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ANALISYS OF THE SOCIO-ECONOMIC MEASURES IMPLEMETED IN POLAND AND ROMANIA DURING 2007-2010

1. The impact of the global crisis on the European economy;
2. The comparative evolution of Polish and Romanian economies;
3. The recovery governmental packages in the Polish and the Romanian economies and their viability;
4. Conclusions.

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Abstract:

The paper realises a comparative analysis between the Polish and the Romanian economies in order to find out the main elements which supported Poland to face successfully to the crisis. The analysis is based on the neutral statistical bases and covers the main economic indicators. A distinct part of the paper deals with the recovery governmental packages in the Polish and the Romanian economies and their viability. Important is the part connected to the relation of these two economies with the international financial institutes.

The main lessons from Poland to Romania about the crisis management are: policy matters, macroeconomic disequilibrium at a minimal level and an optimal privatisation policy.

The main conclusion of the paper is that the human society will be divided only into very rich or very poor people and both above economies are not able to stop this process.

Keywords: global crisis, economic recovery, trade deficit, privatisation policy.

JEL Classification: O57, R11, R59.

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1. Across a Europe where crisis stroked even economies considered as stable, Poland gave an example of financial surviving and became a model of economic growth.

The analysts mistook when consider that whole Central and East Europe will collapse under the crisis. The economic reality divided the latest 12 EU member states into three categories of economic models, which were connected to heritages of development, economic principles and different risk profiles. These models are connected to three types of economic transition: Baltic model, neoliberal model and gradual transition model. The differences between these models reflected the impact of the global crisis on every national economy and the governments or international institutes' options for economic recovery.

Practically, these models presented the winners and the losers. The winners are Poland, Czech Republic and Slovenia, which were able to control their current account deficits and to maintain low borrowing rates in the private and public sectors. Slovakia and Slovenia succeeded in keeping stable the exchange rates as a result of their recent adhering to the Euro.

The present global economic crisis is characterised by the specialists as a "perfect storm". No other previously crisis was as severe as the present one.

On the other hand, the previously crisis has a regional or national impact, not a global one.

The economic crisis started in USA and extended rapidly around the whole world. The present subprime crisis is a financial one caused by the slump of the liquidities of the credit global markets and in the banking systems, as a result of the set-back of the companies which invested in the subprime mortgages with high risk.

The causes of the present crisis could be founded at the end of 20th century, but its peak was achieved during 2007-2008. The crisis brought to light serious deficiencies in the global financial system and in the regulation framework.

The present recession's origins are in the monetary expansion supported by the Federal Reserve System, which grew the USD supply on the financial markets during 2001-2008. The results of this action were the artificial cheaper credits and the economic development without investment prudence. Moreover, the monetary policy interest rate has a systematic zero band and negative evolution.

The same cheaper money policy was implemented by the Bank of Japan, which used zero nominal interest.

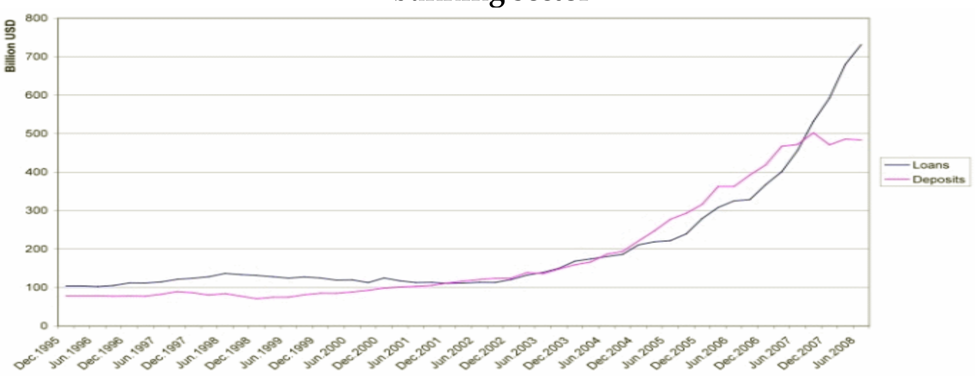
The European Central Bank made the same procedure, using an interest rate of 2%.

