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1 November 2009

Online at <https://mpra.ub.uni-muenchen.de/20481/>

MPRA Paper No. 20481, posted 09 Feb 2010 09:11 UTC

IMPACT OF THE FINANCIAL TURMOIL ON THE ROMANIAN CAPITAL MARKET

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Abstract

The unprecedented financial and economic world present turmoil is dangerously covering the Europe and Japan, coming from the USA and being more painful than the economic downturn of the '80s. A massive decrease of trust and confidence is also perceived by consumers and business alike, and their answer and reaction is a continuous cut of the expenditures.

With a view to rebuild the stability and to recover the economy, the USA government as well as certain Western European governments have nationalised substantial parts of their financial sectors, in such an extent that is simply against the modern capitalism basis. Actually, the whole world is changing its usual course, towards an age when the role of the state is becoming greater and greater, while the role and the significance of the private sector is drastically diminishing, as the most dramatic consequence of the present crisis.

Annalists' opinions consider July 2007 as the beginning of the present financial turmoil, since this was the moment when the appearance of the first mortgages troubles seriously upset the global stock exchange markets, as shown in the records of the negative major indices or in the weekly - and even daily - downturns, hardly to conceive and unseen in the last five years.

One can consider that the real lesson of the actual financial turmoil consists in the necessity of an ideal meeting between the most important theoretical systems concerning the economic and social process and phenomena, in order to create a new and more desirable model of economy and society. This normative and explanatory character of the new theory and synthesis is keen connected with the necessary giving-up the old model of the economic and social optimality that should be replaced by the new model of sustainability.

Key words: *financial global turmoil, financial-economic crisis, current financial turbulence, stock exchange, currency market, stock investors, emergent economy*

1. INTRODUCTION

The present economic and financial turmoil seems to be unprecedented in the last half of century. It started with a persistent economic recession which extended from the USA and takes larger and larger space in Europe and Japan, even more painful than the '81 – 82 falling downs. Both businesses and consumers are losing their confidence in the economic rules and games and their logical reaction to such a hostile environment is only dramatically restraining their expenses. With a view to re-establishing and to re-vigouring the economy, both USA and some Western-European governments have nationalised considerable parts of their financial sectors in a manner that simply contradicts the very basics of the modern capitalism.

Obviously, globalisation is the spinal column that induced and that is developed the present financial and economic turmoil upon. Its core is the optimality logics, but it also aims to the sustainability logics, against the price of an irreversible and fatal society transformation.

As one of the recent open economies and of the recent European countries as well, Romania confronted with a controversial position, since its economic growing was steadily high in the whole last decade but dramatically fell almost 12 per cent during last 5 months of this year.

The scope of this paper is to show major changes in the classic economic theories concerning two significant aspects in the socio- economic management:

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1. – The role and the influence of the state in the contemporary economy – on the one hand, and
2. – The replacement of the old model of the economic and social optimality by the new model of sustainability – on the other hand.

The methodology is analysing the complex data and statistics concerning the running events that shown the crisis simply affected the whole global economy.

The final target is Romania's capital market, as one of the recent open economies and of the recent European countries as well, that confronted with a controversial position, since its economic growing was steadily high in the whole last decade but dramatically fell (i.e. almost 12 per cent) during the last five months of this year.

The world is changing its course towards a new era in which state's role is to become greater, while the role and importance of the private sector would be drastically diminished, and this is seemingly the most dramatic consequence of the present crisis.

2. HISTORY IN SHORT OF THE WORLD FINANCIAL-ECONOMIC CRISIS

The most profound financial crisis in the history were known during the last century which also knew many and different world turmoil, differentiated by their various and complex particular forms, manifestations and effects. With its surname of „*banker's panic*”, **the 1907 crisis** consisted in a 50% downturn of the stock-exchanges as against the maximum from the year before it. Its main cause was supposed to be some banks' credit crunch, a phenomenon that was perceived in New York firstly and extended in other states afterwards.

