

EUROPEAN DYNAMICS INFLUENCE ON WORLD CRISIS

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Abstract:

Main aspect of the European economy is the one marked by the first stage of evolution of the global financial crisis. The main current problem for both the EU and each member state is making the calculation and analysis of complex issues arising from international economic crisis, towards identifying ways and tools useful for prevention or mitigation. Reform of EU budget in 2008/2009 is a key element within the period of European construction and its effects will be visible in the next financial perspective from 2014. Naturally, the return will not be uniform in all 27 Member States and will depend on financial and economic particularities of each country and meteorological factors. However, the Commission believes that EU economic recession ended in the third quarter of 2009, largely due to the exceptional measures for crisis imposed under the European economic recovery. Actual return will be more slowly, given the size and strength of the recession. Overall EU unemployment rate is approaching 10% in 2010 - a rate lower than anticipated - and the budget deficit is almost reaching 7.25% of GDP in 2010. Less optimistic news concerning - among others - employment of working force will continue to decline by about 1% this year and will begin to rise than in 2011. Consumption also has not completely recovered. Although increases least, inflation is under control, partly due to wage stagnation.

Keywords: crisis, economy, evolution, economic depression, crisis aftermath, economic outlook

JEL Classification: G01

INTRODUCTION AND TOPICALITY OF THE THEME

Term crisis was discarded in recent years because of overuse. Medicine, economics, psychology, sociology, diplomacy, international relations, etc.. each give different meanings of the concept of "crisis."

The European economy is marked by the strong development of deep crisis and its effects on a strong shock recession and its member countries. The global economic crisis hit countries like Latvia, Hungary and Poland very much. Eastern Europe in recent years has been fuelled by large loans from Western banks. Now the good old days are gone, loans are not granted, the debts incurred shall be paid, and thus fill the crisis.

Analysts are beginning to talk of a two-speed Europe. In fast Europe, those who have gone through the economic crisis with strong contractions, but moderate increases in deficit and uncomfortable.

Daniel Tarullo, a U.S. Federal reserve governor, told the House subcommittee Congress that the crisis in Europe was a "potentially serious obstacle." Tarullo said financial turmoil in the worst possible case, but still unlikely - could lead to a resumption of freezing financial markets, witnessed in 2008."

In the early nineties, no one would have suspected that strong Spain will be the locomotive of the crisis. Equally strong effects were poured and attributes on Greece, Portugal and Ireland. It is now possible that the whole Europe could contaminate by the "Greeks" crisis.

Greece is regarded as an unprecedented event for a country that is part of monetary union, which is accused of falsifying their accounts. Greece's situation is not at this time, comparable to that of Spaniards. Nobody doubts the reliability of the Spanish government accounts, but some analysts have identified some common characteristics such as large public deficit, which raises fears that markets have put in the same package and criminalize the financing of Spanish public debt. Fears spread for a similar scenario as in Greece to Spain and Portugal, led to a decrease in confidence over the euro area, which in recent months has lost about 20 percent of its value.

European countries and cultures seem to be too different to live under the same set of economic policies. While none of the European countries want American-style capitalism, some know better than others to manage their economic affairs in an orderly manner. Germany, Netherlands and Scandinavian countries, in particular, seem to be very good for sound economic management. Spain, Portugal, Italy and Greece fail to manage the smooth running of the economy, while France is in the middle - more competent than its neighbours in the south, but less efficient than the Germans.

In Germany, inflation is associated with the two great disasters of the twentieth century. WWI Weimar inflation has led to devastating consequences poured on Germany, after World War II German currency became similarly worthless, and generations have lost their savings, for the Germans this event even today remains associated with the worst kind of irresponsibility and disaster.

More investors need to understand that at least some countries of "PIGS" (Portugal, Italy, Greece, Spain) may not be willing or able to provide services or to pay existing debt. The spreading gap between the countries considered credit worthy offering that Germany and countries need credit and will pay interest.

