

IMPLICATIONS OF GLOBAL ECONOMIC CRISIS ON THE BAKERY INDUSTRY IN ROMANIA

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Because of globalization, countries may be exposed to international economic events and economic shocks. The most convincing manifestation of this kind is a financial crisis. Vulnerabilities created by the financial system have led to the crisis at the end of 2008. Romania is certainly one of the countries affected by the effects of this crisis worldwide. Therefore, the aim of this work is to highlight the impact of crisis on the bakery industry in Romania, and a set of steps to exit the current crisis in its industry.

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Financial crisis - a result of globalization

Because of globalization, countries may be exposed to international economic events and economic shocks. The most convincing manifestation of this kind is a financial crisis. In such moment, there is a tendency in the financial market to invest foreign capital in quality segments of the economy. Because of this, market economies in training and developing countries will no longer have access to international capital, in the short term. This situation is generated by real estate credit crisis in the United States and energy insecurity perceived by market. However, this did not become dramatically.

Lately there have been various proposals regarding the adaptation of monetary and financial system to these challenges. These proposals can be grouped into three categories: prevention and crisis management, regional and global cooperation, reform the institutional framework. There are concerns about the vulnerability of international financial systems from abuse. An adverse effect of globalization on financial markets is that the system has become more difficult to protect against abuses such as money laundering, financing of terrorist and criminal activities, tax evasion, and flight from the rules.

It is possible to "fall into another great depression" in the world, in terms of production and labor, as has happened in the 30's. Therefore, States should learn a lot during the 30's. First, a key element of that period was that banks were allowed to failure. Unfortunately, today we know very little about how to stop the destabilization of the banking system in the world, known as "global deleveraging". Responsibility for dealing with this major financial crisis lies with fiscal policy. Inflationary expectations put great emphasis on the dollar, and thus push trading partners to reduce interest rates and to engage in their own forms of monetary expansion and a greater appreciation of their currencies and exports decline.

Result of inflation will be higher in the world, but this is the only realistic way to persuade Member States to take the necessary measures to stimulate strong economies or to save the poor.

Financial system composed of powerful banks, but also the "Shadow" has helped to create vulnerabilities that have led to the crisis in September 2008.

This financial system, which means of not only U.S. banks, but also most parts of the global financial system, is able to manage the crisis. U.S. financial system, including the large firms is significantly better than that of emerging markets. However, after the crisis will be no more than six large banks in the U.S. The new entrants will threaten them in a very small extent.

Implications for the Euro, will be diverse, being affected in particular the poor, including those belonging to the European Union.

For example, Greece is facing the most problems with a debt of 20% of GDP and default risk exposure is significant. The propagation of the crisis came and in countries like Ireland and other smaller countries, which will need to implement fiscal austerity budgets or request support. Another country that is also likely to come under pressure because of its large debt is Italy.

Globally the focus is on the coordination of fiscal policy. Making of monetary policy in Europe will be slow, and the ECB (European Central Bank) concerns for the inflation which will follow, rather than what happens today. States must dramatically change their way of thinking in terms of fiscal policy. This should prepare for other major crises that may arise. Monetary policy and the regulatory authorities will be left behind; the responsibility for dealing with financial crises lays fiscal policy.

In order to create conditions for stable economic situation in the long term we must identify the real problem that created the current situation and likely pushed the world economy at this stage of instability.

Clearly, it is not about a set of unbalanced payments (USA, China), nor a particular set of internal regulations. The basic problem is that after 90's, "Great Moderation" of volatility in industrialized countries has created conditions

in which financing loans exceeded the GDP and could grow rapidly in any period of economic boom. In addition, globalization has allowed banks to expand ever more. Globally, economic growth in recent years was based in reality on financing and able to continue so long or could soon fall, as happened at the end of 2008.

The world financial system allowed easy movement of capital around the world. Capital flows at global level are not necessarily a bad thing, because by providing those in States where they are very useful promote economic growth, particularly in developing countries. However, globally, this system also allows to "feed" with money states located anywhere in the world, thereby aggravating the systemic risks. For example, when billions of dollars come from the richest countries in a country of 320,000 people, like Iceland, the risks of interest rate reductions are amplified.

