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Structural Changes of the Current Economic Behaviour

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Abstract *As a consequence of the economic and financial crisis started in mid-2007, which created conditions for the resurgence in the state economy on the positions of direct players, reveals not only the increased role of the state, but also the shift towards the national state, protecting national interests complementary to the globalization process, revitalization of national elites, as exponents of local culture, perfected through direct access to universal values, thanks to globalization. In this context, orientation towards economic and social consensus becomes a catalyst for changes inherent in the behaviour of markets and also of economic agents.*

Key words Financial economic crisis, financial regulations, economic cycle, stability

JEL Codes: E60

1. Introduction

Global financial and economic crisis falls into the category of complex phenomena, considered virtual models studying phenomena in nature, society, social sciences associated with programs simulating current and future reality.The condition for successfully conducting such experiments is knowing all the factors, the independent variables that trigger the state of crisis. In order to know them we need adequate tools or concepts that do not exist, because we have no comparable experiences in the past. However, we can identify crisis triggers specific for a particular economic system or economy without the possibility of generalizing causes and identifying a common solution/theory. The usefulness of a complex theory would be more of a proactive, aprioric. But knowledge, which, if complex phenomena is partial, it can only be used aposteriori and is done for identifying partial explanations and some lessons from the past that can form a triggering profile the crisis.

Too often, debates referring to crisis are made in the consequences- solutions tandem, which gives a dose of subjectivism and relativism, due to the fact that what triggers, intensifies and defuses a crisis consists of a mix of fiscal monetary solutions, accompanied by a societal context favorable for initiating a program of macro-stabilization.

2. Literature review

According to the Dictionary of Economics (Dobrota, 1999), the economic crisis designates a state of difficulty of economic activities, disruption, sudden change in the economic activity, reflected in the slowdown, stagnation or decline in economic activities. By extension, the depressing situation for the economy as a whole, for some sectors, regions, disease of the economic organism that marks the serious breaking of the economic balance, especially between production and consumption, between supply and demand, with direct effects on prices, occupancy and the use of production factors.

The economic crisis is the turning point of the economic cycle when the expansion phase gives way to the depression one. If we use as an indicator the growth rate of the gross national product, we notice periods when this rate is positive and high, other times when the growth rate is lower and even negative. Usually each cycle has four phases: expansion, peak, recession and threshold (crisis). The start of the economic crisis requires economic operators to act in order to determine qualitative changes in economic conditions and growth factors in economic structures aimed at eliminating imbalances, behaviors, institutions and ineffective mechanisms, prerequisites for the transition to a new upward phase.

A number of economists have addressed the current economic crisis from the perspective of the long economic cycle (Kondratieff). After a period of economic expansion in which the conjunction of certain key scientific breakthroughs allowed the emergence of a group of new technologies that have stimulated investments, demand and employment, accessibility of new products for an increasing number of people from several countries, economy and markets were saturated registering accented declines in growth rates, investment flows have contracted, businesses have recorded losses, with negative repercussions on the employment level, the supply of economic goods, including international trade. The causes of these twists, specific for the economic recession phase, are complex, of structural nature: the globalization of financial markets and financial innovation, in terms of precarious regulations or even of the lack of regulations or proliferation of conflicts of interest. In the last decade, increasing flows of capital across borders and the increasingly broad use of financial instruments/toxic derivative or development in a shade banking sector, weak regulated, converge to triggering a financial crisis that becomes economic, unprecedented in scale and in global intensity.

3. Methodology of research

This paper presents a comprehensive approach to crisis phenomenology, referring to indicators that may surprise some manifestations of the crisis, i.e. net currency pressure.

4. Hypothesis

The current financial crisis that started in 2007 has an impact on the economy of all countries differently, with serious consequences nationally, in economic and social reference, as well as regional and international, in the form of reduced investment flows, disruptions in the financial markets and in stock markets to level of the general economic stability through significant changes in the structure of revenue and expenditure, with direct impact on the purchasing power and respectively on the workplace.

What is happening is actually a paradigm shift from the paradigm according to which financial markets tend towards equilibrium, to the paradigm that is based on the relation between thought and reality, supporting the idea that interpretations and misconceptions play an important role in shaping history (Soros, 2008). According to Soros, market participants cannot base their decisions only on knowledge and their subjective perceptions can influence not only market prices but the core aspects that prices are supposed to reflect. Therefore, participants' thinking is influenced by both cognitive functions and participating or manipulative functions in different degrees of interdependence and interrelation.

