

THE IMPACT OF THE ECONOMIC CRISIS ON THE ROMANIAN SERVICES SECTOR

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ABSTRACT

This study investigates the impact of the economic crisis on the Romanian services sector. The findings of this study reveal that the impact of the economic crisis on the Romanian services sector is very strong in the sense that the indicators analyzed had a negative evolution: the tariffs for services have increased, the number of employees and turnover have decreased during the first eight months of 2009 as against the same period of the previous year. The study was carried out by combining a variety of sources, such as strategies, statistical documents, as well as articles and research reports. The results reported in this research may be used for policy making in one of the most sensitive sector of the Romanian economy, the services sector.

KEYWORDS: *economic crisis, services sector, prices, employment, turnover*

1. Introduction

This study investigates how the economic crisis has influenced the Romanian services sector. The manner in which service organizations are managed in this period of crisis is a highly debated topic these days because the response of service organizations to the crisis has an important role and major implications for the Romanian economy.

The research was conducted using a wide variety of sources, such as strategies, statistical documents, as well as articles and research reports. In order to answer the research question we have delineated the main causes and challenges of the world economic crisis. Moreover, some economic indicators were analyzed in this study, revealing the main evolutions of the Romanian services sector. The study has illustrated the impact of the economic crisis on the Romanian services sector by identifying the key evolutions of the indicators analyzed. The research question was answered by analyzing published sources, evaluating and interpreting evidence. Computing empirical data through mathematical models could be another way of approaching this question. Answering the research question was difficult due to the variety of services, which were differently influenced by the economic crisis.

2. Causes and challenges of the world economic crisis

Many specialists claim that the current financial crisis' roots can be tracked back into the dramatic drop of the houses' price or in the failure of the mortgage market. However, this perspective is at least incomplete, as the fundamental causes of the present financial crisis are much deeper, having both a macroeconomic and a microeconomic nature.

According to Isărescu (2009a, 2009b), the most profound cause of the financial crisis was the increased liquidity generated by the world's most important central banks (Federal Reserve, Bank of Japan, etc.) and also by the oil and gas exporting countries who's desire is to limit the appreciation of their currency. Another cause was the savings' flood, generated by the increased integration into the global economy of countries with big saving rates (especially China), but also the global redistribution of wealth and income towards oil and gas exporters. Abundant liquidity and the exceeding saving rates resulted in resources for investments, including sophisticated financial instruments, which were not very easy to understand by all investors. The consequences of this excessive liquidity were the very low interest rates and their reduced volatility. Altogether, these consequences led to an increased appetite for assets characterized by high gains. Moreover, the low volatility on the market induced a risk underestimation trend and a lack of vigilance among investors. Risk margins were as well very low and nondiscriminatory. Reduced interest rates, together with a growing appetite for high gains assets, a weak vigilance towards risks and reduced risk margins concealed the signals of the financial markets prices and led to an insufficient understanding of the involved risks.

In this context, several microeconomic causes aggravated the situation. Lack of transparency of the financial market generated by its securitization, impossibility of refinancing, lacks in the rating agencies' business models, investors' distrust in banks, etc. are only some of the microeconomic causes of the economic crisis.

The effects of the international financial crisis also expanded into the Romanian economy on various channels (Figure 1): (a) the commercial channel (slow down or even reduction of the exports amount); (b) the financial channel (limited access to external financing, credit amount reduction, difficulties related to the private external debts service); (c) the exchange rate channel (reduced external financing, which materialized in depreciation of the national currency); (d) the trust channel (withdrawal of foreign investors from the Eastern-European countries, panic and speculative attacks on the monetary market); and (e) the wealth and balance sheet effects channel (deterioration of the people' and companies' net assets, due to the high share of foreign currency credits correlated with the depreciation of the national currency and the decrease of speculative, unsustainable prices for movable and immovable assets) (Isărescu, 2009b; Popa, 2009).