This is a political crisis for Europe, rather than a financial crisis, the only way "PIGS" have a rescue plan involving the Nordic countries led by Germany and France. Especially Germans, do not want to pay for some time because the Greeks were wrong and lied their way into the euro area, and for years have pursued selfish political and economic interests. Therefore, it is not normal for Germans that help the economy by paying up to 60 years, when the Greeks can retire at 55.

DEVELOPMENTS OF EUROPEAN ECONOMY

Studying the economic development of Spain looks like it is in a free fall in 2010, though now in the final quarter feels GDP growth but growth will nevertheless remain negative, between -0.1% and -1.1 %, "unless the Government will make structural reforms," predicted an economics professor at ESADE, Francesc Xavier Mena in a press conference. Mena also believes that Spain will not create jobs by 2013. Unemployment rates continue to rise in 2010, especially in the first quarter and more than 20% at the end of the year, double the global average.

Spanish financial institutions, is facing "the most difficult year" and requires urgent merge, which will lead to a reduction of 25% of existing companies. In these conditions will be placed in the top rankings.

Greek economy for the first time in sixteen years is caught between recession and financial meltdown. There were ineffective measures taken by government to tackle the crisis. In the first quarter of 2009, they lost 70,000 jobs, and despite the 28 billion offered by banks, this liquidity has not led to business support.

Finally, the government implemented measures only managed to make even deeper recession, and worsen the financial crisis. Thus, growth this year will be negative the first time since 1993 and a deficit of around 6% of GDP, against a target of 3.7% and public debt will exceed 60 billion euro, against a target of 42 billion. These results represent the failure of government to strengthen public finances.

The crisis left deep scars on Italy, with Greece having the largest debts in the EU. It has a debt of 1760 billion representing 117% of GDP.

The dramatic reduction of jobs is another effect of the crisis that feels very hard and leading Italy to a place one immediately followed by Spain.

Second place in the high number of unemployed, Spain has many unemployed youth - 85%, this imbalance is considered so serious that it calls for debate on the injustice between generations. In Italy there is no question of that debate, perhaps because it is not growing. Unemployment in Spain has followed a rapid avalanche leading to an increase of almost 20%, while the growth rate of unemployment in Italy was about two points above the European average (8.6% respectively) and less to the United States, which reach around 10%.

In 2008-2009 the number of employees decreased by 11.6% aged between 15 and 24 years, fell 5.5% in the group age 25-34 years of older adults, working age has not experienced a recession on the number of employees which has actually increased. This happens because adults are employed for an indefinite period, and is very expensive to terminate such a contract regardless of the economic period. And it is due to the fact that it has the oldest population worldwide, according to CIA Yearbook, ranks third in the world (43.3 years), after Japan and Germany.

International crisis in recent years is primarily the so-called economic crisis of paper. In many Western countries the crisis is also a crisis of "productive economy" and in this regard is very significant that the last decade, estimates the International Monetary Fund over the period 2000 - 2010 in 183 countries around the world, Italy, Portugal, Germany and Japan, respectively, occupy the fourth, seventh, eighth and ninth from the bottom, with a growth rate of 0.6 for Italy and 0.8 for the other three countries.

German economy will grow by 3% in 2010, according to a review of the Bundesbank's forecast, issued in circumstances where investors have pushed up financing costs for borrowing by the government, under the new growth records.

Germany is seen as an isolated success story in the euro area, with its status as a "safe area" reinforced after the negative estimates related to its surrounding countries and debt crisis that affected Ireland and southern European countries.

The German government and its plan, is to reduce the budget deficit by 2013, from over 5% to 3% of GDP and by 2016 is going to reduce budget spending by 10 billion euro per year, to give an example to others countries in the euro area.

Germany is also struggling with a large number of unemployed that came mainly from the production of cars. Following trials, the number of cars in 2009 fell by 750,000 to 4,700,000, while in 2010 the number of cars has fallen by 4.53 million.

Portugal is facing a political crisis, is undergoing a debate regarding its budget. It recorded in 2009, a budget deficit of 9.3% of GDP but in 2010 it proposed cutting the deficit to 4.6% of GDP, in this case was forced to reduce costs and increase revenue by waiving the tax privileges and tax exemptions.

