

# THE NEW GLOBAL ECONOMIC CRISIS AND ECONOMIC MEASURES ADOPTED

**Iulia Mariana BALAN**

“Stefan cel Mare” University of Suceava, Romania

[iulia.balan1@student.usv.ro](mailto:iulia.balan1@student.usv.ro)

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## **Abstract:**

*The world has changed dramatically since the beginning of the year, with the crisis caused by COVID 19 having a negative impact on the world economy as a whole. We can call it anyway: Rare disaster, a soft, a cure-free, this coronavirus pandemic, has led to the tragic loss of human lives and a major economic decline. The speed of the virus spread, took by surfing the entire world, taking drastic measures to stop the pandemic: Countries partially closed their borders, measures of social distance the population isolated themselves or came into quarantine, most of the network-eri closed down its activity. The economic crisis caused by COVID-19 is the most burning topic in the world, and only a series of economic measures adopted by each state could save or diminish the effects of pandemic.*

**Key words:** economic crisis, COVID 19, economic measures, banking system

**JEL classification:** G010

## **1. INTRODUCTION**

Lately, all information dissemination channels transmit that in addition to the dramatic situation among the overcrowded hospital population that are part of a collapsing medical system, the number of illnesses and deaths, the effects of the economic crisis that is already felt will be long-term and will probably have more serious effects than the disease itself on the population.

Not to mention it is a crisis like any other and there is uncertainty about its impact on people's lives and livelihoods. It depends a lot on the epidemiology of the virus, the effectiveness of the measures adopted and the development of treatments and vaccines, which are difficult to predict. All countries are facing multiple crises, the most important of which are the health crisis and the financial crisis, which is leading to a collapse in commodity prices, which are interacting in complex ways. States provide unprecedented support to the population, firms and financial markets, and while this is crucial for a strong recovery, there is considerable uncertainty about what the economic landscape will look like when we get out of this deadlock.

We are talking about a truly global crisis, because no country has been spared the effects of this pandemic. The economies of countries that rely on tourism, travel and entertainment are facing particularly severe economic disruptions. Moreover, this pandemic has made the states vulnerable, with negative gross GDP growth and maintaining a high level of debt.

Since 1933, since the Great Depression (1929-1933) when the first dramatic decline in world economic activity, followed by the economic crisis of 2007, we speak again of the fact that both advanced economies, emerging market economies and those in progress development are in recession. It is expected that starting with 2021 the advanced and developing economies will partially recover the losses from 2020 (6).

It seems that the history of the economy has been marked so far by 2 major economic crises, the Great Depression of 1929, which lasted 4 years, characterized by a dramatic decline in economic activity, having as a trigger the collapse of the US stock market, following the decline prices, the bankruptcy of banks and businesses, the rapid rise in inflation and unemployment globally. The most affected country was the USA, with a decrease in industrial production by -46%, followed by European countries where production decreased by about -24%(7) The economic crisis of 2007, called the Great Recession, when banks' financial problems plunged

the economy into recession. Banks sold overvalued mortgages, which led to the inability of the population to pay and to the provision of non-performing loans, followed by industrial collapses. The world's largest banks were affected, with profound repercussions throughout the economy(8)

In 2020, we are once again facing an economic crisis caused by an acute health crisis, which seems to be hitting the whole world harder than previous economic crises.

## **2. METHODOLOGY AND DISCUSSIONS**

The economic analysis was performed by following the current economic trends and by analyzing the measures adopted both globally and at the country level.

This article makes a brief reference to the economic reality around the world, detailing some economic, financial, political measures suitable for the recovery of the economy in Romania. Using analysis and interpretation techniques, personal opinions, we approached two types of economic measures:

- economic actions and measures imposed by the state for the recovery of the economy
- economic actions and measures adopted by the private environment to continue the economic activity.

### **Measures and actions imposed by the state for the recovery of economy**

In order to reduce the effects of the pandemic, most states "froze" their activity, imposed social distance in order not to block the health system and to control the transmission of the disease, measures that will result in the resumption of domestic and economic activity. All states invest mainly in the medical system by rectifying the annual budgets that aim to stop the spread of the virus and recover the economy. While the economy is virtually blocked, the statute must ensure that the population is able to continue living and that the business environment will recover after the pandemic. In order to support the daily needs of the population and the functioning of enterprises, they have already been implemented. measures aimed at economic reorganization. at the global level, common collaboration and interaction is needed to ensure that the world does not de-globalize, and that recovery is rapid, without astonishing losses of productivity. Globally, the International Monetary Fund will urgently provide \$ 1 trillion in loans to support its 189 member states, and emergency measures will be taken for poor states to reschedule debt (5)

In Romania, the establishment of a state of emergency at national level to prevent the spread of the disease already has important economic consequences on the business environment. In the first phase, there were massive decreases in revenues in the areas of tourism, foreign and passenger transport, horeca, organizing events, construction - especially residential and retail businesses (except for food or medicine). Secondly, the banking sector appears to be affected by the crisis, due to the increase in non-performing loans due to the inability of companies and the population to pay monthly installments. Anticipating what will happen next, the banks have taken measures by offering the credited population a grace period for the payment of installments of 3 months to 9 months, as well as with the companies that to benefit from this grace period must argue the decrease of activity and the way it was impacted by the crisis. It is a normal procedure, given that banks calculate VNB with a high share of commissions and interest on bank loans.