During **1929-1933 crisis** was the so-called „*great depression*” and, according to many annalists, it meant the NYSE fall in the „*black Thursday*”, or „*black Tuesday*”, respectively. It was under these names that the economics history treats the great recession and the real cause is supposed to be the lack of FED reaction which let the monetary reserve to get down to a third of its contents, in the absence of any measure of correcting the situation.

By the end of the 20th century one can approach a long series of **crisis in the 80's**, in the so-called „*decade of the shocks*”, when over a thousand financial institutions had losses of about \$150 bn., \$125 bn. of which being financed by the government, as a huge effort to solve that economic and credit crisis.

After the collapse of the totalitarian regimes, **the 90' crisis** that succeeded revealed another series of inner crisis that overlapped the global financial crisis.

The so-called „*Asian crisis*” in 1996-1997 that crossed the world started with the financial falling down of the Korean holding KIA, which affected both goods and financial markets. *Long Term Capital Management* (LTCM), a very important hedging fund in USA, was directly involved and its losses summed over \$4,6 bn., \$3.6 bn. of which being covered by the main banks in the world.

3. ACTUAL CRISIS' CAUSES

Originated by the second half of 2006 interests at the mortgage credits, the present subprime crisis blew up when their average in 30 years interest reached 6.48%, meaning a strongly significant growth, as against 5.87% in the year before. Because the high credit costs dejected the consumers, they appealed to some other financing solutions, which had determined an excessive growth of the house market. Thus, the monthly average of the available houses reached 556.000 units till September 2006, comparing to 457.000 units from the same period in 2005, or to only 351.000 units as the monthly average in the last 10 years, as government sources said (cited by Bloomberg).

The excessive number of houses continued its pressure on the specific market up to the beginning of 2007 when there were 4.1 mil houses prepared to sale, while the construction companies announced future new and more locations available to delivery, a severe threat for the existing house market. But even lowering prices was not good enough to lower such a pressure.

The upheavals on the crude oil US market further contributed that consumers loose their confidence. While gasoline price grew to 23 per cent by April, an ever significant part of the expenses were oriented towards the energy sector. Adding the US dollar depreciation comparing to Euro, or yen or other currencies one could notice a significant lower US purchase power either. The number of bad-payers became proliferous, but the descending trend of prices induced the hope of continuity and thus, many others would rather wait for a more visible change.

On the other hand, the price waves of interests to mortgages loans and the continuous excess on the house market as well had not been supported by a flexible or adaptable financial market at all. It means that only 6 to 8 per cent were adjustable interest credits in a total of \$ 10 thousand billion mortgage credits market, as FED's analyses and reports mentioned.

One could admit there were three fatal factors combination that determined the deepening of the financial turmoil: (1) – houses acquisitions decrease, (2) – non-standard credits increase and (3) – the rigidity of the houses market. As long as house price decreased and the number of debtors increased, on a rigid houses market the credits could not be adjusted any more.

The lending financial companies and institutions started to launch new financial equities based on credit portfolios, which were spread to banks all over the world, thus globalizing the risks and panic and the consequences associated to the US mortgage credit markets as well. Under normal market conditions, short selling contributes to price efficiency and adds liquidity to the markets. At present, it appears that unbridled short selling is contributing to the recent, sudden price declines in the securities of financial institutions unrelated to true price valuation. Financial institutions are particularly vulnerable to this crisis of confidence and panic selling because they depend on the confidence of their trading counterparties in the conduct of their core business.

July 2007 is considered the very start of the present financial turmoil, since that very moment the difficulties on the US mortgage credit market did firstly affect the global markets, by major negative rates, by week-to-week and daily downturns unprecedented at least in the former 5 years ago.

One month later strong involvement of the main central banks was detected on the global monetary market, by prompting huge overnight credits to those banks with also huge liquidity deficits. Panic and concern about the depth and duration of the crisis were becoming more and more evident, so that few annalists could foresee the magnitude and the structure of its effects, its channels of transmission and, even less precise, the necessary corrections to approach, consequently.

When Northern Rock, a great mortgage credit specialised fund, asked for an emergency financing from BoE (British bank system bailout the biggest in the last 30 years), it was crystal clear that the financial turmoil reached Europe.