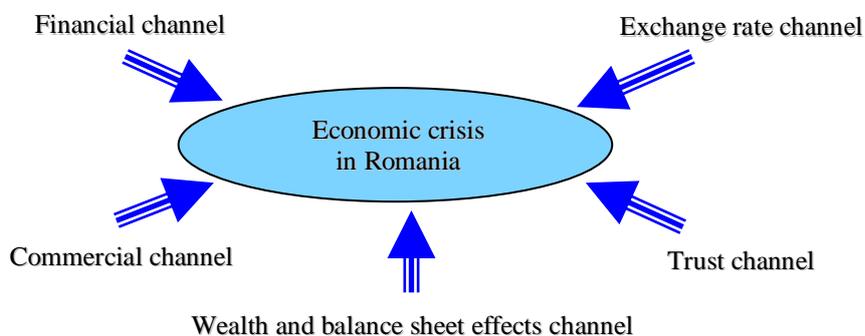


Figure 1 Channels of the economic crisis in Romania

The main challenges for fighting the economic crisis are to find the solutions aimed at gaining investors' and customers' trust and to stimulate investments in the service sector.

3. Evolutions of the Romanian services sector

The above mentioned causes of the economic crisis have determined some specific evolutions of the Romanian services sector. Turnover, consumption prices, salary gains, unemployment rate, and credit issued by credit institutions are only some of the indicators which may reveal the impact of the economic crisis on the Romanian services sector.

The *turnover* volume indices calculated for the period of time between 1st of January 2009 and 31st August 2009 as compared to the same period of the previous year are illustrated in Figure 2.

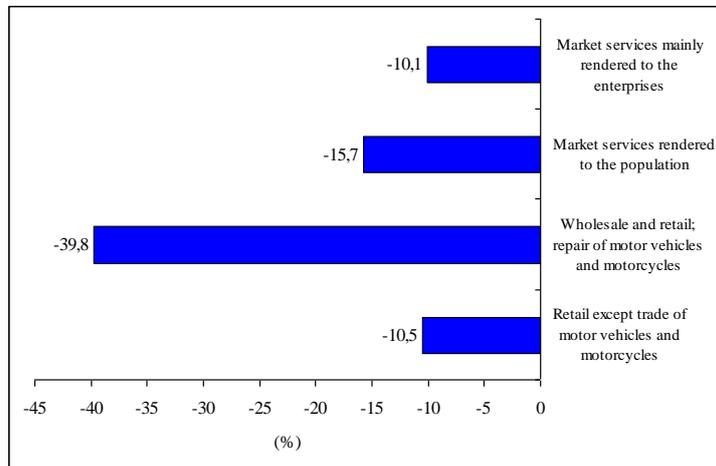


Figure 2 Turnover volume indices
Source: INS, 2009

Figure 2 shows that the turnover volume of the enterprises having as main activity retail except motor vehicles and motorcycles registered a fall of 10.5%. The turnover volume of enterprises having as main activity wholesale and retail, maintenance and repair of motor vehicles and motorcycles registered a decrease of 39.8% during 01.01.2009-31.08.2009, as compared to the same period of previous year.

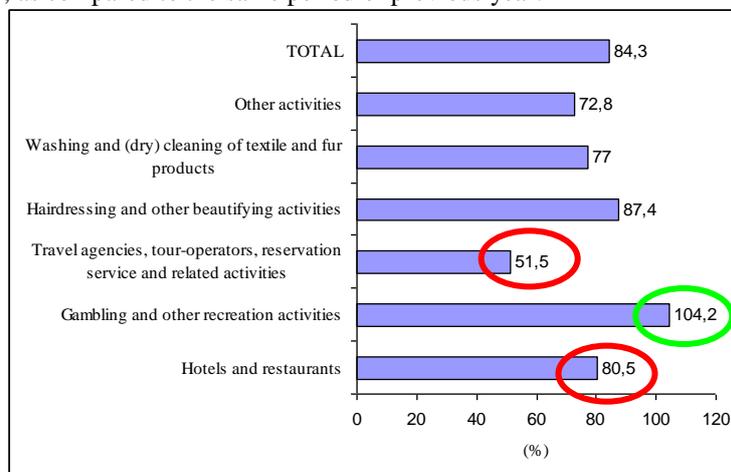


Figure 3 Turnover volume indices of market services rendered to the population
Sources: INS, 2009; BNR, 2009

The market services rendered to the population (Figure 3) registered a fall of 15.7%, while the services mainly rendered to the enterprises (Figure 4) registered a turnover, in nominal terms, by 10.1% lower in 01.01.2009-31.08.2009 than in the same period of the previous year.