Irish GDP fell at an annualized rate of nearly 5% in the second quarter, raising questions about the ability of the authorities in Dublin to generate sufficient tax revenues to reduce budget deficit. Ireland must pay over 4.5% more than Germany in order to borrow from the markets at maturities of ten years. Ireland, Portugal and Greece together represent only about 6% of GDP in the euro area, but the crisis in Greece in the spring showed the potential that even the small savings we have to arouse panic overall.

Of the three, only Portugal's economy has advanced past quarter, although with an annualized rate of only 1%. The rest of the block appears to be largely a strong position. The region experienced an increase of almost 4% last quarter, although most economists expect a significant weakening of growth in this quarter and next quarter.

Measures implemented to crisis:

- Increasing the retirement age
- Growth rate of VAT in Spain from 16 to 18% in Romania from 19 to 24% and in Portugal from 17.5 to 20 (in 2011)
- Deficit reduction
- Carry out bold and deep structural reforms to ensure a return to growth and future sustainability of public finances
- Choosing the workplace to use one type of contract and create an emergency social pact to change the model of industrial relations, less centralized and closer to the company to lead to job creation.

Greece took the additional steps:

1. To develop an enabling environment for private investment and entrepreneurship, a new culture in the business-friendly state and the society away from suspicion and mistrust which currently faces entrepreneurship and private initiative in Greece;

2. Promoting a competitive tax framework for businesses to set tax rates low and stable levels of profits distributed in proportion to the countries of our region

3. Revival of private projects, foreign and domestic private investment and small and large infrastructure restart;

4. Formation of a national project in Greece for a new way to develop economic openness, based on value-added products and services, with objectives and a timetable and main lines of the areas which Greece has or can achieve competitive advantage;

5. Effective use of EU funds (10-12 billion €), which is stagnant government bureaucracy;

6. Normalization of Greece access to international capital markets and development of the liquidity situation on the Greek market;

7. Implement a comprehensive and bold plan for the use of large public assets, privatization, lease, rental and long-term strategic partnerships with the private sector. Public property in Greece is estimated at €270 billion for use not only to reduce debt, but to strengthen growth prospects.

In his speech, Financial Secretary, Mr John Sachinidis, developed the Government's economic policy program, which is based on three pillars:

- A. Financial Aspect, the goal is to reduce the deficit to below 3% in 2014.
- B. Opening of professions closed, eliminating 30 high barriers to entry and operation of enterprises, structural changes in social security, changes in labour relations, creating lasting and positive conditions for investment, a guide for policy interventions that will lead to long term economic development.
- C. The bank has already taken several measures to encourage healthy and strong capital base of banks. New program to support credit growth, by providing guarantees for the banking system worth 25 billion added to the programs already implemented in connection with the creation of the Financial Stability Fund.

Conclusions:

European economic prospects are not very optimistic.

In Romania the economy relies on agriculture, leading to an increase in this sector over the next two years, this will lead to a reduction in construction and trade sectors. Inflation in the coming period will have a slightly downward trend.

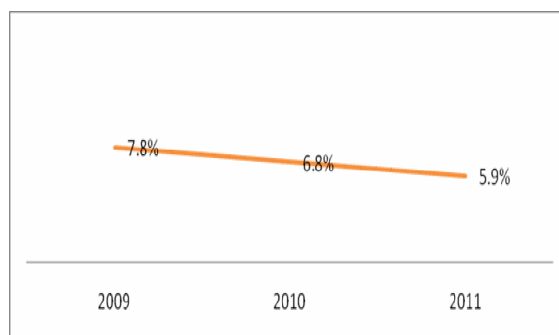


Figure no. 1. Deficit developments in Romania

In Romania has been reduced the budget deficit (as shown in fig.nr.1), which means a lot for the Romanian economy.

