions for the financial crisis and for the ensuing economic crisis, solutions which also prompt the need to change the current paradigm of economic development. This latter thing is necessary not because of the system of principles – democratic and of market economy – but because of the deviation from the system values, synthesized in what was generically called the omnipresence of greed: for bonuses and remuneration in the financial institutions, for cheap money which supported crediting, for ther high illusory yields of the financial derivatives, etc.

Within this context, the collateral victims, among which is Romania, suffered first of all because of the use of an impressive volume of resources to eliminate the toxic financial assets, recapitalization of the banks, unfreezing crediting in order to prevent a large economic crisis and, second, because of the excessive prudency and fear of the creditors worldwide, which resulted from the lack of trust following the ecstasy of the “great moderation”.

Gradually, the predictability, unfolding and even the premeditation of the financial crisis took not only the philosophical shade of interpreting the behavioural causes which caused the well-known result, but made room for a multitude of political statements focusing on the need to combine the challenges of the crisis with a new political opportunity, the most patented global actors – former and becoming – reaching after the famous G-20 summits, to redefine their strategic positions for a new global future, represented by a new world order. Since the end of the Cold War, this financial-economic crisis seems to get even the significance of end of a multidimensional transition necessary for such a new world order.

We underlined this large scope end, which is already more than perceptible, because we cannot speak of the after-crisis period for Romania – beyond any conjectural solutions to our own economic crisis – without asking ourselves which will new the strategic role of Romania in this new order. The solidity of the solutions to this crisis, in terms of consistency and sustainability, with the long-term perspective of our development and of the global development, can only be achieved on the basis of a recalibration of the long-term vision, while assimilating the geostrategic and geopolitical realities, which means that it would be a luxury to indulge in living at subsistence level.

Now, when we are concerned about the payment of the wages and pensions, falsely blaming it on the economic crisis induced from abroad, it is the right time to elaborate our own vision of development, covering several decades ahead, if we want to capitalise to our own interest on the opportunities painfully opened by the international financial crisis. Maybe we must remember that the lack of long-term vision, particularly during the stages of modernizing Romania, caused consistent failures, euphemistically called “missed trains”. Maybe we must remember that the shock of this crisis was amplified by the lack of structural reforms, attitude in which we persist obstinately due to politicians’ reasons even after our accession to the European Union. It would be sad to fail finalising the success of our accession to the European Union in the tone of the aspirations of the community policy.

Romania, same as the economies of many countries, has been jammed by the roller of the last financial crisis whose effects crossed unimpeded the borders of all states. In front of this reality of the globalization, the substantiation of an economic perspective, irrespective of the term of reference – short, medium or long-term – must consider the evaluation of the past and of the present, at least on two dimensions: that of the trends that will shape our economic future; that of the conjectural evolutions which, either confirm the trends, or change them suddenly.

The retort to methodology is done exclusively from the perspective of the necessity for a synthetic characterization of the medium-term impact of the financial crisis on the Romanian economy, 2007 bringing “surprises” somehow expected both for the world economy, and for the domestic economy. The conjectural evolutions of 2007, marked by the start of the financial crisis, not only interrupted the trends of the past 10 years, but also forced them to pass through an inflexion point with special features.

First, this point of inflexion seems to have concluded a stage of progress of the global economy, structured in heavily industrialised countries and in emergent economies, just because of the higher interdependence due to the growing level of liberalization of the international commercial and financial flows.

Second, the progress of the emergent countries, characterized by their higher capacity for production and export of goods and services, produced a specialisation of the heavily industrialised countries, which reached the limit of “hazard” due to the effects in the external macroeconomic imbalances.

Third, they say that a cycle of global economic growth based on low interests and low inflation – the Great Moderation – ends, which may open a new, tougher competition regarding the costs of goods and services.

Fourth, the initial acuity of the financial turbulences overlapped the effects of food products, due both to structural causes (lower agricultural land, conversion to bio fuels), and to climactic causes (global warming, “El Nino” effect, the greenhouse gas effect).