Nowadays, the effects of these actions are significantly negative. 40% of the Americans are in unemployment and 50% from the Afro-American young men have no first job. The average wage in USA decreased above 4% during 2000-2008, even that the American government injected more than 180 billion USD as public aid for the AIG Company (equivalent of 25 years aids for Africa).

The credit explosion in the developing economies from the Eastern Europe was supported by the permissive monetary policy of FED, Japan and EU from the beginning of 2000 (Marinescu C. et al., 2010, p.8).

From 1997, the moment when the subprime panic started, the banking sector accumulated 250 billion USD liabilities, especially on short period. Above 90% of these liabilities are held by the European banks (see Figure 1).

Figure 1: Deposits and foreign loans evolution across the East Europe banking sector



Source: Eurostat (2009, p.57)

The present world crisis will be long and the financial markets demonstrated their limits and "stupidity". Moreover, the official statistics don't reflect the reality, because the imperfect markets give asymmetric information (Stiglitz J., 2010).

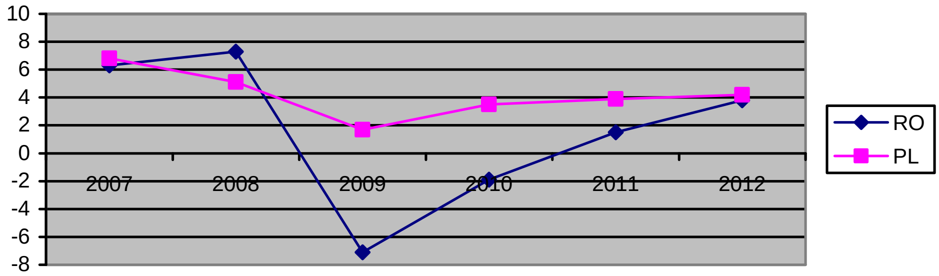
2. Poland became a model of economic growth because it was able to survive financially. Even that the Polish economy was weak in 2004, when it adhered to the EU, Poland was the only one which achieved a positive economic growth in 2009: 1.7%.

2.1. GDP

During the latest 14 years, Poland performed a continuous economic growth, and its GDP/capita grew, from 3200 Euros to 9500 Euros in 2009. In 2010, the GDP/capita achieved 8500 Euros as a result of the 20% zlot depreciation.

The nominal GDP of Poland grew from 153 billion Euros in 1998, to 362 billion Euros in 2008 and 310 billion Euros in 2009. The Romanian nominal GDP was 37.4 billion Euros in 1998, 139.7 billion Euros in 2008 and 116 billion Euros in 2009. Practically, the Polish economy grew by 102% during 1998-2009 and the Romanian economy by 210%. The problem is that the Polish economic growth was a "healthful" one, but the Romanian economic growth was the same with a cake (see Figure 2).

Figure 2: GDP growth rates in Poland and Romania during 2007-2012



Source: personal contribution using European Commission (2010, pp. 135, 141)

It is interesting that the GDP growth rate trend is the same for both countries. Moreover, the growth rate will be almost the same in 2012.

2.2. Budgetary deficit and public debt

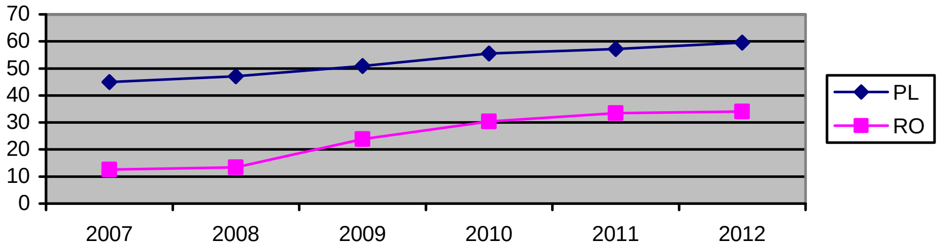
The budgetary deficit is a comparable indicator for Romania and Poland. The Poland's budget balance was permanently negative and it achieved values less than 3% of GDP only in three from the latest 13 years.