By the autumn the shares in the banking sector were following week-to-week down-turns at a record level in the last 5 years, confirming the crisis, indubitably. There were rumours about

another “*black Monday*”, and the sessions with 2 % depreciation simply became usual. The oil price still holds about 100 USD but rather hardly.

The valuation of Euro over 1.40 as against the US dollar gives a start to extending hedges on commodities, including gold and oil as well.

According to NBER (*National Bureau of Economic Research*), the recession is a significant and dispersed downturn of all the economic activities, with duration of several quarters and directly reflected by the dynamics of GDP, available incomes, unemployment, industrial output and retail. Three of all these factors contain certain signal alerts concerning US economic growth: flattening the curve for payrolls, decreasing consumer spending and real income and the accelerated fall of the industrial output in Q4 2007.

As the 2008 IMF Report underlines, protracted corrections on US housing market and its financial sector difficulties brought the US economy to recession and one estimates at least 2 to 3 quarters of negative growth in 2008, long enough before a moderate recovering foreseen in 2009. Even the global growth prognosis diminished to 3.7 %, comparing to former rate of 4.9% in 2007, which was a target appropriate only to the temperate slow-downs in the developed and mature economies, while a long and comprehensive list of emergent economies would preserve their present growth rates. The outstanding lags between the developed economies (with decreasing dynamics under potential) and the emergent economies (but highly potentiated) are estimated to further deepen and extend.

Meanwhile, the Euro to US dollar tends to 1.60 and the index of the consumption goods raise to 3.6 per cent.

In the end of November 2008, on Wall Street it was attended the most 5 days consistent rally since 1932. Annual inflation rate was significantly reduced from 3.2 to 2.1 per cent in Euro area, as the most obvious reduction of the consumption prices in the last two decades.

According to J.C. Trichet’s statement as an official position in such circumstances, *„It is unprecedented what is happening now. I could hardly remember something similar since the end of WW 2. One could assert that the present situation did not repeat since the whole last century”*.¹

4. FINANCIAL TURMOIL IN ROMANIA

November 2007 shifts the attention to the internal level when NBR increases the interest to 7.50%, this being the beginning of restrictive monetary cycle which would continue the entire following year (2008). The Romanian currency (RON) keeps depreciating as compared to the EURO reaching the minimums of the past 12 months that go beyond the thresholds of 3.5 and 3.6. The inter-banking currency sessions end up with massive closings of positions on RON, with possible indirect interventions from the Central bank; though there was a good correlation between EURO/RON and the Bucharest Stock Exchange (BSE).

Bucharest currency market is in the limelight of the local media (there are exaggerated rumours about a crisis) and the annual inflation starts to rise quite visibly.

By the end of the month the American stock exchanges witness the most consistent two-day rally of the last four years, giving birth again to hopes in a *rebound*.

December is characterized by generalized growths on BSE, with a strong emotional reaction on upside after the previous discharges. The annualized inflation (*core CPI 2.3%*) of 4.3% in the USA reaches a maximum while it rises to 3.1% in the EURO zone.

¹ www.rufon.org

As a financial-stock exchange exercise, the year 2008 is characterized as an extremely difficult one, for sure the most complex since 2001, and the panic in January set the tempo of pretty agitated year. During all this period the RON was under pressure, reaching a quotation of 3.70 and the rating agencies are talking more and more vocal about the vulnerabilities of the local economy.

As soon as May 2007 NBR decides the fifth consecutive increase of the reference interest as an annihilation of the pressures on the banking system whose losses had reached the level of 9.75%. The pressures on oil become more and more persistent this being the moment when the crude oil becomes a key factor in the dynamics of stock indices. The intensity of rating cuts and of financial institutions downgrades grows while the fear for new downgrades represents a decisive factor in feeding the corrections.

Estimated at 8.6% of the GDP, in the first half of 2008 the economic growth continued and the fact should be mentioned as it happened in the context of a dynamics of 8.9% in the 2nd trimester which was 9.3% in real terms.

