

## THE DECREASE OF THE WORLD CRISIS EFFECTS ON THE BUSINESS ENVIRONMENT

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The current economic crisis has abolished temporary solutions that have dominated the world economy since mid 1980s. Profits were not created by production but by movement and change. Laissez-faire market fundamentalists of the last 20 years have failed the test of reality. Financial deregulation created the premises for the accumulation of risky positions which have pushed the global economy into a debt deflation that can only be countered by government debt inflation.. Based on this observation, the present paper reviews some aspects of the relationship between the economic and financial crisis and the global economy. These issues consist of analyzing the impact of the global crisis on the global economy and in particular on the EU economy and implicitly on that of Romania and also the economic signals of the mitigation of the effects of the crisis on the business environment. The economic crisis has surprised the European Union member states in full construction of the welfare state. Under these conditions, most of the EU countries have launched anti-crisis measures with short-term effects. The measures to stimulate the economy have consisted of an increase of public spending with the aim of preserving existing jobs and creating new ones. The total impact of the financial crisis is still hard to predict. As the largest financial crisis since the Second World War, there is currently a great uncertainty considering high risks of falling. The European Union Member States will be affected differently depending on their exposure to influences from the outside, the specific characteristics of the country and the needs of the population. This study highlights the impact of the global crisis on the EU economy in general and on that of Romania in particular, the effects of economic recovery measures adopted by the European Commission and the Governments of the member countries of the European Union, and the first signs of economic recovery, both at EU level and the Romanian economy level. It was concluded that there are good chances for breaking the current economic order. The shape of the future economic policy will depend more on the vision of the managers than on the influence of the so-called objective factors. What will replace it will not only depend on the "objective" circumstances, but also on the ability of those left to implement their own views on an economy based more on need than on profit to replace the financially determined accumulation over the last twenty years.

Keyword: economic crisis, economic recession, economic recovery

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### **The impact of the global crisis on the global economy**

In the tenth decade of the twentieth century and the first decade of the twenty-first century, the cyclic and non-cyclic crises which affected the international trade and the world economy increased, the peak of the crisis being first recorded in the US, by the housing crisis which began in 2006, later exported to Europe starting with

the year 2008.

When speaking of the global crisis we take into consideration two types of crises: financial and economic. The financial crisis is the functioning of the banks, the access to credit, the re-crediting and the economic crisis comes under the stagnation or the falling of the industrial production, services, exports. Without access to credit and foreign investment, the financial crisis has turned into an economic crisis, the industry, the services, the exports, the imports have begun to decline in most European countries.

The current economic crisis has abolished the temporary solutions that had dominated the world economy since the mid 1980s. Profits were not created by production but by movement and change. Laissez-faire market<sup>2</sup> fundamentalists of the last 20 years have failed the test of reality. Financial deregulation have created the premises for the accumulation of risky positions which have pushed the global economy into a debt deflation that can only be countered by government debt inflation.

The world economic crisis has surprised the EU states in full construction of a welfare within the Union. Large budget deficits and exacerbated public debt have laid the groundwork for the installation and the spread of the crisis. The need to counter them have prompted the European officials to adopt policies of budgetary austerity and to implement measures to stimulate the economy. For this purpose, most of the EU countries have set themselves on anti-crisis measures with short-term effects, the main aim being rather to reduce budget deficits than to implement sweeping reforms. The measures to stimulate the economy have consisted in adopting programs of "investment", in fact public spending geared towards strategic areas aimed at enabling the preservation of jobs or the creation of new ones.

In what concerns the economic agents, the economic crisis has manifested itself through collective redundancies, closure of business units, wage cuts and increasing of the retirement age and increasing of taxes such as VAT.

The financial crisis triggered in the US and which has affected most of the world countries is the direct effect of the fact that no progress has been made in the sense of equalizing economic conditions in the functioning of the international financial system. According to John Bari, the international financial system "represents the backbone of the economic development of all the nations"<sup>3</sup>.