Last but not least, the Romanian state can suffer the most due to the decrease of the public revenues (caused by the constraint of consumption and the increase of the number of companies in insolvency) as well as of the increase of the social expenses (unemployment benefits are increasing from 3.9% to 2019 until 2019 to 10.1% in 2020). In order not to trigger a crisis with domino effect (population-business environment-banking-state sector) that will have major negative consequences, it is necessary to adopt urgent measures to support the business environment. In order to save companies and jobs, the state has to take a series of measures and take into consideration some risks. Establishing funds to support the business environment, which will be sized according to the real business needs; these resources should be accessed on the basis of

supporting documents, created for each need of business (cash flow to support and continuity of business or investment); the granted funds dimensioned on each need according to the current and forecasted finances of the companies in order not to create opportunistic behaviors of the business environment. All the pawns of the economy must be prepared to assume some losses: the employees in the technical unemployment will receive lower incomes, the banks expect to pick up the interest rates even at the end of the year, the state will record decreases of public revenues. Basically, the intervention of the state to ensure liquidity in the economy by the end of the year, must be properly sized and granted on the basis of realistic needs (3).

### **Economic actions and measures adopted by the private environment for the continuation of the economic activity**

Commercial credit can save the business environment if it is granted intelligently

Commercial credit is the main element for financing working capital and current activity, which cannot be consistently postponed because it generates the domino effect. At a turnover consolidated by the entire business environment of about 1,600 billion lei at the end for the year 2019, the commercial turnover with the suppliers represents about 70% (1,120 billion lei), resulting in a payment balance of about 373 billion lei (invoices reached due). The bank credit is 3 times lower, given that the balance of loans taken by companies from all credit institutions is 117 billion lei at the end of January 2020, according to the NBR report. Most companies have interrupted or diminished their activity, being in the inevitable situation of payment of debts to suppliers, employees, tax contributions and banks. Inability to pay invoices to suppliers, have a chain effect for business partners(2).

As a short-term solution, it would be to access a loan for working capital / supporting current activity, guaranteed by the state, with the grace period and commission and interest 0. The IMM INVEST ROMANIA program, grants to the companies credit guarantees by FNGCIMM on behalf and account of the Romanian state, through the Ministry of Public Finance. The maximum guaranteed ceiling is 15 billion lei. The advantages of these loans are represented by costs, period, interest and public guarantee, but it remains to be observed if only this opportunity offered by the state will be sufficient for the continuation of the commercial activity. Commercial banks become the main economic pillar of connection between the state and commercial companies, granting these financing based on the guarantees established by FNCIMM, respecting the norms and procedures in force, being supported by the commercial experience in lending and the necessary logistics. The experience of the bankers will remove the abusive behavior of the companies, which will surely try to create artificial conditions for accessing the loans. By accessing loans, companies will be supported for the payment of salaries, suppliers, tax contributions, credit / leasing rates, rents and other short-term debts, so that the domino effect in the economy will be diminished (4).

According to data provided by FNGCIMM, by the end of August, 2.58 billion RON were granted, so that 18,000 companies received financing aid from the beginning of the SME INVEST program. Considering the success of this program, in 2021 FNGCIMM will continue to support Romanian companies.

The main commercial banks, enrolled in the program, through which these loans were granted, said that the program was a real success, according to the current economic moment generated by the pandemic, because it allowed companies to ensure the necessary liquidity for their activities. current or investments through bank loans.(1)

A short analysis for the loans granted, on 30.06.2020, provided by the main banks with a positive start: ING BANK received 6,100 applications worth RON 5.5 billion, of which 2,300 were approved, Raiffeisen Bank received approximately 5,800 applications in total value of 5.5 billion RON, of which 1,300 were approved, BRD GSG approved only 500 files totaling RON 115 million (10).

As a conclusion from the start of the program until 30.06.2020, out of the 117,522 applications submitted, 10,260 files totaling RON 85 billion were approved, of which RON 60 billion was granted in order to support investments and 25 billion RON were granted to support the current activity.

Take for example a commercial company, with construction works activity, with a turnover in positive evolution amounting to RON 8,268,814 on 31.12.2019 and a net profit of RON 762,801, which requests an SME INVEST loan for current activity worth 700,000 RON, which represents 9% of turnover. The company falls within the eligibility criteria imposed by the program: financing value of 700 kroner falls within the maximum provided by the norm of 25% of turnover, is not in difficulty, is not in dispute, without overdue loans, find insolvency; the company's activity was not majorly impacted by the Covid pandemic.

The loan granted by the bank supports the company's activity until the end of the year, considering that payments from customers are delayed. This loan supports the payment of salaries, raw materials, suppliers, taxes and fees. The low degree of operational indebtedness of the client, the balanced financing structure, the good transactional conduct, the positive profitability, the experience of the administrator contributed to the granting of the credit (9).

Regarding bank loans and leasing granted by banks to companies prior to the economic crisis, measures will be taken regarding credit lines - by avoiding closing them until the end of the year, delaying the rates for working capital and investment loans for a period of 3 to 9 months. These measures, as well as supporting the granting of loans with FNGCIMM guarantee, canceling the restructuring of loans in order not to create bank provisions, postponing or free of charge of commissions for remote bank products in order to carry out the activity without continuously interacting with the bank would have the purpose recovery of trading companies and keeping in portfolio of clients the companies considered healthy.

## CONCLUSIONS

Economic measures for the recovery of the economy must be taken early and implemented globally, so that the effects of the crisis will not be felt in the long term. If the state institutions together with the private environment will support each other, the economic crisis will have serious economic effects in the short term, but if there are no ways to support the private environment, it seems that we will be the spectators of an economic crisis like the one in 1929 or 2007.

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