On the other hand, the budgetary revenues as % of GDP are 40% in Poland and only 31% in Romania.

The public average debt in Poland was 40-50% of GDP during 1997-2009 and 55.5% in 2010. The same indicator achieved 30.4% of GDP in 2010 in Romania (see Figure 3).

The government gross debt trend is identically for Poland and Romania during 2009-2012. But the Polish Constitution stipulates that the public debt may be less than 55% of GDP, excepting exceptional situations when it cans achieve 60%. Practically, the Polish government may not enter the financial slippage under the constitutional stipulations.

Figure 3: General government gross debt (% of GDP) in Poland and Romania



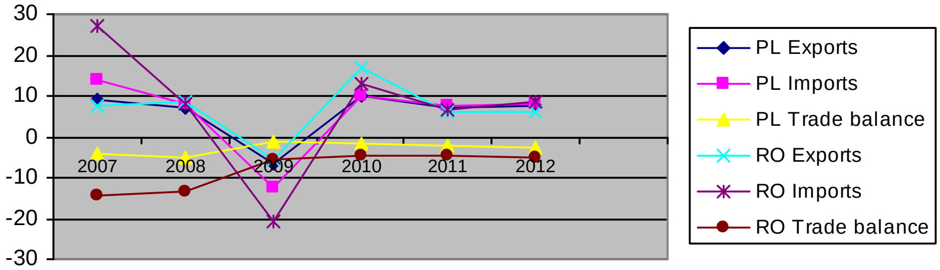
Source: personal contribution using European Commission (2010, pp. 135, 141)

2.3. Trade balance

During the latest 10 years, the growth of the Polish economy didn't support a high trade deficit growth, excepting 2007 and 2008. This evolution was the result of the Polish goods' competitiveness growth on the international markets. In 2009, for example, Polish exports achieved 100.2 billion Euros and the imports 103.4 billion Euros. The result was a trade deficit decrease from 26.1 billion Euros in 2008, to 3.2 billion Euros in 2009 (-88%).

In 2008, Poland achieved a "historical" trade deficit of 4.9% of GDP while Romania's trade deficit was 13.6% of GDP (see Figure 4).

Figure 4: Foreign trade trend in Poland and Romania



Source: personal contribution using European Commission (2010, pp. 135, 141)

The Polish and Romanian trade evolution was the result that the Western export markets faced to the global crisis quickly than the Eastern import markets. This is why the imports grew, but the exports decreased.

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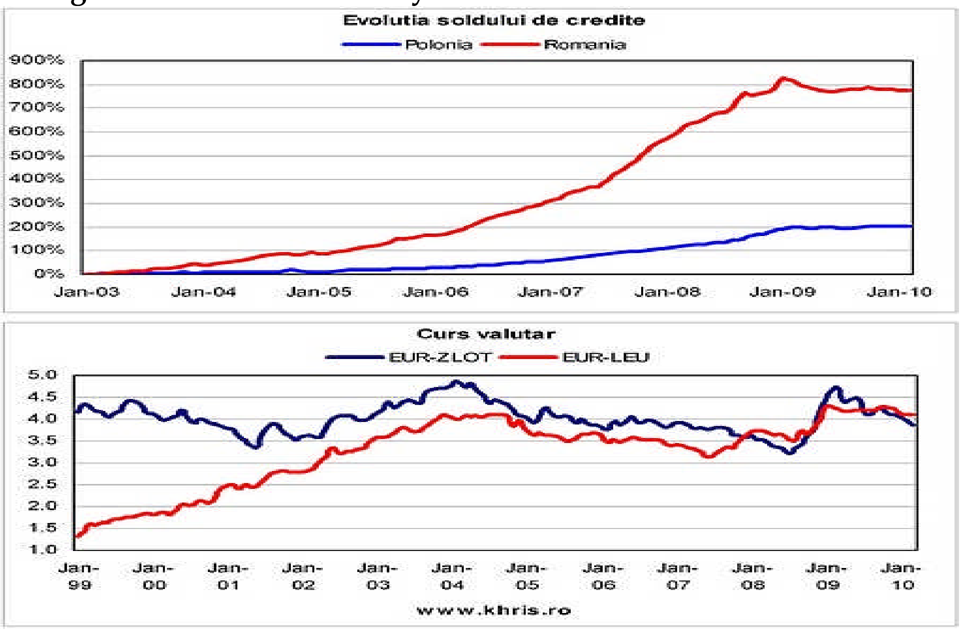
2.4. Credit process and the currency course

The National Bank of Poland operated on the market, in order to stop the zlot's appreciation. On the other hand, during 2003-2009, the loans balance grew by 772% in Romania and only by 203% in Poland.