Debt globally has also been a major factor contributing to today's recession. In this way, emerge the disadvantage that large firms in the period of crisis, instead of wasting money, go bankrupt. The ideal global growth requires a new balance in the non-financial sector, as may be industry, retail, etc. In particular, advanced economies like the U.S. and UK, financial sector has known an increase in corporate profits. However, the financial sector in U.S., despite the experiences of recent years, is still strong enough to withstand significant structural reform. To prevent the creation of vulnerability in the future and to understand the stability should be rethought how the economy works today.

Regarding the situation in Romania, companies have made massive layoffs, reductions in production and ceasing investment in 2008, but especially in early 2009, due to decreased orders on the background of economic and financial world crisis.

Lack of mortgage loans with high risk led many to hope that Romania will not be affected by the crisis that began in the U.S. since the summer of 2007. However, as the credit crisis has spread to all the powerful financial centers of the world, trust between financial institutions has been lost, Banks do not know which is the financial situation of competition and they are afraid that is very likely to give money to loan, but no longer able to recover. Thus, it has created a financial jam propagated by financial institutions in Romania. Many of them had to stop the credit lines of companies and thus were affected immediately the costs of production and investment. In this crisis from the real economy, exporters get hit the hardest because the demand and funds from the European Union and the United States, the main business partners of Romania, began to decline with the crisis extending.

Official statistics show that the Romanian economy started to be affected by the crisis in the last three months of 2008. Thus, industrial production decreased by 0.7% in October from the previous month, while over the same month in 2007 it decreased by 3% because of the decline was 4.6% in manufacturing, decline which could not be offset by increases in the utilities and extractive industry, according to data published by the National Statistics Institute. In addition, turnover of retail trade fell in October by 19% compared to the previous month. The annual growth rate has stopped at 8.6%. New orders in industry were 3.6% lower in October than in previous month because of reduction in the capital goods and household product. Imports of goods in Romania have significantly slowed the pace of growth in October to 3.6% compared to same month in 2007, while exports advanced by 13.3%, the evolution of the monthly trade deficit decreased by 9%.

Economic crisis and its impact on the bakery industry in Romania

Agriculture is among the areas that were affected by the crisis, mainly due to the grain exchange crash. The price of wheat and maize was reduced significantly at the end of 2008, approximately 30% -40% less than the previous, much cheaper than a few months before. This was because there were significant reductions in both the stock exchange in Chicago and the European exchanges.

Players in agriculture are of the opinion that in Romania cereal prices are much lower than in European countries. In this respect, an example may be that the price of wheat in Austria and Hungary is 220-235 Euros / tone and in Romania, tone of wheat can reach 111 euros. In the case of maize, it is sold in Hungary with 130 Euro / tone in Austria with 135 Euro / tone, while in Romania at 85 Euro / tone. These price decreases will lead to the elimination of stocks of cereals and implicitly, to call on imports.

In early 2008, specialists in agriculture estimated wheat production of 7.6 million tones and maize at 8 million tons. However, drought and floods in the summer of 2007 changed goes to farmers who have received only 5.6 million tons of corn.

Although prices on international markets have fallen heavily, at that time, in our country they were well below those values, which led to export about 30% -40% of total production.

Financial crisis has already affected farmers who have turned to loans in recent years and changed the development plans of some, and most of them have dropped several projects that were to run in the next period. The players in industry have delayed modernization projects as requiring large loans, and this period is not advisable to use them. In Romania are around 9.4 million hectares of arable land, of which the greatest 50 players operate about 4% working in the agricultural sector.

Agriculture has felt the effects of the crisis in 2009. Nearly 15% of farmers in Romania are out of business in 2009 because they have failed to resist the market after the financial crisis. In November, the Federation Agrostar asked the Ministry of Labor and Ministry of Agriculture as 50,000 employees to get unemployment technical and

investment in the bakery industry has been affected by the economic crisis because of the limitation of access to credit.

The internal milling and bakery reached in 2008, 2 billion euros, up 15% compared to 2007. Consumption of bread dropped in Romania in 2008 to 1.5 kilograms per capita. Meanwhile, with decreasing consumption of bread has been an increase in confectionery products.

Economic crisis since the end of 2008, has affected investments in the bakery industry, estimated at 100 million euros for 2009. Many potential investors have had to resort to loans to make investments, a possible restriction or inability to obtain credit will lead to surrender to obtain them.

Another problem faced by the bakery industry, against the backdrop of economic crisis, is that the dealers who are granted merchandise credit; in the defense of problems in obtaining credit, they are unable to pay the freight and this strongly affects industry.