The Central bank already adopts a restrictive framework by publishing the modifications of the Regulations regarding the limitation of the crediting risk for the credits addressing the population. The new legal frame thus imposed by NBR limits the reimbursing capacity of the potential customers who cannot go upper than 20% of their income in the previous year, this income being established according to the fiscal chart.

An extremely worrying factor was represented by the warnings issued by the officials of the international rating agency Fitch regarding the growing risks of a *hard landing* of the Romanian economy in the context of a high inflation, of the current account deficit estimated to be 17%, of the salary pressures and of the relatively considerable advance of the crediting.

In Bucharest, BET is constantly worse after tense sessions and consecutive corrections. However, one of the perhaps essential problems of BSE does not reside in the predominant waves of corrections or in the less frequent waves of advance payments but rather in the fact that, more often than not, the reactions were exaggerated, a phenomenon often felt in the relation with other markets. Partially, the explanation consists in a certain lack of synchronization, on the one hand, and in a certain detachment from the reality of the moment, on the other hand.

A less technical characterization of the evolution of Bucharest Stock Exchange (BSE) may be qualified as at least disappointing in the period September 2007 – October 2008. For the technical and fundamental excesses of the previous years (especially in the period of the 2007 maxims) the local market was drastically enough penalized, the more evident, the deeper it got stuck in a complicated international turmoil.

Thus, one may speak of a triple “*suffering*”:

- the international conjecture,
- the increase of the non resident investors’ aversion towards the emergent markets which had initially been over evaluated, and, finally,
- the decrease not as much of the resident investors’ interest as, especially, of their capacity of sustaining the market on certain thresholds.

Therefore, while the end of the year gets closer, there is no wonder that more and more serious turbulences take place on the local currency market, with the testing of the 3.90 EURO/RON threshold and even with anticipations of surpassing of the 4.00 threshold, although NBR’s intervention on the respective transaction coordinates is possible anytime.

The Ministry of Economy and Finances decides for the Romanian capital market to suspend the tax on the portfolio turnover obtained in 2009 and to report the losses from one fiscal year to the next one, with their deduction from the taxed profits.

The series of turbulences continues and, in the first decade of October 2008, they explode in a practically new situation on the Romanian capital market, when the first suspended session was recorded, after one hour of trading, due to the massive fall of the indices and the fact that the majority of shares reached their variation limit (-15%). That was in fact the climax of series of extremely difficult sessions and the moment was marked as a black day for BSE, the panic reaching higher and higher parameters.

As a matter of fact, at the middle of the month, violent fluctuations happen on the BSE, with alternating sessions of +/-5 and respectively +/-10%. One cannot ignore the natural agitation of the election context of the 2008 autumn: the President's promulgation of the law of increase of the teachers' salary enhanced enormously the risk of salary-related demands from other budgetary categories, some of the unions having already taken official positions on the issue. The reaction on the currency market was also a significant one, the Romanian currency depreciating at a certain moment by 4% as compared to the European currency. At a moment of uncertainty in the world economy, in Romania expansionistic and exaggerated pro-cyclic budgetary policies are being forced, fact which installed numerous, amplified and unsuspected vulnerabilities and macro-economic risks beyond the horizon.

The only really certain fact is that the election promises had tiny chances of becoming true in 2009 as it gets more and more natural to anticipate some economic contraction phenomena, more and more visible in the Romanian economy. In fact, the beginning of the New Year offers the investors in Bucharest no real perspective for a large stake: a non-liquid, dispersed and heterogeneous market or – to put it differently, according to a consecrated concept – an inefficient market.

5. IMPACT OF THE FINANCIAL TURMOIL ON THE ROMANIAN CAPITAL MARKET

In a context in which the financial markets are integrating and globalizing at an accelerated rhythm, new possibilities of placing available resources emerge as well as new opportunities of accessing the financial markets. Irrespective of the thought schools laying at the base of the classification of the financial markets it is obvious that we witness, all over the world, a tendency of dissolving the borders among various types of financial markets.