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Fifth, the shock of the offer of staple food products revealed stronger the “energy shock” displayed by the continuous trend of crude oil price increase during the past two years, with the peak of 147 USD/barrel in July this year.

Sixth, the favourable economic evolution increased excessively the investor’s appetite for risk. Unlike other recent periods, the build up of financial tensions occurred in the most developed state of the world, the USA, and the interconnections and the global financial integration caused the shock of the financial turbulences caused by the subprime mortgages crisis to spread, primarily, to the developed European states.

Last, but not least, same as in all crises, the cheap money (by cost and/or abundance of liquidity) are those which aggravate the vulnerabilities, determining the more risky capitalization of some opportunities which offer high and fast financial yields. The risks assumed by brave investors became patterns for others, separating the financial economy from the real economy, creating bubbles, stressing the gap between the nominal value and the real value of some assets, volatilizing up to zero the collaterals of the debtors.

The economic policies and the loose regulations do the rest: they obdurate the transparency of some financial instruments, overlap involuntarily the financial system of abuses, expand the volatility on all markets – monetary, currency, capital, labour force – increase the incertitude and the lack of trust, blocking the natural circulation of the cheap money. They become costly because their owners cease to offer them, their presence becoming minimal on uncertain market. The mirage of the cheap money ends by the very nature of the mirage, the attraction for risks ends with aversion to risks.

Romania, as EU member state - actor of the global economy – is exposed to these evolutions, some intrinsic to the economic option for the market, other deriving from the contractual relations focusing in principle on the values of the political and economic democracy. Technically, the connections from the global economy, also received through preferential regional groups, such as the affiliation to the EU, refers to liberalized areas (foreign trade, price, capital movement,

total convertibility etc.), which usually increases the exposure of an economy to asymmetrical shocks.

Within this context, and seeking prospective solutions to minimize the shocks – which we have to learn to live with, in an open market economy – we are compelled to: (i) acknowledge the intrinsic existence of the propagation channels for shocks; (ii) evaluate correctly the capacity to receive the propagated effects of a crisis through the normal transmission channels; (iii) know the efficiency of some filters which can deviate the frontal blow of a shock, consisting in regulation, monitoring and behaviour of the macroeconomic policies (fiscal-budgetary and monetary); (iv) the permanent establishment of financial reserves of intervention; (v) develop a capacity of coordination of the specific national measures with those of the similar institutions of the foreign partners.

The importance of these aspects must be perceived through the prism of the way in which Romania reacted at the impact of the crisis, as result of some domestic developments. Analyses of the central bank or of independent specialists noticed initially, for Romania, a temporary resistance of the domestic financial stability to the international financial turbulences, both through the indirect channel (impact on the real economy and through the direct channel (impact on the banking sector and financial markets). Ultimately, the economy which already was in crisis, had to be assisted by a multilateral agreement – EU, IMF and World Bank – requiring both agreements with the mother banks, with the branches having exposures in Romania, and a natural resetting of the domestic macroeconomic policies.

This resetting was necessary because in the years before the financial crisis, the dynamics of the real GDP exceeded almost systematically the potential GDP, maintaining a persistent excess of demand, which generated inflation. This situation led to the gradual build up of macroeconomic imbalances whose vulnerability and perception of vulnerability were stressed by the crisis.

At the end of 2008, the current account deficit was about 13% of the GDP, and the deficit of the consolidated budget was about 4.6% of the GDP (two times higher than the programmed value). This lack

of balance, by magnitude and perception, imposed a fast and adequate treatment of adjustment, as ordered as possible, in contrast with the chaotic and unpredictable effects of the international financial crisis, which necessarily contaminated the Romanian economy too. The mechanism of this contamination can be described as follows:

- **on the commercial channel**, the exports declined because the economic activity of the partner states slowed down;
- **on the financial channel**, several private lines of external financing were cut off, which required the adjustment of the consumption which was previously financed by credits in foreign currency;
- **on the exchange rate channel**, decrease of the external financing, which reflected in the depreciation of the national currency;
- **on the channel of confidence**, decrease of the exposure to risks and withdrawal of the investments in East-European countries; the new behaviour caused moments of panic and speculative attacks on the monetary-currency market, such as that from October 2008.