The financial and capital market globalization is a very controversial process mainly due to repeated financial crises that had shaken the world economy culminating in the actual financial crisis which broke out in 2000 in the United States. The repeated financial crises generated losses to the entire world economy because given the liberalization and increasing interdependence among nations, hence the external vulnerability, "the phenomenon of the crises contagion through various transmission channels (international trade, exchange rates, foreign direct or capital investment , political links , economic crime, etc.)

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<sup>2</sup> Laissez-faire is an economic system in which transactions between private parties are free from [government](#) interference such as [regulations](#), [privileges](#), [tariffs](#), and [subsidies](#).

<sup>3</sup> Bari loan (2003) 'Contemporary Global Issues' Editura Economică, București, 2003, pag. 110

increased"<sup>4</sup>.

While anticipating events is difficult at any level of probability, it seems that the injections of funds made so far have recovered to some extent the stability of the banking system. Although the housing boom in the US and a number of European countries has proved to be a speculative bubble, it did not end up in loans so large as to shut down the financial system of industrialized countries. It should also be kept in mind that if mortgages are not paid in full the homes on which they were committed are not totally worthless.

In assessing the costs of stabilization we have to pay attention to the baseline values as were the 700 billion dollars attached to US guarantees. The guarantees include three different types of expenses. Firstly, there is a direct financial assistance of banks. This is a real cost. Secondly, there are guarantees on loans. These are real costs only if the loans made henceforth are not returned. These are measures to increase confidence and they are not expected to bring significant current expenditures. Thirdly, there is a direct government loan to ensure the flow of money in the financial markets. It will become a real cost if interest rates on loans are unrealistically low or if the loans are not returned.

### **The impact of the global crisis on the Romanian economy**

Regarding the effects of the crisis on the Romanian enterprises, they are found to have been seriously affected by the measures imposed, such as the introduction of the flat tax, the VAT increase, which resulted in the freezing of the activity of many companies, the bankruptcy of others or the entry into the insolvency proceeding and / or the reorganization procedure, the voluntary closure of companies, the rising unemployment, the lower living standards, the decreasing of supply and demand, the decrease of consumption, the decreased public confidence in the anti-crisis measures proposed and approved by the Government, the decrease of economic productivity.

In Romania, in two years of crisis (2009 -2010), it is estimated that there were 200,000 companies which closed down, over 300,000 people were laid off, the wages in the public sector were reduced by 25% and the VAT increased from 19% to 24%. Other 200,000 companies ceased operations and the phenomenon of illegal payments to employees exploded during the crisis. The changing of the Labour Code in 2011, through the implementation of strong measures to sanction operators that use labor unregistered at the Territorial Labour Inspectorate (including prison) led to the establishment in the first three months of application of no less than 480,000 jobs.

The global economic downturn affected all Romanian companies, from the largest to the smallest. Moreover, access to funds that banks could have provided to the business environment was locked by the state. Basically, through the Ministry of Finance which borrowed from private banks almost all the money supply in the market in order to pay public sector salaries and pensions, the Government blocked the national economy indirectly. Thousands of companies across the country waited for an unreasonable long time the VAT refunds to which they were entitled and which the IRS was delaying to carry out, exceeding the deadline months in a row. Instead, for every invoice issued, but not received, the state still

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<sup>4</sup> Bari Ioan (2003) 'Contemporary Global Issues' Editura Economică, București, 2003, pag. 111

obliged companies to pay VAT, decapitalizing them and pushing them into bankruptcy. The establishment of the flat tax, which was to be paid even by companies that did not report profit determined 120.509 companies to suspend their activity in 2009.