The liberalization of restrictions and the abandonment of the traditional classification or of the standardization of the market institutions, correlated to more precise regulations of the financial operations, are inexorable processes that have become priorities in many countries of the world. One of the reasons laying at the basis of these mutations is the pressure exerted at a global scale by the competition brought about by the internationalization of the financial markets, by the development of the computer technology and of the payment technologies, as well as by the mobility of the financial flows/fluxes, within the frame of a new world financial architecture.

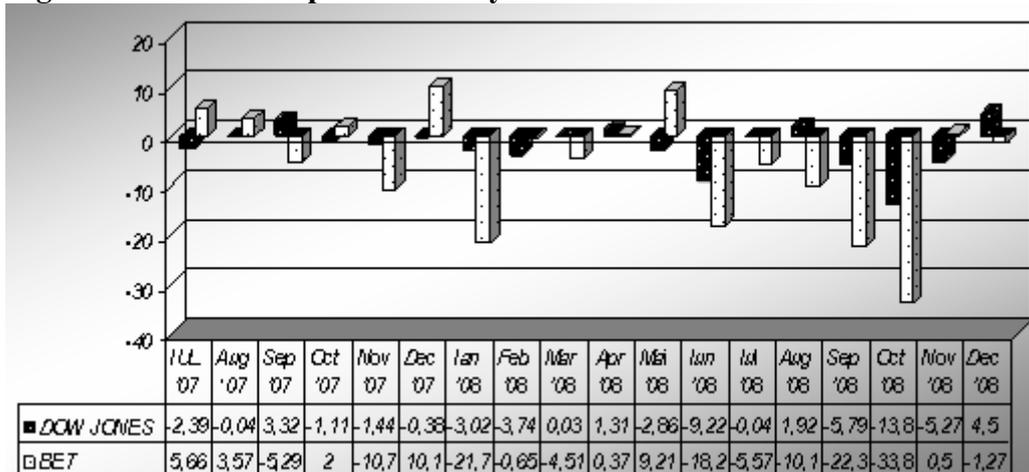
The new computer technologies and the progress in the field of data transmission have lead to a reconsideration of the transactions setting and have diluted the role of the national capital markets against the background of a rise in the amplitude of the securities quotation. As a result the emitters have restructured their securities portfolios and have resorted to transnational issues. The degree of globalization of the financial markets varies according to the type of exchange securities: the bond certificates market, the participation securities

market, the derivatives market, the indices market and the investment risk is lower as the possibility of security portfolio diversification is going up.

Since the beginning of the year the stock investors have lost a third of their portfolios or three years of bank interest.

The following graph analyses the comparative evolution of the American DOW JONES index and of the Romanian BET index, which reflects the evolution of the most liquid 10 listed stocks. It is apparent that every indicator changes according to the level recorded in the previous month (Figure no. 1).

Figure no. 1. The comparative analysis of DOW JONES and BET indices



Source: own analysis after processing the data gathered from www.bvb.ro

As far as the BET index is concerned, one may notice that the most significant growths were recorded between November and December 2007 and, again, as late as June 2008.

If we carefully analyze the evolution of the DOW JONES index, we notice that there were no large growths were recorded during the period under scrutiny. The largest growths, though not significant, were recorded in September 2007 and then in August and December 2008 by 3.32%, 1.92% and 4.5% respectively. Focusing the study on the American index, we will notice that the largest falls (-5.79% and -13.8%) were recorded in September and October 2008. As a general aspect, one may notice a constant falling of the DOW JONES, as a sign of an installed and fully developing crisis, while the BET index reacts with a certain delay but with more accentuated fluctuations, as a result of the reverberations of the global financial crisis whose effects have been transmitted to the Romanian economy rather late.

Regarding the stock indices, it has been estimated that the year 2009 would be a transition period similar to the one in 2007, that of closing of cycle, of passing from the *bearish* trend to the *bullish* one corresponding to the present day reality.

Yet, the disastrous falls recorded lately at the BSE, which were unimaginable less than two years ago, have become a painful reality: during the first months of 2009 alone BET lost 82% of the maxims of July 2007 and, although later on it resumed its growth, the fall remains significant: -71%.