Nowadays, the Polish banks have a total balance of loans of 162 billion Euros (52% of GDP), but the Romanian banks robed 54.7 billion Euros (47% of GDP). The evolution of the loans sold and currency course in Poland and Romania is presented in figure 5.

Figure 5: Loans and currency course trends in Poland and Romania



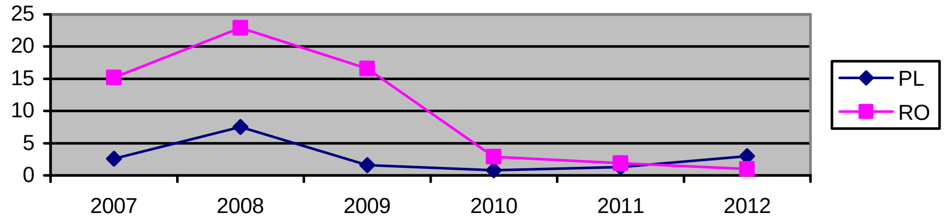
Source: www.khris.ro

2.5. Labour costs and productivity

In 2009, the average wage in Poland was about 800 Euros, greater than in Romania (478 Euros) but less than in Czech Republic (865 Euros).

During 2000-2010, the unit labour cost grew by 79% in Poland and by 500% in Romania. The labour productivity increased by 28% in Poland and 87% in Romania during the same time period (see Figure 6).

Figure 6: Unit labour costs whole economy in Poland and Romania



Source: personal contribution using European Commission (2010, pp. 135, 141)

3.
3.1. Poland vs global crisis

The economists are divided when they talk about the Polish "miracle". Some of them consider that it was hazard, other talk about the Polish government which was able to manage the financial crisis from 2008 and which refused the economic recovery plan.

On the other hand, the consumption was able to support the economic growth even in 2009. Poland is a great market with 38 million inhabitants. The Polish economy is less opened and less dependent on exports. This was why the Polish economy didn't face the dramatically decreased of the world trade.

The present results of the Polish economy balanced the poverty from Poland, which remained one of the poorest EU member states.

Poland is not a member of the Euro area and it seems to be an advantage. In 2000, the Polish authorities allowed the zlot under a variable exchange rate, which supported the Polish exports, especially of Fiat and Ford cars, which are made in Poland. Moreover, Poland benefited from the scrapping premiums from Germany and France.

The Polish government establish a new deadline for adhering to the Euro area: 2015. Poland doesn't want to hurry as Greece and to support negative effects then.

Nowadays, Poland faces to new challenges. The budgetary deficit achieved 7.3% of GDP in 2010, regard 3% allowed by the European Stability Pact.

The unemployment rate achieved 9.5% in 2010, and the forecasts for 2011 and 2012 are not optimistically (Eurostat, 2011, p.3).

On the other hand, the infrastructure is not good. Poland has old roads, few speedways and railways, as well. As a result, the public investment programs in infrastructure cover 20 billion Euros until 2012.

Moreover, the National Agency for Highways from Poland financed the road infrastructure with 13.3 billion Euros during 2009-2010.

The European Commission financed Poland (67.3 billion Euros in 2009) in order to support the economic development as investment until 2013. The European Funds' absorption in Poland is not a problem, because the Polish government has a very good practice in it. Nowadays, Poland supports the EU budget by 22 billion Euros, but it receives 87 billion Euros from the same budget.

The Polish government consider that there will be two important events which will be able to support the economic growth: the EU27 Presidency by Poland in the second semester of 2011 and the Co-organiser of the European Football Championship in 2012.