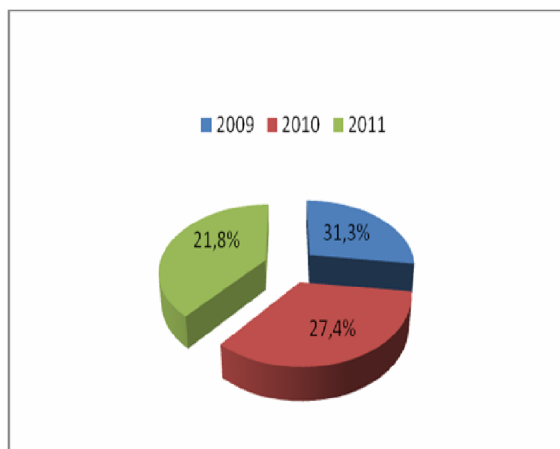


Figure no. 2. Public debt developments in Romania

External debt has grown during the installation crisis from 21.8 in 2009 to 27.4% of GDP in 2010 and is expected next year will grow by 2.9% (fig.nr.2), however Romania's public debt will remain one of the lowest in the European Union.

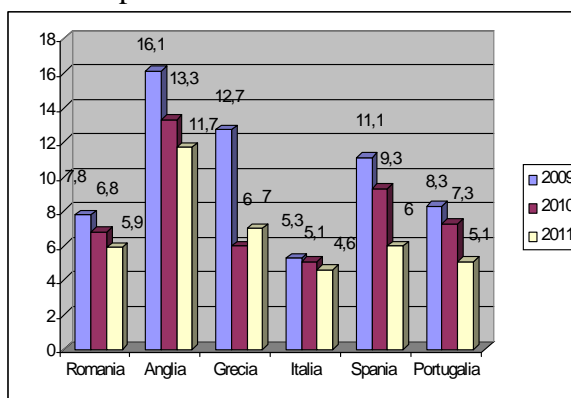


Figure no. 3. Developments in the European Union deficit

To reduce the deficit in 2011, Spain's austerity budget provides a 16 percent reduction in spending ministries and spending 7.9 percent of the state, outside the financial costs. It will also increase the tax on high incomes.

Italy is the country that has the lowest budget deficit and has maintained such a trend. Greece has proposed in 2011 to reduce the country's budget deficit to 7.0 percent of GDP, exceeded the 7.6 percent target agreed in negotiations with the IMF and EU rescue.

Spain had the most dramatic reduction of budget deficit, given that in 2012 plan to reach 3%.

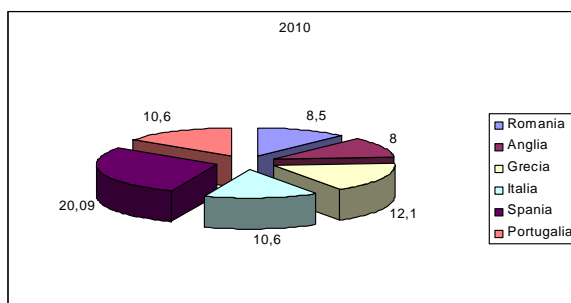


Figure no. 4. Unemployment importance of most European Union countries

Spain has the most disturbing number of unemployed, and the saddest is that 2011 is not a reduction in its forecast, more and more Romanian not returning home as jobs and the unemployment queues for aid are increasingly large.

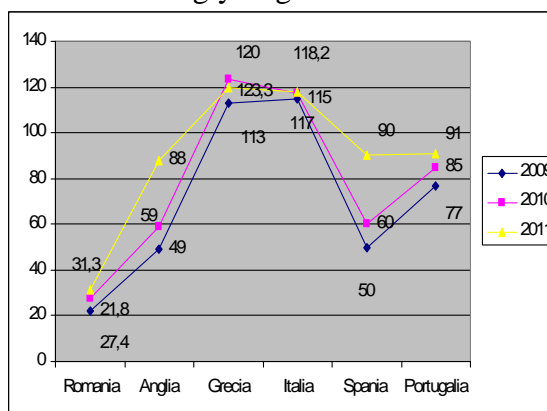


Figure no. 5. Evolution of public debt of the most important countries of the European Union

Greece expects the economy to contract by 2.6 percent next year after falling 4.0 percent in 2010, staying in a recession for the third consecutive year.