A year before the stock market was crossing a period of euphoria and the stock market indices established new records every day. From the historic maximum of the time, the BET index has lost approximately 45% and the brokers and the investors can no longer anticipate the moment it will go beyond 10,000 points.

The falling periods are not something new for the capital market. After the first crisis in 1998, when the stocks lost up to 65% of their value, other periods of accentuated fall were recorded in 2005 and 2006. The present crisis is not yet as big as the one ten years ago. If in 1998 the Russians were those who provoked the recoil, nowadays the problems are generated by the Americans. It was very difficult for the Romanian and foreign investors, to believe again in the capital market after the crisis ten years ago. Moreover, the loss recovery took approximately two years and a half. However, the then internal market was shaken by banking scandals and bankruptcies of the open investment funds accompanied by a galloping inflation and an economic recession.

The situation in Romania in 2008 is no longer similar, not even by far. On the contrary: the few deficiencies of the macroeconomic indices do not justify either the closing of the stock investments or the abrupt fall of the quotations. They speak more and more about recovery, about the changing of the falling trend the stock market has manifested since last year, but the quotations keep falling at an alarming rhythm. The measures taken to solve the financial problems in the USA have only temporary effects, the recoveries being of short term only, and in the case of Bucharest Stock Exchange (BSE) the correlation with the external stock exchanges seems to be preponderantly related to the depreciation only.

Judging on the late evolution, one might say that this crisis seems to go deeper instead of getting close to an end. The major fall is also created by the panic that appeared among the small investors. Sensitive to any negative piece of news, the investors get even more frightened whenever an analyst or a reputed businessman declares that the situation would be in fact worse than it seems.

The BET index that expresses the average growth of the prices of the listed stocks witnessed a 22% growth in 2006. The performance is appreciated as solid compared to the level of deposit interests, being approximately three times larger than this. Nevertheless, 22% is the most reduced annual growth of the index in the last six years (the BET annual variation average for the period 2001-2005 is 68%); the composite index of the stock exchange, BET-C, had a 28.49% growth in 2006. The value of transactions with stocks listed on BSE grew only by 27% in 2006 as compared to 223% in 2005 and 140% in 2004.

The year 2006 was a relatively good year from the viewpoint of investments in the capital market, although some performances did not meet the expectations. The BET index had a 22% growth in 2006.

For the stock investors 2007 was a good year. With a BET growth of 22.1% the stocks generated average returns three times larger than the bank interests. The performance of the BET index in 2007 is very close to that recorded in 2006, when the same index had a 22.2% growth. As in 2006, this year the stocks listed in the second category on BSE also had a better performance: the BET-C index grew by 32.6% in 2007 (+28.5% in the previous year). If the stocks listed on the market generated, in general, performances similar to those of 2006, the major difference of performance appears on the RASDAQ market; after the continuous appreciation of the BSE prices in the recent years, the investors discovered many relatively cheap stocks but with potential on the RASDAQ market, leading to a growth of the market composite index of 96.5% - the best performance of the index since it was launched.

The year 2008 was one of the most difficult years on the capital market in Romania. BET, the official index of BSE, lost 70.5% of its value in 2008, this representing the largest annual fall in the history of the index. The 2008 fall cancelled the growths of the index recorded in 2007, 2006 and a part of 2005.

All stocks traded on BSE in 2008, without exception, closed the year with negative performance. The composite index of BSE, BET-C, had a similar fall of 70.3% while the index of the Financial Investments Societies (FIS/SIF), BET-FI, lost 84.1%. On the RASDAQ market the situation was similar the composite index of this market losing 55.3% of its value at the end of 2007.

According to survey done by KMARKET annalists specialized in the evolution of the capital market, the BET performances of the recent years have been well enough anticipated: the 22% growth of the index in 2006 and 2007 was correctly anticipated as the most probable variation range of BET for those years was between 20% and 40%. However, for 2008 the expectations were somehow failed as the growth of BET was anticipated to be over 40%.

The main influence factor upon the capital market is represented by the evolution of the external markets, the way in which the shock of the real estate crisis will or will not make its presence felt in other sectors of the world economy.