Poland is the country with highest European identity. As member of NATO and EU, Poland feels safe for the first time during its history.

An important component of the Polish economic recovery is connected to the difficult economic changes from the latest 20 years.

Unlike other European economies, the Polish exports didn't decreased so dramatically, the consumer credits growth rate was low (especially in foreign currencies), the domestic consumption grew and the GDP growth rate was positively in 2009. Even the national currency (zlot) recovered and grew its exchange rate.

On the other hand, the Poland's success was based on the domestic consumption market's power. As a result, the Polish people spent in the country when the national currency exchange rate decreased and the Euro exchange rate grew.

A successful domain for Poland is the FDI. During 2009-2010, the FDI financed 75% of the Polish deficit. Poland became one of the most attractively countries in the world for the FDI (Ernst&Young, 2010, pp.11-13).

In the table 1, Poland succeeded to achieve the 6 rank in 2010, a performance improved by 16 positions.

Table 1: FDI top destination in the world

Country	Rank in 2010	Rank in 2007	Variation
China	1	1	0
USA	2	3	+1
India	3	2	-1
Brazil	4	6	+2
Germany	5	10	+5
Poland	6	22	+16
Australia	7	11	+4
Mexico	8	19	+11

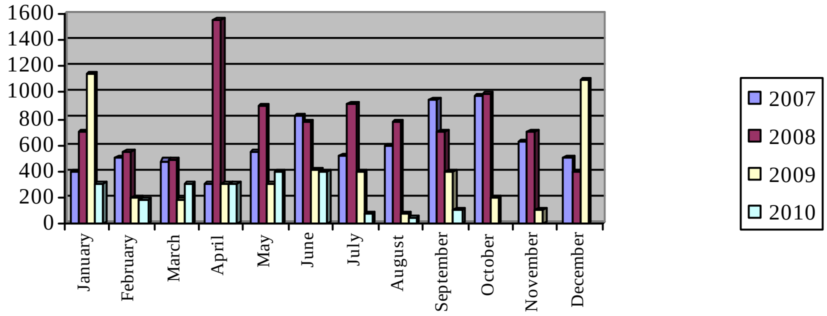
Canada	9	14	+5
UK	10	4	-6

Source: personal contribution after Ernst&Young's 2010.

During the first semester of 2010, for example, the FDI in Poland achieved 160 million Euros. They were focused on R&D, equipments, vehicles, electronics and metallurgy. The most important investors in Poland are: Germany, Japan, Korea and China.

The FDI's evolution in Romania during 2007-2010 was jumpy and the situation was worst in 2010 (National Bank of Romania, 2010, p.2)

Figure 7: FDI trend in Romania (mill. Euros)



Source: personal contribution using NBR (2010, p.2)

3.2. Polish lessons for Romania

There are at least three important lessons for Romania. First is that policy matters. That means that the powerful public institutions, the viable democracy, the responsibility and the transparency have an important role as the adequate economic policies for the economic development. These elements provide confidence to the citizen. Romanian government was not able to do the same thing.

As a result, the Polish people supported powerfully the domestic consumption and the FDI. It was not simple, especially in 1989, when the Polish government implemented an economic shock therapy. This therapy prosecuted the public budget financing of the National Bank and the concessional lending of the public companies, limited the state employees' wages introduced the single tax and allowed the public companies' insolvency. The cumulated effects were the economy's remediation and a healthy economic development. Moreover, Poland was really prepared for entry in the EU in 2004.

Romania had not a professional with enough political power able to manage the economic recovery. The problem is that Romania didn't achieve the depression yet. The only way for the Romanian government to face the crisis was to growth exponentially the public debt, in order to pay the current expenditures, not to invest in economy. Moreover, the Romanian government has a strategy which consists in the continuous decreasing of the public employees' number.

The second lesson for Romania is connected to the ability to maintain the macroeconomic disequilibrium at a minimal level and to access preferential loans. For example, Poland used a flexible credit loan of 20.5 billion Euros from IMF. This facility was used by IMF only for those countries which have powerful economic basis.

Romania, with a high foreign debt (17.1 billion Euros), was forced by IMF and the World Bank to adopt strict austerity measures.