The economic conjecture of Romania, when the effects of the international crisis started, shows that the perception of vulnerabilities, from latent to real, increased on the background on the crisis and reflected an unfortunate combination of policies, neglecting basic laws and correlations and displaying a high sensitiveness of the foreign investors to them, which caused the Romanian economy to be penalised in terms of rating and risk premium.

The management of this crisis must take into consideration at least four weaknesses of the macroeconomic policies:

- a. **allowance of budget deficits** in the years with robust growth, which made it difficult for the fiscal policy to relax in response to the current crisis;
- b. **the fact that the size of the public sector** didn't reduce since the drive of development was the private sector, and its deficit was expanding, more than normally, but accepted within the global context of the benefits of the emergence phenomenon;
- c. **the budget policy and the income policy in the budgetary sector** fuelled, next to the crediting of the private sector, the excess of aggregate demand, increasing the difference between the actual

and potential economic growth to more than 4 pp; this difference translated less in inflationist pressures and more in the current account deficit; subsequently, within the context of the financial crisis, the perception of the danger represented by the size of the account deficit, increased;

d. **the mix of pro-cyclic measures** „severed” the normal internal correlation between the increase of work productivity and the increase of wages, with consequences on the exchange rate evolution and on the international economic competitiveness; the reserves of work productivity increase, which accumulated between 2000-2006, have been consumed almost entirely in 2007, which affected the very basis of the real appreciation of the national currency and, implicitly, the real convergence.

#### **Concerns for a sustainable solution to the economic crisis**

The characteristics of the current economic crisis, with a mesh of financial and economic aspects, require two sets of textbook measures, supported by the lessons of other crises:

The **first set** refers to the fresh priming of financial activities, while not endangering its stability, by restoring the trust in it and in the products it offers. This calls for discernment, to avoid falling in the trap of the immediate and compulsory use of some governmental resources. The injection of liquidity, duty of the central bank, must be correctly oriented, and the capitalization of the banks must be mainly in the charge of the shareholders.

The **second set** of measures concerns relaunching the demand for consumption and restoring the confidence of the consumers and investors, as remedy to the previous lack of contracts, with a soft landing adjustment. This set presumes understanding the objectivity and necessity, at least at this moment, of an optimal mix of fiscal-budgetary and monetary policies, but the manoeuvrability of the monetary policy is now much lower than that of the fiscal policy.

The empirical studies conducted on the countries which have passed through financial crises, supports the association of this set of measures with the size of the aggregate demand decrease. The answer to such contraction depends, usually, on the **economic and politic constraints**, and Romania had plenty of them when the

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economic crisis started. The situation is much better now, which influences the country rating, but it doesn't solve yet a credible start of the general economic revival also due to the observed preeminence of the speculative funds action on the authentic foreign direct investments.

Any development of a **package of fiscal incentives** cannot make abstraction of these constraints, at least until a real process of economic adjustment is noticed. We must also not forget the initial evaluation, unfortunately confirmed, that the current economic crisis will expand on several quarters.

We must take into consideration the fact that the decrease of the aggregate demand reflected the erosion of the real and financial wealth, determining an attitude of waiting before making new expenditures, an increase of the risk aversion of the creditors and investors during a rather volatile period and the decrease of the foreign demand. This context requires a critical option of starting again the drive of the economic growth either on the basis of domestic incentives, or on the basis of the incentives represented by the foreign demand.