5. Results

From a financial standpoint, the impact of the crisis can be appreciated using the currency pressure indicator which is calculated as an average index of interest rate growth, the growth rate of the exchange and the growth rate of international reserves (Rocaru *et al*., 2006). Within the Romanian economy, using data supplied by BNR, we calculated values for the currency pressure, 2009-2013, available in Table 1.

This table used data provided by the National Bank of Romania, the monthly statistical bulletins, namely the average exchange rate, the interest rate on loans, the international reserves; Based on these we then calculated the rate of increase in the exchange rate or the growth rate of the interest rate on loans and the growth rate of international reserves for the period January 2009 - December 2013. Then based on these rates we were able to calculate the currency pressure using the formula:

1. Net currency rate

$$PV_n = \sqrt[3]{R_{CS} * R_{da} * R_{ri}}, \quad (1)$$

where:

Growth rate of the exchange rate:

$$R_{CS} = \frac{CS_1}{CS_0} \quad (2)$$

2. The rate of increase in interest rate on loans:

$$R_{da} = \frac{da_1}{da_0} \quad (3)$$

3. The rate of growth of international reserves:

$$R_{ri} = \frac{ri_1}{ri_0} \quad (4)$$

Table 1. Nominal currency pressure, 2009-2013

Year	Month	IAPC	The average exchange rate set by BNR	The interest rate on loans	International reserves	The growth rate of the average exchange rate set by BNR R_{CS}	The rate of increase in interest rates on loans R_{da}	The growth rate of international reserves R_{ri}	The nominal currency pressure PV_n
2009	Jan	6.8	4.2327	17.87	28387.7	-	-	-	-
2009	Feb	6.9	4.2839	18.11	28401.4	101.2096	101.3430	100.0483	100.8653
2009	Mar	6.7	4.2821	18.15	27426.4	99.9580	100.2209	96.5671	98.9012
2009	Apr	6.5	4.1954	18.08	27113.4	97.9753	99.6143	98.8588	98.8139
2009	May	5.9	4.1689	17.73	29161.2	99.3684	98.0642	107.5527	101.5765
2009	Jun	5.9	4.2126	17.46	28689.9	101.0482	98.4772	98.3838	99.2954
2009	Jul	5	4.2168	17	29540.2	100.0997	97.3654	102.9638	100.1169
2009	Aug	4.9	4.2185	16.68	29950.5	100.0403	98.1176	101.3890	99.8399
2009	Sep	4.9	4.2389	16.5	30615.6	100.4836	98.9209	102.2207	100.5327
2009	Oct	4.3	4.2848	16.6	30747	101.0828	100.6061	100.4292	100.7056
2009	Nov	4.6	4.2881	16.57	31333.4	100.0770	99.8193	101.9072	100.5969
2009	Dec	4.7	4.2248	16.58	30858.6	98.5238	100.0604	98.4847	99.0202
2010	Jan	5.2	4.1409	16.3	30623	98.0141	98.3112	99.2365	98.5192
2010	Feb	4.5	4.1179	15.6	32465.8	99.4446	95.7055	106.0177	100.2995
2010	Mar	4.2	4.0879	14.99	34784.2	99.2715	96.0897	107.1411	100.7285
2010	Apr	4.2	4.1285	14.23	35329.7	100.9932	94.9300	101.5682	99.1177
2010	May	4.4	4.1743	14.26	35251.6	101.1094	100.2108	99.7789	100.3648
2010	Jun	4.3	4.2396	13.9	34999.2	101.5643	97.4755	99.2840	99.4272
2010	Jul	7.1	4.2611	13.89	34571.2	100.5071	99.9281	98.7771	99.7348
2010	Aug	7.6	4.2389	13.59	34798.6	99.4790	97.8402	100.6578	99.3189
2010	Sep	7.7	4.2642	13.42	35780.8	100.5969	98.7491	102.8225	100.7091
2010	Oct	7.9	4.2798	13.18	35531.4	100.3658	98.2116	99.3030	99.2896
2010	Nov	7.7	4.2931	12.93	36321.9	100.3108	98.1032	102.2248	100.1987
2010	Dec	7.9	4.2925	12.66	35950.7	99.9860	97.9118	98.9780	98.9550
2011	Jan	7	4.2622	12.4	35946.8	99.2941	97.9463	99.9892	99.0729
2011	Feb	7.6	4.2472	12.61	35466.6	99.6481	101.6935	98.6641	99.9940
2011	Mar	8	4.1646	12.54	36123.4	98.0552	99.4449	101.8519	99.7717
2011	Apr	8.4	4.0992	12.6	35513.2	98.4296	100.4785	98.3108	99.0680
2011	May	8.5	4.112	12.13	36262.2	100.3123	96.2698	102.1091	99.5336
2011	Jun	8	4.1929	11.9	37873.3	101.9674	98.1039	104.4429	101.4711