Evolution of GDP in the European Union Romanian GDP (-0.3%) did not follow the European trend of recovery as it had very slight growth in the first quarter of 2010 (0.2%) over fourth quarter 2009 - four times lower than U.S. rate economic recovery (0.8%).

Compared to the first quarter of 2009, Romania's GDP contracted by 2.5%, compared with 0.3% in the EU-27.

In the first quarter of 2010 compared with the previous quarter, EU-27 GDP grew by 0.2% (in the U.S. increased by 0.8%);

Also in the first quarter of 2010 compared with the first quarter of 2009, EU-27 GDP grew by 0.3%;

Romania recorded a decline of 0.3% last quarter and compared to the first quarter of 2009 decreased by 2.5%.

Romanian industrial production arose three times faster (3.6%) than the European average.

CRISIS INFLUENCE ON THE DEVELOPMENT OF MILLENNIUM BANK IN ROMANIA

Millennium Bank, a member of Millennium BCP Group, was founded in Romania on February 14, 2007 after receiving authorization for operation from the National Bank of Romania to conduct the full range of banking activities and, in particular monetary and financial operations. The Bank started its activity on Romanian market on October 11, 2007, simultaneous opening of 39 branches in Bucharest and in eight cities.

Currently, Millennium Bank has 74 units in Romania addressed to individuals and companies through a wide range of products.

In Romania, the Bank conducted banking and financial services to individuals and legal persons (internal and external customers), bank offering a wide range of services such as current account transactions, opening of deposit, VISA card issuing, funds transfer, mortgage loans, cash loans and other types of loans, financial leasing, operations and other documentation.

Millennium BCP Group was founded in 1985 and operates in Portugal (the home), Poland, Greece, Romania, Switzerland, Mozambique and Angola.

At the opening conference in Romania in 2007 Jose Toscano said:

- The initial investment is 40 million and strategy development will be another 300 million to be invested by 2011

-Number of branches will reach 100 by the end of 2009

- Assume a total loss of 140 million (-29 million euro in 2007, in 2008 - 45 million euro, from 2009 to 41 million euro and in 2010 to 25 million euro loss).

- In 2011 the banking business will pass the 1 million euro profit and in 2012 will have a profit of 27 million.

Banking activity has developed greatly during the period 2008-2010 and in this period the Bank has intensified its work and earns more and more customers. Unlike other bank, it has continued to credit the people and companies to layer-up to the present crisis. Loans grew from month to month and could be even higher if the 2009 would not have taken the decision to waive the financing personal loans with a higher risk. Granting this type of loan is best asked of the population and would have a greater volume of loans.

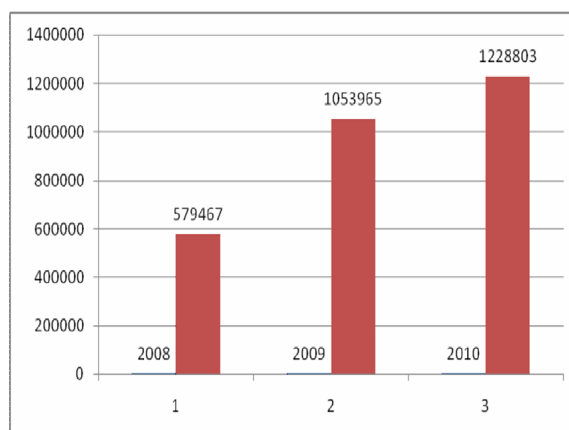


Figure no. 6. Evolution of monthly average volume of loans in 2008-2010 (in thousand RON)

To calculate the monthly average volume of loans sold together each month and divided by the number of months. The monthly average has doubled in 2010 compared to 2008 this was due to the fact that it invested in media campaigns and brand promotion. Loan products offers were all reinvented and improved, and a great advantage in the placement of amounts is due also to trained and qualified personnel in various courses. The confidence gained by the bank during this period was demonstrated by the amounts drawn-saving, no one leaves his only savings but where it has full confidence. The amounts raised have led to an increase in customer base and popularity.