At the end of 2008 in Romania bread consumption has decreased by 1.5 kg, reaching 112 kilograms per capita per year. The tendency was to place us in the European context, where the average annual consumption of bread was about 80 kg per capita per year. The internal milling and bakery reached in 2008, two billion, up 15% over 2007.

Anti-crisis measures proposed by the National Association of Industries for Milling and bakery in Romania

The current economic and financial crisis creates major difficulties for the agro-industrial sector in Romania, especially due to how extremely bad the problems were managed in this sector at home, European and international. After real and pragmatic analysis of the current situation and perspective, the National Association of Industries for Milling and Bakery in Romania identified a set of critical issues that require rapid and efficient solutions to exit the current crisis for the cereals sector. This set creates real prerequisites for entry of Romania into a competitive position that will correspond potential exploited only to a maximum of 20-25%.

Thus, the proposed measures are:

1. Tax evasion (and implicitly the non-collection of revenue in the budget) level exceeded 75%. In these circumstances, the measures in force, and any new rule of the grain may not have any application, even on the contrary, it will deepen the economic and financial indiscipline and violation of the law.

Following the evaluation of possible solutions to eliminate this situation resulted that the only real and fast solution that do not require special effort budget (which require specifying the sources of extra budgetary funds) is decreased VAT branch primary grain production, storage, and milling, bread from 19% at 5%, practiced in general in the European Union and internationally.

Given the current level of collection, this would involve an insignificant decrease in the revenue budget, while the positive effects on the most important branches of agro-industrial product in Romania (the only one with all items fully Romanian) are incomparable: maximum positive impact of interventions to support farmers, possible to monitor the real market and accurate sizing of regulatory measures, optimal recovery of the internal market and export.

2. One of the major impacts on the national budget is the lack of receipts from the EU. Planning development measures, assessment and approval of projects, providing logistical and financial infrastructure, ensure resources were very good on paper; in reality they are not correlated, and the purpose is missing entirely. The effect is already known: although they were caught in the budget, there was no collection.

Currently starting any project is virtually impossible; banking system has blocked loans for investment, interest rates are prohibitive, and the exchange rate has increased significantly and evolution is unpredictable.

Commercial banks are subsidiaries and branches of foreign banks, whose main concern is to extract existing capital in the country and not supporting the economic development of the internal mechanisms of exit from crisis.

Under these conditions the Romanian government must ensure the following measures:

- Ensuring credit projects structural and rural development with interest below the level of 10%;
- Ensuring the risk of depreciation of the national currency under the acceptable level for rural development projects;
- Loans to finance exports of Romanian agro-food products.

3. Cereals Market in Romania, and implicitly of derivative products, is completely uncontrolled (quantity, quality, food safety and protect farmers and consumers) and dominated largely by the interests of maintaining a high level of tax evasion and the underground economy.

The certificates of deposit, passed in 2002 were intended to ensure:

- evaluating single unit (standard) products, monitoring and full traceability of seeds (at farm gate and to the processing or export);
- Ensuring an effective and credible national storage through licensing;
- Financing of farmers by certificates of deposit;
- The effective functioning of Romanian Commodities Exchange - Cereals floor was not finished until now. Legislation has been updated and the building was not completed.

4. To be competitive on foreign markets, agricultural exports have quality and lowest prices on the market. Exports of food products are virtually nonexistent. Quality products and value added are not competitive in terms of price on third markets.

An important measure to boost grain exports branch is the renegotiation of EU quotas to ensure that levels of export refunds on cereals and flour in third markets.

Conclusions:

First, to stabilize the economic situation in the long term is needed to identify clearly the real problem that has pushed the world economy at this stage of instability.

As a result of the effects occurring against the backdrop of this economic and financial crises, Romanian companies have resorted to massive layoffs, reduced production and suspend investment in 2008, and in particular in early 2009.

As regards the impact on the bakery industry in our country, the effects were the reduction of investments; one of the reasons is that access to credit has become increasingly restricted. And bread consumption has decreased; the trend is that of our place in the European context, where the average is well below average in Romania.

In my opinion, the main concern of institutions able to take such decisions is proposing to implement a set of measures to make possible the rapid and efficient approach to solutions, both for the exit of companies in crisis bakery sector as and to create real prerequisites for entering them in a competitive position.

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