The things we mentioned about the duration and specific features of the crisis, about the reasons of the lower aggregate demand and the lessons learnt from other milder systemic crises, and the textbook too, direct us towards an anti-crisis package which incorporates the following guidelines:

- a. **public expenditure based on the institutional functioning and focused on investments;**
- b. **fiscal incentives for the consumers;**
- c. **fiscal incentives for the economic agents.**

The anti-crisis package must be necessarily anchored in the concept of fiscal sustainability, according to the conditions of optimality of a package of fiscal incentives and of the domestic economic constraints. Undoubtedly, finding a balance in this triangulation is no easy thing, but a dynamic balance between these landmarks can be achieved, as well as adequate, professional monitoring of the results in which the social partners can trust.

**Regarding the sustainability of the anti-crisis package,** no government should support a fiscal expansion beyond the state of economy evaluated at the initial moment of that package. This presumes strict rules, in contradiction with the temptation towards inventiveness, on the background of the crisis, for other taxes and dues which to bring more revenue to the budget, the deficit of such revenues being compensated in due time by the results of the package of incentives. Thus:

- a) **the resources of the anti-crisis package** must be regenerated by the future fiscal revenue as effect of the package; therefore, the sustainability of these revenues must not be compromised, which can be accomplished by a real restart of the economy if the demand is stimulated;
- b. **the initial fiscal commitment** must fit a real need of incentives; the government will be able to do more as the change for the better of the initial conditions may grant an increase of the package;
- c. **the concern for the possible future indebtedness** of the government must be repressed by the public discourse, because the psychological effect of it on the markets will endanger even the confidence in the short-term effects of the anti-crisis package and, therefore, the medium-term and long-term effect.

Regarding the **conditioning of optimality and opportunity** of the anti-crisis package, the recommendation is that the anti-crisis package is launched at the right moment, as expression of a real answer to a real emergency. The anti-crisis package must be dimensioned at the possible prospective level of the demand and it must be applied for a period of time consistent with the estimated length of the crisis and it must include diversified instruments of stimulation, just because one cannot know from the beginning which will be the most efficient.

Last, but not least, the anti-crisis must should be available to reactivation, if necessary, which presumes a good evaluation of the moment when it stops. This characteristic of a package of incentives involves the necessity of a balance between public debt which might

cause trouble on the medium and long-term and short-term adverse effects.

### **Public expenditure**

The empirical studies show that the direct public expenditure for investments, which presume financing the purchase of public goods and services, have a significant multiplying effect, and the immediate effects are certain, compared to the financial transfers of tax reduction. The first consequence of this conclusion means the reformation of the public expenditure.

The running projects, either delayed, or discontinued due to lack of financing or macroeconomic constraints, can be refused immediately with the advantage of maintaining and/or absorbing work force and of the distribution of income as wages, which stimulate the demand for consumption.

The public expenditure directed towards investments can be increased relatively and absolutely, by freezing the expenditure with the staff in the public sector, which doesn't exclude the increase of the number of budgetary employees – also beneficial – but strictly associated to the accomplishment of the initial governmental economic projects.

Also the involvement of the state in public-private partnerships for much needed projects, through the channel of the public expenditure, reduces the risk or the low financing capacity of the private sector under the conditions of the crisis.

### **Fiscal incentives for the consumers**

The identification of such incentives must be correlated strictly with the specific causes which affect the consumption in the given conjecture, because each of them – the wealth, the crediting constraints or the propensity to save – have a different influence on the inclination to consume.

It was demonstrated empirically that the tax reductions of the transfers towards the groups of consumers which experience difficulties in getting credits for consumption (contracting new credits or debits, particularly for houses) are efficient, because they revive

part of the horizontal economy and improve the functioning of the financial system.

**Incentives focalisation** is preferred to **tax reduction and generalized taxes**, situation in which the propensity for consumption remains low, if the context of the economy remains uncertain, leading rather to prudential saving or expectation, with no effect on the positive dynamics on the aggregate demand.

Therefore, another option within this category of focused fiscal incentives is the strong commitment of the political officials towards the continuous reduction of the risk of recession and implicitly towards lower economic contraction, which modifies the very behaviour of the tertiary consumers inclined towards saving or postponing new purchases.