The great companies of the Romanian economy, such as PETROM, BCR (Romanian Trade Bank) or Arcelor Mittal, are circumspectly looking at the evolution of their own business this year. The financial data of the first trimester and the estimations regarding the year 2009 converge to a common denominator: prudence.

Beyond the estimations of the National Prognosis Committee, of the European Commission, of the International Monetary Fund and of other international institutions, which unanimously see an approximately 4% economic fall in this year and a gradual recovery starting no sooner than 2010, the data for this period as announced by the strongest companies in the Romanian economy come to present a truly relevant x-ray of the economic evolution.

In the context in which money has become harder to get and much more expensive, all great branches of the economy (from constructions to iron and steel industry, retail and even banking) have fully felt the crisis. After the record profits of previous years, rather singular even at world level given the growth ratio, the Romanian banking system has fully received the financial “uppercut” generated by the subprime crisis.

For instance, BCR has already announced a net profit of 78.3 million Euros, i.e. 13.7% smaller than in the first trimester of 2008, the main cause being the bigger the expenses with commissions/provisions, the lower consumption and the increase of all risk related costs.

BRD *Groupe Societe Generale* is also expected to record similar negative performances, if not worse than those of the main player on the market. According to annalists, the bank’s profit may fall by up to 40%, to 157.5 million lei (RON), i.e. 37.5 million Euros, due to the same commissions/provisions for the potential losses on the credit segment, as well as to the slowing down of the economic activity.

Most managers of the main commercial banks in Romania hoped that on the credit market things would get better once the money from IMF arrived, a fact which would allow them to fully use their own minimum compulsory reserves from the National Bank. The idea that the re-launching of crediting would greatly depend on the Central Bank’s policy was among the most circulated ideas. Thus, provided NBR reduces the key interest (which at present is 10% per year), it might trigger a fall in the credit costs.

From the perspective of the financial results of the first trimester the oil industry does not look better either. The fall of the oil quotation at the international level and the necessary growth of the commissions/provisions are expected to strongly cut from this year’s profits of the main players, OMV-PETROM, Rompetrol and LukOil.

■ For PETROM, the largest Romanian oil company, the analysts estimate a profit of only 99.2 million Euros, which represents a 57% decrease in the context in which the price of oil has also decreased by half as compared to last year. Consequently, this year the company is forced to constitute commissions/provisions for the potential losses generated by the lawsuits brought before a court by its former or present employees.

■ The situation is similar for companies members of the Rompetrol Group. For instance, *Rompetrol Well Services* anticipates an almost 8% decrease in the net profit of this year, to about 5 million Euros, and *Rompetrol Refinery* estimates a net loss of 37 million dollars, i.e. about 28 million Euros.

■ LukOil Romania has announced for this year investments 10 times smaller than in 2008, of only 1.5 million US dollars (1.13 million Euros) due to the economic crisis. This means that it would rather give for rent its gas stations to small entrepreneurs in the gas distribution business than building new ones, waiting for better times.

Another relevant signal regarding the economic situation in Romania is given by *Arcelor Mittal*, the largest exporter of Romania. The siderurgical giant has recently made a public appeal to the government in which it asked the latter to adopt certain measures to re-launch the steel production keeping also in mind the starting of an ample programme of investments into the infrastructure. As a matter of fact, *Arcelor Mittal* controls the plants in Hunedoara and Galați, the pipe producers in Roman and Iași, the port operator Romportmet Galați and the local branch of the construction company *Arcelor Mittal Construction*. In the absence of contracts, the steel plants have entered a conservation programme and the personnel are sent by rotation into technical unemployment.

Besides the crisis situation felt by the banking world, by the players in the oil industry, in constructions and in steel industry, probably the most significant recoil is felt by the automobile market, where DACIA plays the main role. According to the data provided by the *Automobile Producers and Importers Association* (APIA), the sells of new automobiles on the Romanian market fell by 56% in the first trimester of the year, to 29.674 units, under the circumstances in which the management of the company had already anticipated 60% decrease in sells. It is even expected that the results for the first semester would hold true for the entire year. Keeping in mind the series of fiscal measures taken in order to eliminate the VAT payment deductions, the strongest effect will be felt in the case of leasing sells which ensured 50-60% of the total automobile sells.