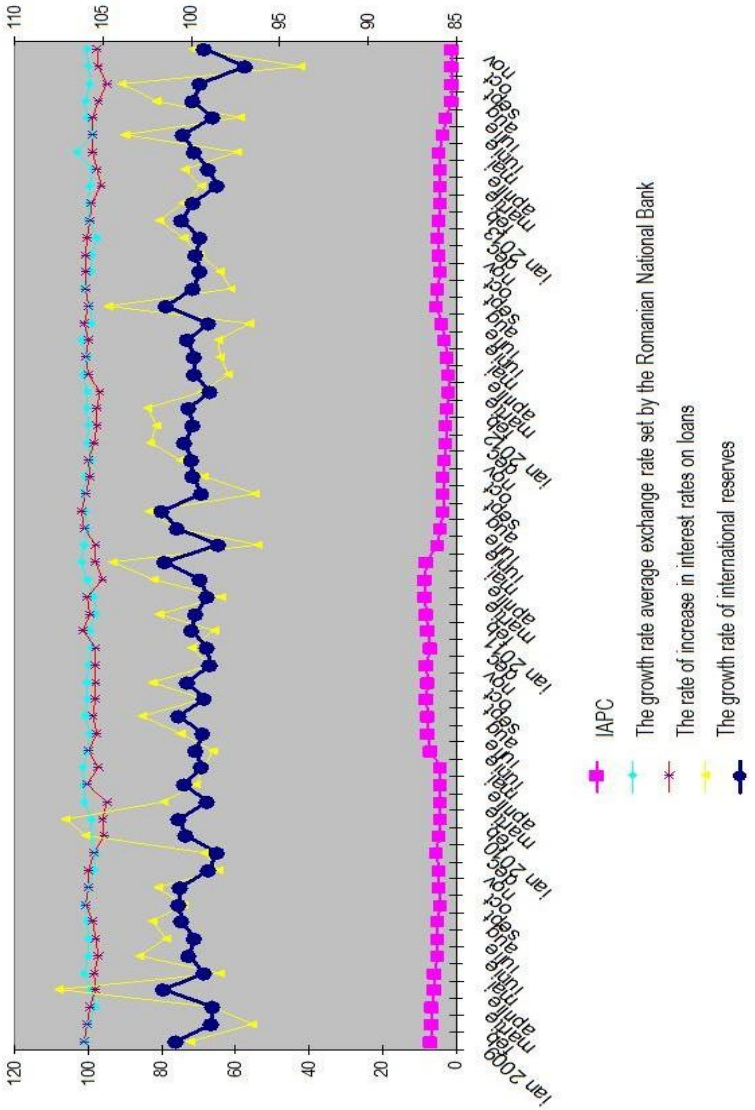
Year	Month	IAPC	The average exchange rate set by BNR	The interest rate on loans	International reserves	The growth rate of the average exchange rate set by BNR R_{CS}	The rate of increase in interest rates on loans R_{da}	The growth rate of international reserves R_{rl}	The nominal currency pressure PV_n
2011	Jul	4.9	4.2405	11.66	36447.3	101.1353	97.9832	96.2348	98.4303
2011	Aug	4.3	4.2501	11.81	36766	100.2264	101.2864	100.8744	100.7948
2011	Sep	3.5	4.282	12.02	37641.7	100.7506	101.7782	102.3818	101.6346
2011	Oct	3.6	4.3238	12.13	36289.9	100.9762	100.9151	96.4088	99.4101
2011	Nov	3.5	4.3536	12.09	36020.7	100.6892	99.6702	99.2582	99.8707
2011	Dec	3.2	4.3267	12.08	36251.8	99.3821	99.9173	100.6416	99.9790
2012	Jan	2.8	4.3428	11.9	37088.8	100.3721	98.5099	102.3089	100.3850
2012	Feb	2.7	4.3506	11.62	37821.8	100.1796	97.6471	101.9763	99.9185
2012	Mar	2.5	4.3652	11.35	38757.1	100.3356	97.6764	102.4729	100.1424
2012	Apr	1.9	4.376	11.02	38526.7	100.2474	97.0925	99.4055	98.9061
2012	May	2	4.4381	11.04	37727.5	101.4191	100.1815	97.9256	99.8316
2012	Jun	2.2	4.4603	11.11	37121.2	100.5002	100.6341	98.3929	99.8371
2012	Jul	3.1	4.5484	11.13	36554.1	101.9752	100.1800	98.4723	100.1990
2012	Aug	4	4.5163	11.24	35352.6	99.2943	100.9883	96.7131	98.9829
2012	Sep	5.4	4.5007	11.25	37011.4	99.6546	100.0890	104.6922	101.4532
2012	Oct	5	4.5583	11.33	36177.2	101.2798	100.7111	97.7461	99.9002
2012	Nov	4.4	4.5255	11.43	35594.4	99.2804	100.8826	98.3890	99.5120
2012	Dec	4.6	4.4895	11.5	35413	99.2045	100.6124	99.4904	99.7673
2013	Jan	5.1	4.3793	11.55	35576.9	97.5454	100.4348	100.4628	99.4715
2013	Feb	4.8	4.3848	11.52	36214.8	100.1256	99.7403	101.7930	100.5490
2013	Mar	4.4	4.3915	11.42	36386.2	100.1528	99.1319	100.4733	99.9177
2013	Apr	4.4	4.3802	11.03	36165.8	99.7427	96.5849	99.3943	98.5638
2013	May	4.4	4.3375	10.78	36312.1	99.0252	97.7335	100.4045	99.0484
2013	Jun	4.5	4.4765	10.66	35381.3	103.2046	98.8868	97.4367	99.8129
2013	Jul	3.4	4.4257	10.55	36696.9	98.8652	98.9681	103.7183	100.4920
2013	Aug	2.6	4.4353	10.43	35680.5	100.2169	98.8626	97.2303	98.7624
2013	Sep	1.1	4.4627	10.13	36385.6	100.6178	97.1237	101.9761	99.8848
2013	Oct	1.2	4.4462	9.64	37816.1	99.6303	95.1629	103.9315	99.5105
2013	Nov	1.3	4.4448	9.37	35466	99.9685	97.1992	93.7855	96.9513
2013	Dec	1.3	4.4633	9.14	35434.5	100.4162	97.5454	99.9112	99.2830