At national level, we can talk about the internal and external factors influence on financial indicators of the year 2009, as follows:

- The depreciation of the national currency; it equaled or even exceeded in size the substantial discounts of the largest car sellers that displayed promotional prices and 30-40% discounts;
- The transactions of new cars registered a significant recoil; the decreases of volumes were 50% or even 60% over the same period last year, some car dealers being forced to close their showrooms and lay off some employees.
- The level of Romanians' real income was also affected by national currency depreciation: those who had rates to pay felt the strongest currency shock. The amounts to be paid were not to be neglected anymore, the rates increasing from quarter to quarter even by 30%, while nominal incomes remained flat or even declined in terms of rising unemployment. This could only lead to arrears and overdue, liquidity problems in the short term, the growth of terminated leases, a flood of requests to reschedule payment obligations.

The global crisis had an impact on the international trade of Romania influencing the two processes: the imports and the exports. The need to reduce the trade deficit and the decline in domestic demand led to a substantial reduction of imports, the decreases being recorded both in relation to the EU member states and to countries outside the EU. And the export volume decreased as a result of lower demand in the economic downturn context, taking into account the impact of the currency depreciation.

In Romania, according to statistics (Eurostat <http://epp.eurostat.ec.europa.eu/>, balance of payments, central bank statistics, <http://www.bnro.ro/Balanta-de-plati>), the goods and services trade was in decline during the peak of the crisis (2009), being in line with economic developments.

Tabel 1

The evolution of the services balance and the trade balance in EU countries  
1000 mil. EUR

EU average	Period (years)					
	2006	2007	2008	2009	2010	2011
Services Balance	71	87	71,3	67,2	85,4	109,1
Goods Balance	-163,3	-154,9	-222,5	-85,7	-127,8	-140,7

Source: date Eurostat, <http://epp.eurostat.ec.europa.eu>, 20.12.2012, Code: tec00044; 20.12.2012,

Cod: tec00045, <http://epp.eurostat.ec.europa.eu/>

In the goods sector, the values have increased starting 2010, in 2011 the increase recovering the fall of 2009, in full (at the import), and going beyond it at the export.

As for services, the decline continued in 2010 as well, the revival starting with the year 2011, but without reaching the value of 2008, neither at export or import. It is noteworthy that, consistently, the trade balance in the goods sector was weak, the deficit decreasing in the years 2009-2011 by lowering the import under the effect of reducing the consumption during the crisis, but also by restrictive lending conditions.

The service trade balance was constantly overabundant, with only the exception of 2009.

It can be seen that the resumption of the flow of services was inferior of that in the goods sector and with a delay of one year (2011 as opposed to 2010).

Continuing a negative rate of services trade in 2010 as well meant the restricting of the services share in Romanian exports; hence the services export represented only 17.6% of the exports of goods in 2010 and 16,2% in 2011 as opposed to 25.8% in 2008. As such, the volume and value dynamics of the international services trade of Romania express the strong impact of the global financial and economic crisis in the years 2009 and 2010, the recovery in the year 2011, failing to recover the decline from 2009 and 2010.

Because of its extraordinary character, it is very difficult to estimate how deep the financial crisis will be, how long it will last or what negative effects it will have on the real economy. This forecast is based on the assumption that the functioning of the financial markets will gradually recover in the coming months and that the negative effects of the crisis on the financial sector and the economy will persist over a long period of time. The european business environment will certainly be marked by the economic crisis and some of the most predictable impacts will be on the political, economic, social factors and the business ethics.

The total impact of the financial crisis is still hard to predict. As being the greatest financial crisis since the Second World War, there currently is a great uncertainty considering high risks of falling. EU Member States will be affected differently depending on their exposure to outside influences, the specific characteristics of the country and the needs of the population.

#### **The decrease of the effects of the world crisis on the business environment**

In the context of unsafe global conditions, the economic recovery is becoming more and more dependent on domestic demand. The latest economic forecasts confirm that the EU has been having a moderate recovery in the context of low oil prices and very flexible monetary policy. In the years 2015 and 2016, it is expected that the economic activity in the EU should increase at 1.9% and, respectively, 2.0%, after an increase of 1.4% in 2014. In the euro area, in 2014, 2015 and respectively 2016 the growth rates of real GDP correspond to a level of 0.9%, 1.6% and 1.8% respectively. Although the consumption has recently strengthened, domestic demand remains modest, partly due to significant pressure related to deleveraging in several Member States. This is reflected in the low rate of inflation and in the current account surplus increase of the euro area, which is expected to grow again in 2015, also amid a decline in oil prices since mid-2014 and the lower exchange rate of the euro<sup>5</sup>.