Both lessons will have long term effects on Romanian economy, including the economic recovery success, the Euro implementation and the alignment with EU principles.

An important lesson for Romania would be the Polish privatisation policy. At the beginning, Poland was criticized for its slow privatisation policy. The Polish privatisation plan was adopted in 2008 and it brought about 8.9 billion Euros during 2008-2010. During the latest 18 years, Romania obtained only 4 billion Euros from the privatisation process.

Moreover, Poland received more than 6 billion Euros from the IPO in 2010. Romania listed only Transgaz and Transelectrica and received 100 million Euros in the same year.

On the other hand, even some Romanian officials consider that Romania has to face to a deep economic crisis till 2015. We must remember that Romania will start to pay back the loans from IMF and other international institutes in 2012. As a result, the budget will be very restrictive. This new crisis can be connected to the debts which will achieve 5-5.4 billion Euros yearly.

Other specialists consider the Romanian state a money vacuum. It aspirates money continuously, in order to reassign on pensions, wages, high expenditures, public works and acquisitions. This mechanism is not able to generate own revenues.

3.3. The connection between both above economies and the international financial institutes

The Romanian economy decreased by 7.1% in 2009 (NBR, 2010, p.20). The GDP decreased by 2.0% in 2010, but the budgetary deficit was 6.6%, less than that of 6.8% imposed by IMF (IMF, 2010, p.27).

Romania signed official agreements with IMF, EU and other international financial institutes which cover about 20 billion Euros. These financial institutes financed 12.2 billion Euros by the end of 2010. IMF approved the 7th loan tranche (about 900 million Euros) and sent its official Jeffrey Franks to Bucharest at the end of January 2011, in order to evaluate the agreement and to approve or not the 8th tranche of 1 billion Euros.

On the other hand, Romania has a Common Memorandum with the European Commission regarding a loan (5 billion Euros) for the cash flow. The conditions of this grant cover specific measures connected to: fiscal consolidation, fiscal administration, structural reforms, and financial sector regulatory and monitoring.

Moreover, Romania asked for financial and technical assistance from the World Bank. The World Bank asked Romania to continue the structural reforms, in order to support the financial sustainability (Peter Harrold, 2011, p.1). The Romanian government is interested into a partnership with the World Bank, connected to the administrative reforms, sectoral policies' monitoring, social sector's reforms, economic growth and agriculture.

The first loan from the World Bank (300 million Euros) was approved in the 3rd quarter of 2009 and it was focused on the development policies. These development policies influence the public finances management, the social sector and the financial sector, as well and support the structural reforms connected to the economic recovery.

The World Bank supported Romania to adhere to the EU and to recover the economic disparities. During 1991-2009, the World Bank financed 55 operations with 6 billion USD. Nowadays, the World Bank's portfolio for Romania has 13 active projects and 1.13 billion USD.

On the other hand, Romania has is a member of the Black Sea Trade&Development Bank (BSTDB). The BSTDB will focus in the next four years on providing financial support to large and medium sized companies engaged in particular in export generating activities, infrastructure and financial sector. Also BSTDB will strive to mobilize both foreign and domestic financial resources for investments in Romania. In this respect, possibilities to organize suitable financial syndicates will be utilized under BSTDB's co-financing facilities or in any other adequate ways. With BSTDB committing to raising the level of commitments (signed operations) for 2007-2010 it is estimated that an indicative number of about 17 operations for SDR 100 million (about SDR 25 million per annum on average) will be approved by the BoD. Of these, about 14 operations are expected to be signed (BSTDB official website).

Romania received financial support from the European Investment Bank (EIB). It became a member of EIB in 2007, when it adhered to the EU. During 1991-2007, Romania signed 70 loan agreements with EIB with a cumulated value of about 5.11 billion Euros.

According to the latest Corporate Operational Plan 2010-2012, EIB offers financial support in Romania for: implementation of the Knowledge Economy (previously known as Innovation 2010 initiative (i2i)); development of Trans-European Networks (TENs); protecting and Improving the Environment and Promoting Sustainable Communities; SMEs, and sustainable, competitive and secure energy (EIB, 2010, p.3).