Therefore, an interesting end of the year is expected for the investors on the capital market in Romania characterized by a significant volatility but with good profits in real terms (still a lot better than bank interests), more initial public offers, a necessary and more decisive step towards the consolidation of the market's position as representative player in the region and, very probable, one may even anticipate the launching of certain new instruments on the market, taking into account the major events of this autumn.

6. FINAL OUTLOOK

The turmoil quickly spread to Europe, prompting bank rescues and capital injections.

Moreover, today's turmoil is quite unprecedented, making estimates based on historical data less than fully reliable. Empirically assessing the macroeconomic effects of the current financial turbulence is difficult. Indeed, existing macroeconomic models incorporate only a few elements of the many potential transmission channels through which the unfolding financial shocks may affect the real economy.

Quantifying the impact of the financial turmoil, it seems to be a very significant one, even on output in advanced European economies. Widening corporate spreads are expected to reduce euro area output by 0.3 and 0.4 per cent in 2008 and in 2009, respectively, relative to a hypothetical scenario without financial shocks. The tightening of lending standards—associated with a rise in the spread between lending and deposit rates—together with the decline in equity and house prices, will contribute to a further output slowdown of at least 0.4 and 0.5 per cent in 2008 and 2009, respectively, compared with a scenario without financial shocks.

The increased integration of financial markets and market infrastructures, the growing number of institutions active on a cross-border basis and the diversification of financial activities in the EU have helped to make markets more liquid and efficient and to increase the resilience and shock-absorbing capacity of the integrated financial sector. This increased integration also entails addressing effectively financial disturbances and their cross-border systemic implications at the EU level.

Against this background, the specific arrangements for managing financial crises at the EU level between the authorities responsible for safeguarding financial stability have been considerably enhanced. The enhancements include legislative initiatives, the adoption of nonbinding voluntary agreements on cooperation between authorities, and an improvement in the practical arrangements for managing a cross-border crisis situation, which have been tested through the organisation of financial crisis simulation exercises.

CONCLUSIONS

More than other series of coherent, natural and credible reasons, the excess of panic lays at the basis of the majority of unsuitable decisions in the seven months of this year. Moreover, it is worth mentioning the absence from the collective memory of crisis of another type than the crises the last regime got us used to and out of which severe consequences emerged in the first decade of transition.

More and more voices are heard claiming that the lesson of the present financial and economic crisis could be that of the necessity of the ideal encounter between the great theoretical systems regarding the economic and social process and phenomenology in an attempt to establish a model not as much feasible as desirable of the economic and social process and phenomenology. This regulating (and not just explanatory) nature of the new theoretic synthesis is tightly related to the necessity to abandon the paradigm of *optimization* in economy and society, replacing it with the paradigm of macro-equilibriums *sustainability*.

The significance of the current financial crisis is huge, and its policy implications are manifold – and one of those is that we need to learn from previous crises

The present process of globalization (which obviously constituted the “*bone structure*” on which the present financial and economic crisis burst out and evolved), although generated by the logic of optimization, has as endpoint the logic of sustainability, under the sanction of irreversible and fatal destruction of the society.

The causes of the current financial crisis should prod many to remember the lessons of the famous calculation debate: we need genuine markets, transparency and proper valuation of factors of production and products (services). Simulation and models cannot be but a very imperfect and insufficient substitute of actual markets. And the transparency and smooth functioning of markets need to be propped up by adequate regulations and supervision. For,

markets, by themselves, cannot protect themselves against their inherent weaknesses and the public good needs, sometimes, the work of a visible hand.

Maybe one should not exclude a “*virtual dialogue*” among the Hayekian, Keynes’s, Marxist or neo-classicist systems which should bring a dimension of economic explanation, description and prediction at the level of our time necessities. The chain that could connect these distinct theoretical systems in the real world might be an absence; in other words, eliminating the ideological ingredient and preserving, exploiting only the rational nucleus of each of them.

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