Source: own calculations based on data provided by BNR

Our results in graphic representation are presented in figure 1.

Analyzing the data, we can conclude that there is a direct, obvious link between the crisis in the financial market and the regulated banking sector ; probably a large part of this area is in fact influenced by the gray and underground economy, making it difficult to see the actual financial sector, and as a first immediate consequence, greatly hampers the realization and implementation of appropriate corrective policies.

This crisis is not entirely the result of overheated housing market crash or of the mortgage loans sector with high-risk in the USA. According to the Keynesian theory on consumption, rising prices of real estate was the mean of support, by multiplying mortgage, an even higher level of consumption.



Source: own calculations based on data provided by BNR

Figure 1. Evolution in the nominal currency pressure - January 2009 - December 2013

New mortgages fueled the consumption and over-borrowing and, all this, based on a property's artificially grown value.If this process is also supported by the government by guarantying real estate loan through legislation and financial bodies specific for the welfare state, then there is no incentive for the lender to manifest aversion towards risk. In these circumstances, the exacerbated development of the real estate market was based exclusively on the assumption of perpetual growth in their prices. Thus various derivative financial tools were delivered, traded with the consent of the FED.

Lending excesses led to the imminent fall of the housing market and immediately of the entire financial market. The bubble phenomenon was expanding in many countries beyond the residential sector, to mortgages and loans for commercial property, to credit cards, car loans and tuition. The market of secure products, that converted these loans and mortgages into complex, toxic and destructive financial loans, was overheated as well. The bubble phenomenon exists even in the segment of loans of local governments, loans for acquisitions of companies, hedge funds, commercial and industrial loans, corporate bonds, goods and derivatives for the transfer of the credit risk, a less regulated market (Roubini, 2009).

Together, they have taken the magnitude of the largest asset and credit bubble in human history. For this reason, governments have proceeded to recapitalize some banks and financial institutions.