Poland asked for a loan from the IMF in order to fix its economic position. IMF changed the flexible credit line for Poland to a new two years agreement of about 30 billion USD. This new agreement replaced the loan of 21 billion USD approved on July 2010.

The main interest of Poland connected to the new agreement with IMF is to protect the economy of new effects of financial turmoil in other parts of Europe. This new agreement will be considered as a"stand-by" one.

The World Bank approved three 1 billion Euros loans for Poland to support the government to face the global crisis. Practically, Poland has to improve the public finances and the business environment and to grow the employment, in order to ensure a powerful economic growth.

The latest loan from the World Bank will finance the services' improvement and the social reforms.

During the present global crisis, Poland had economic contraction (-0.33%) in a single month. As a result, Poland had the greater economic growth rate in 2010 (about 4%). Moreover, the European Commission forecasted economic growth rates of 3.9% in 2011 and 4.2% in 2012.

The specialists identified the elements which supported these economic performances, as the following: the low banking loans and a relative little mortgage loans market; the recent elimination of the trade barriers to the EU, which supported the growth of the demand for the Polish goods, during 2004-2010; the lack of economic dependence of the exports; the good tradition connected to the Polish government fiscal responsibility; the relative great domestic market (about 38 million inhabitants); the national currency, which was not affected by Euro or USD; the lowest labour costs, which supported the FDI; the implementation of the specific economic austerity measures before the start of the global crisis; and the refraining from printing money.

Poland will maintain its public debt less that 55% of GDP until 2013, according to the four years plan of the Polish government which is based on the expenditures decrease and higher taxes (Dorota Bartyzel, 2010, p.1).

The same plan forecasted GDP growth rates of 4.8% in 2011 and 2012 and 4.1% in 2013. Poland orients 80% of its exports to the EU and depends on the Western member states' economic recovery. The polish authorities talk about an economic growth rate of 2.0% across the Euro area in 2012 and a stabilisation in 2013.

4. Romania had a positive economic evolution during 2000-2008. Unfortunately, the positive evolution from 2008 was only a good fortune ant it wasn't followed by real economic development.

Many specialists consider that the present crisis could be a chance for Romania's modernisation and development, but it was loosed.

The realistic forecasts talk about a real economic recovery in 2016. This is why, the Romanian president consider that the welfare from 2007-2008 will be achieve again in 2014-2015.

On the other hand, Romania had not competent governments in the latest three years, the money didn't manage wisely and the public budget looks like a sieve.

The problem is that Romania has no tradition in technocrat governments as Leszek Balcerowicz's government in Poland.

Moreover, the specialists' ideas are eliminated and the neighbours' good practices are forgotten.

After 6 years of continuous decline, the 2009 crisis in Poland resulted in only a moderate rise in the unemployment rate, amid increasing labour supply benefiting inter alia from recent structural reforms.

The sharper-than-anticipated downward adjustment of real wages mitigated the effects of the downturn on employment. Thus, employment kept growing during the crisis (by 0.5% between the first quarter of 2008 and the first quarter of 2010), especially in the services sector (except transportation), while manufacturing and agriculture experienced substantial falls in employment.

Overall, employment growth is expected to remain in positive territory (0.7%) in 2010. Hiring is muted due to the effect of labour hoarding during the crisis. Increasing labour market participation resulted in unemployment peaking at 9.5% in 2010.

Going forward, employment growth is projected to accelerate gradually, leading to a moderate decrease in the unemployment rate to 8.5% in 2012. Against this improved outlook and mounting demographic pressures, further reforms favouring dynamic employment creation and higher labour market participation focusing on the extreme ends of the age distribution would help sustain a permanent recovery of domestic demand without undermining the competitiveness of the economy (European Commission, 2010, p.126).

On the other hand, the present crisis is the result of the global tendency of promoting the unsustainable growth, without goods and services. This growth is based on papers, which are not in the taxpayers pockets.

Maybe the most important negative effect of this crisis is the disappearance of middle class society. Step by step, the men with a decent welfare will disappear and the human society will be divided only into very rich or very poor people.

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