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<sup>5</sup> Commission of the European Communities, Communication from the Commission to the Council and the European Parliament, Bruxelles, 26.11.2015

[http://ec.europa.eu/europe2020/pdf/2016/ags2016\\_alert\\_mechanism\\_report\\_ro.pdf](http://ec.europa.eu/europe2020/pdf/2016/ags2016_alert_mechanism_report_ro.pdf)

The European Union has more than 20 million SMEs and about 50 000 large firms. Although in 2014, the business climate for the SMEs improved, it is still at an appreciable difference in relation to the situation before the crisis. The evolution of the business climate for the SMEs - determined by the UEAPME (The European Association of Craft, Small and Medium Enterprises) is enlightening in this regard.

The European Union recorded a positive trend in 2014 as opposed to 2013. However, the production levels and the employment of human resources have not reached pre-crisis levels. Notable in this regard is the situation in the EU's manufacturing industry, with a decisive role in the evolution of the European economy.

In this respect, Business Europe - the European Employers' Association - considers that the European Union is losing its competitiveness. The main causes that generate this situation are:

- The overall level of taxation with a share of GDP, which is higher by 50% compared to the US and 30% to Japan;
- The average level of taxation of low income is 40% higher than in the US and Japan;
- The administrative requirements for starting a business are 3 times larger than those of the US and other developed countries outside the EU, which is reflected in higher consumption of time and money;
- The energy prices in the EU are too high; for example, electricity prices in the EU are twice higher than those in the US and Russia, and 20% higher compared to those in China;
- The gap between the EU and its competitors, in the research and development field, amplifies, the intensity of these expenditures in the GDP being lower than that in the US, Japan and South Korea;
- The performances of the educational and training system in the EU are lower than those of its top 10 competitors, which progress more quickly;
- The access to funding is restricted, the bank loan volume of the EU companies falling on average by 10% in 2013 as opposed to 2012.

Romania is an EU member, with a high degree of integration within it, and as a result, the business environment in Romania and its performances are in a considerable degree subject to the status of the business environment, events and performances of the European Union.

The year 2014 was marked by a return of the Romanian business environment. According to the National Trade Register Office (NTC) in the first five months of this year, the number of companies that became insolvent was decreased by 13.47% compared to the same interval in 2013 at 11.030 companies.

In 2014, 7531 companies were dissolved, with 26.29% less than in the year 2013 and 7546 companies have suspended operations, down by 29.49%.

Although in figures things seem to be heading towards the better, business people are still skeptical, and the years of crisis have placed a significant impact on the way in which they make decisions and act in the context of concluding commercial transactions. It must not be forgotten that between the baseline recovery moment of the economy and that when the entrepreneurs resume to invest and trust in future developments at least 18 months of sustainable financial results of their companies must pass. Or, if many Romanian companies have increased their turnover in 2014, the profitability has not yet improved for most, mainly due to the difficulties of the bill collection from business partners.

The increase of the Romanian economy in 2014-2015 helped to recover the decreases recorded in the period 2009 - 2010 and to a slight recovery of the gaps existing between Romania and the EU Member States. These increases have also helped to improve fiscal policies starting with the year 2016, which is expected to be a bubble of oxygen to all economic sectors and especially for the business environment.

### **Conclusion**

The current crisis has been one of the most significant international events since the mid 1970s and 1980s. The created economic order following a turbulent decade is about to fall apart. What will replace it will not only depend on the "objective" circumstances, but also on the ability of those left to implement their own views on an economy based more on need than on profit to replace the financially determined accumulation over the last twenty years.