#### **Fiscal incentives for the consumers**

Under the current circumstances of the crisis, the companies are confronted not just with the decrease of the orders because the contraction of the demand, but also with the lack of perspective for current investments and employment. Therefore, the first concern is that the companies, even if they store the production, continue their operation, which means access to cheaper financing for the working capital.

In the first stage, the monetary policy is asked to ensure just these conditions, the access to bearable financing, according to the new economic conditions. However, taking into consideration that, unlike the public sector, the private sector is more sensitive and more open to the necessity of restructuring, as opportunity to survive, the fiscal policy can be focused towards key sectors in which the govern has interests, the incentives being either guarantees for crediting, or reimbursable funds which ensure the reorganisation when crediting doesn't function.

The subsidies or the generalized decrease of taxes don't seem to have the expected effects because they don't stimulate the reorganization, rather create expectations, and inaction and/or the delay in reorganization degenerate in bankruptcy, and the first bankruptcy triggers others.

In the very visible economic sectors, the **state aid** may be considered as beneficial, the main reason being to avoid the adverse effects of perception of striking bankruptcies, with impact on the expectation of confidence and therefore on the demand. The problem that arises is the selection of the highly visible sectors, which presumes the risk of arbitrary and political influence. The perception of this risk and its high public debate makes it difficult and incredible the objectivity of subsidy allocation, while its interpretation may be a protectionist measure in the eyes of the foreign partners.

### **Some conclusions**

The efficiency of an anti-crisis package, beyond any suspicion of favouritism, or subjective preference determined by its political nature, is instrumental for the expectations of the economic agents. However, the orientation of the incentives, although empirically demonstrated as being necessary and beneficial, function of the specificity of the causes which lead to the contraction of the demand for consumption, may acquire the connotation of voluntarism, the discretionary character of the policy, the disadvantaging the foreign corporation in competition with the local ones, protectionism or market closure.

The focalisation of the governmental incentives is preferable to the generalized or neutral incentives. The latter lead, in the best situation, to flattened constraints and the danger of further contamination, but the main danger actually is, bringing on a new level the initial macroeconomic conditions and constraints which the crisis produced. This is exactly the effect which must be avoided, because the anti-crisis package aims to change the initial conditions by stimulating the best positioned germs of restoring and renewing the demand and, implicitly, the economic growth.

Some evaluations conducted under the context of the current circumstances, show that the success of a governmental anti-crisis package needs a correct mix of policies which to compensate its lack during other periods. This mix must allow decreasing the cost of financing the economic activities, must create new niches of attractiveness for the foreign investors which to develop the national offer of goods and services, to stop the anticipated outflow of the

capital and profit, to support the guarantees for financing the exports and to allow a lower volatility of the exchange rate.

The concern for structural reforms must become dominant in the public speech, not a scarecrow. This long-term orientation, with immediate action, however, reduces the risks of dependence on the foreign financing as the main danger for the sustainability of a current account deficit within adequate limits, while the increase of wages more than the increase of work productivity leads either to higher inflation, or the a high volatility of the exchange rate. The use of the structural funds is the good solution for the productive activities related to rural development, knowing that the volatility of the agricultural production impacts on the inflation.

In the long run, the structural reforms must be continued, which will encourage the increase of work productivity and decrease the gap from the average European level. The structural reforms directed towards the simplification of the **taxes ad dues system** are primordial, this system being by far the largest in the EU; also the **reduction of bureaucracy** is important because it delays administratively all the projects of infrastructure, as well as the **flexibilization of the labour force market**, because its absence doesn't allow the reform of the budget expenditure.

The structural reforms must develop strongly the national offer of goods and services, with the absorption of the labour force and the relative reduction of the dependence on imports in the areas where there is competitive potential. In this way, and under the conditions of its regional or global reintegration, there is a chance to create buffer modules which dampen, absorb or delay the asymmetric shocks. Any delay in starting structural reforms will make the shocks of other possible crises be felt painfully by the Romanian economy.