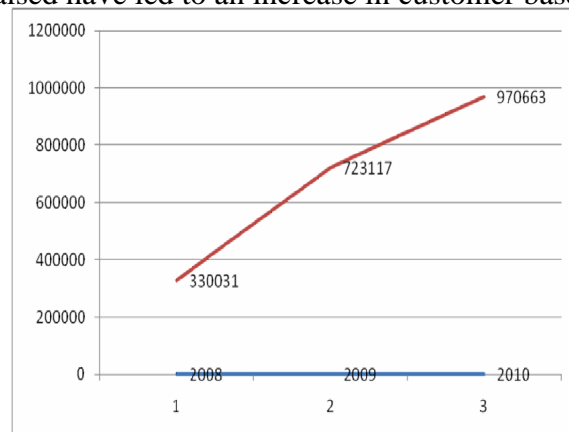


Figure no. 7. Evolution of monthly average volume of attracted sources in 2008-2010 (in thousand RON)

Attracting resources is due to the fact that the bank charged an attractive interest rate, the evolution over the years has increased almost three times compared with 2008, and such amounts have been placed in funds raised. Millennium Bank's position has strengthened and increased in a time of crisis because it is part of a strong group with good management.

In the period studied Millennium Bank has received the following stories:

Products and services were very well received by both the public and by specialists in economics and finance. To this end, ATMs and ATMs Safe Deposit have been awarded at the Awards granted by the Financial Market in the category "Banking Product of the Year", and "Best Self-Banking solution on the market in Romania." Furthermore, in communication, Millennium Bank has received two Effie Awards - Gold for the campaign "Inspired Living" category "New Product" or "Service Introduction" and Bronze for the campaign to retail, "Rings" category Financial Loans. Project "Millennium Christmas Tree" developed in the winter of 2007, won the IAA for "the most grandiose event of the year."

After only nine months of operation on the local market, Millennium Bank ranks among the top nine banking brand recognition indicator than assisted. Millennium Bank has assisted recognition of 71% and 17% spontaneous awareness, according to market research conducted by Daedalus Consulting / Millward Brown for Millennium Bank.

The crisis has confused the work and proposed plans at the opening:

- Expansion planned was reduced to 74 branches to be programmed as 100, it was decided to stop extending on the period of crisis;
- In 2009, the Bank withdrew funding personal loans;
- Number of employees reached 700, although was expected to reach 850;
- The corporate team was reduced because the corporate lending segment was greatly reduced;
- They retreated the cars for branches;
- Set a budget for phones used by employees;
- Was chosen to supply the branch ATMs are forgoing the specialist company;
- Training courses have been made only to directors that they will take them to subordinates.

CONCLUSIONS

Millennium Bank during the crisis has gained notoriety and numerous reviews by products tailored to customer needs, continuously placing on the podium and compete with the strongest. I believe that its results would have been much better if the safety would not be abandoned personal loans that are in high demand and getting the most profit. You can offer under more restrictive rules, but still have the product on the shelf.

The decision to open branches without cashier and fewer employees I think that was another idea that has not enjoyed much success. Firstly I think that no customer is happy to receive advice and gain confidence in a particular employee and then be sent to raise money to pay rates to another branch. Secondly, I think it is just not likely when a customer has to make a payment and send him to another branch. Bank management also understood this and in 2009 invested in making these types of branches in the branch for full time. They spent a lot of money and manpower to immobilize when the branches were closed.

I consider that the decision of corporate withdrawal and reduction of credits team in this segment was wrong. Even if large companies were most affected by the financial crisis, they are the largest in banking and where banks refuse to help then it is clear that they do not like to go further. But this year they revised their work and began again to give importance to this segment. The measures they have taken have not affected employees regarding their wages, and it has to be a silence in this regard. Throughout this period the bank's management has invested in quality advertising and competitive products and made sure that its employees are being trained. Appearance of the bank, both inside and outside looks elegant and attractive, differs very much from its competition. I believe that this bank is successful because it increased its market share, asset value and reputation in a time of crisis.

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