The crisis also leads to depreciation of the refference currencies in the global economy and the effect translates into considerably higher prices for imports and a lower living standard. The option for a particular exchange rate regime depends in a large extent on the affiliation to an international financial institution, in this case the IMF. The international financial institution recommends monetary and fiscal policy measures within the meaning of restoring macroeconomic balances, especially the budget deficit and the current account deficit and balance of payments deficit.Most often, macroeconomic policy guidelines proposed by the IMF are beyond the scope of the IMF functions defined by the status of the institution, which hampers the chances of growth and development, deepening structural imbalances and creating dependence on international finance. Thus, the recommendation of fiscal austerity based on tax increases and cuts in the budget spendings to avoid the solid budgetary deficit (measures recommended for countries like Thailand, Indonesia, Korea) had the effect of shrinking the aggregate demand and, worse, inducing panic at the local and regional markets creating a boomerang effect. Also, the structural reform required as condition for granting loans, such as closing insolvent banks or removing the practice of granting lucrative monopolies to certain client companies in some fields, does not fall within the fundamentalist doctrine of the market, but on the contrary, an attempt to regain control on markets. IMF also reccomends raising interest rates initially at very high levels, to increase the interest of foreign investors,

to be defined the attack on the national currency, capital flight and the rocketing inflation.Naturally, the countries concerned, namely Asian countries should have recourse to practice of devaluation of the national currency until the currency would have become cheaper for investors, thus profitable. Sachs argues that by choosing not to increase interest rates, governments would have avoided financial panic supply; the result would have been modest devaluations, with moderate influence on the economy (Sachs, after Krugman, 2008).

Debt accumulation on international financial markets is also a consequence of the mode of action of the IMF. As central banks did not have sufficient authority and reserves for financing the economy, rescue programs were put together, adopting the following strategy (Soros, 2008): commercial banks extended their obligations, international financial institutions made infusion of cash and debtor countries have agreed to introduce austerity programs designed to improve the balance of payment. In most cases, commercial banks have also had to refill quantities of cash allowing debtor countries to keep track on interest payments. The bailouts were a remarkable achievement in terms of international cooperation. Among the participants were the IMF, the Bank for International Settlements, certain governments and central banks, and a large number of commercial banks.

The international financial crisis has led to significant changes on the behavior of economic phenomena and processes, to the deepening of macroeconomic imbalances, but also regional ones and to identify new facets of fundamental economic research in terms of achieving and implementing aggregate indicators with the role of anticipating future developments in the economy and reducing the magnitude of the negative effects of crises.

The current crisis came amid malfunction of monetary system transmitted through monetary policy and its instruments. What has caused the current economic crisis is the result of measures potentiating the global economy based on a mix of monetary fiscal policies to artificially support demand for currency independently of structural policies, ie widening the imbalance of nominal and real convergence.

The effects of globalization worldwide are reflected in the high capacity of spreading economic imbalances through transmission channels (of extern supply and demand, of exchange rate, of the national reserve, contractual, of wealth or balance sheet) that induce fears and especially contractions in the real economy, in economic activity, with strong repercussions on employment levels or on the scope of social action.

6. Conclusions

Deregulation as a measure of expansionary monetary policy adopted since the 1980s, encouraged massive indebtedness of individuals and companies. When the financial system broke down, unable to return the loans, it opened the gate of an

economic crisis, whose resolving requires prudential and structural convergent policy measures. Banks have entered unwisely in the game of creating and distributing financial products, applying questionable risk management techniques. In such circumstances it is absolutely necessary to better, rigorous regulate financial markets, covering areas where there is an obvious lack of regulation. History, as the unfolding crisis shows that those who say that the financial industry can rely on self-regulation in order to avoid such consequences are utopians. It takes a farewell (improvement) of the regulatory framework of operations of investment vehicles. It is also necessary to regulate the use of financial instruments (derivatives such as CDOs), so that the transparency of markets will be restored and investors will be adequately informed about the risks they take.As minimum indispensable reserves are requested from banks, an analogous rule shoul be applied also to non-banking financial institutions. And the maximum allowable size of leveraging should be regulated. But, more extensive and stringent regulations do not mean reversal of financial liberalization. On the contrary, in order to keep financial markets free, so that they do not cause great, direct or collateral damage it is required for these markets to benefit from rigorous, effective regulations.

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