The vulnerabilities of the Romanian economy, which passed through its first cyclic crisis after returning to market economy, must be eliminated and the basic macroeconomic balances must be sought, catching-up included, which reflects the good side of globalization. This presumes:

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- the necessity to revert to a sustainable economic growth, so that the consolidation of short-term performance protects against the insidious accumulation of imbalances;
- public policies which stimulate the economic reorganization which is able to create the resources needed to avoid uncontrollable domestic or foreign deficits, but which require a mix of policies (fiscal-budgetary and monetary) which allow the self-regulation of the development drive.

These few considerations compel us to **evaluate the phenomenon of emergence**, with the belief that it is not just an intrinsic process of the economies having this status. The phenomenon of emergence is rather induced by external factors, particularly by an abundance of resources, which raises the paradigm of the attractiveness of a poorly structured and immature emergent economy. The illusion of the boom of the emergent countries was mainly the result of pumping in money saved by other countries, while the divergence of interests between the foreign investors and the host countries created speculative bubbles in these countries too.

It is very true that we must also accept the thesis (already verified by the financial crises) that the mentioned divergence may degenerate in a dangerous boomerang for the investors using foreign resources, just due to the exposures which reached risky levels because of the vulnerability of the host countries materialized in budget deficits, current account deficit, high inflation and national currency depreciation. The debts are more difficultly recuperated at the point of destination, while the continuation of financing becomes more difficult at the point of origin.

What follows, including for Romania, as EU member state, in terms of the anti-crisis package and of the agreements with the EU, IMF and the World Bank, is the sustainable reduction of the public deficit, particularly of the budget deficit, by joining the Pact of Stability and Growth. The problem itself is to leave out the incentives and to ensure the future payment of the public debt, which is not at a worrying level, though, to the extent to which the refreshing of the private sector – due to this package – may reduce sustainably the private foreign debt.

Although the economists agree that, globally, the worst of the crisis has passed, and that a rising trend follows, the firmness of this trend may be uncertain. The governmental incentives have created new bubbles for the support of the financial system, the moment of their withdrawal anticipating problems, and these risks may lead to several possible scenarios for the future of the economy. Romania seems to be exposed to the economic revival with the danger of the initial increase of the inflation and of unemployment, while the credits, investments and consumption will restore more slowly.

The domestic private consumption, if the governmental incentives will be assimilated in a productive manner in projects of the private companies, and the foreign demand, will be the drive of the economic revival on the medium term. The monetary policy is invited to a proper management of the liquidity, for the control of the domestic inflation and of the inflation induced by the imported goods, equation which cannot overlook the exchange rate.

Because the level of the state aids was much over the absorption possibilities of the economy, the national anti-crisis program must avoid the risk of a W restoration, which means that recession might strike back. This scenario presumes the risk that the technical unemployment becomes final unemployment, with impact on the solvable demand.

The confrontation with the budget deficit and with the increasing oil prices, as sure and intrinsic premises of the economic revival, might generate an inflationist shock, if the financing of the domestic public debt isn't done at low costs and in a sustainable manner in terms of the expected effects of the improved revenue to the budget.

Therefore, we consider that the stress of the public policies must be on well-known elements, and their action must be simple. We support this statement by citing two famous personalities whose statements, although two millennia apart, have unaltered pragmatic significance.

The first quotation is from Cicero, from a discourse in the senate, in 55 B. Christ: „***The national budget must be balanced. The***

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***public debt must be decreased. The arrogance of the authorities must be tempered. The payments towards the foreign governments must be reduced, if the nation wants to avoid failure. The people must learn again to work instead of being assisted with public means”.***

The second citation is contemporary, from Paul Hawken, form an essay on business development (*Growing a Business*): „***A good management is the art to solve the problems in such a manner, with so constructive solutions, that you bring everybody to work to deal with these solutions”***“.

The joint appeal of the two authors to the need for more work, the only one which adds value, sends us to the measure of the efficiency of the packages of governmental incentives, to the increase of work productivity and competitiveness of the national production. They are the only guarantee that the public policies can restore and consolidate the macroeconomic balances.

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