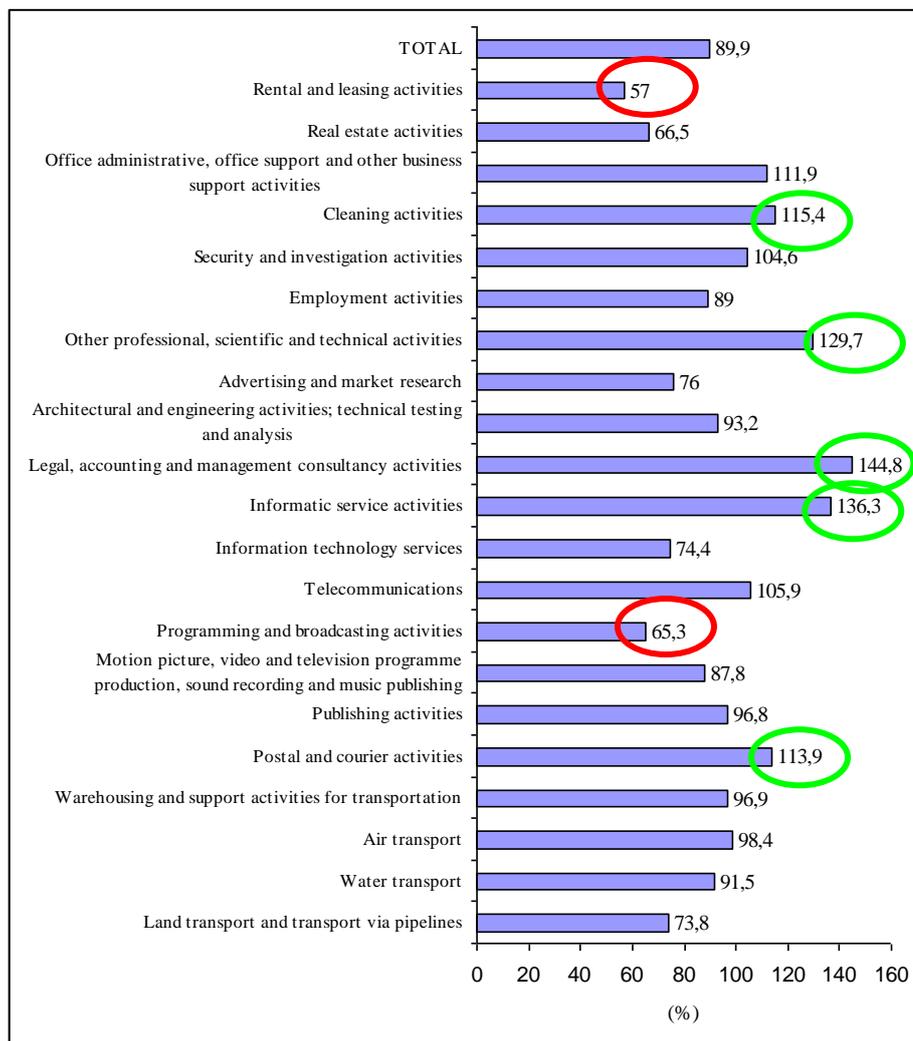


Figure 4 Turnover volume indices of market services mainly rendered to the enterprises
Sources: INS, 2009; BNR, 2009

The delineation between the market services rendered to the population and the market services mainly rendered to the enterprises is very important due to their different economic behaviour especially in crisis time.

The market services rendered to the population are those activities that are sold and bought on the market and which have as main beneficiary the population; these services are supplied by companies whose revenues come from at least 50% from selling their own production, no matter the type of the prices they practice (tariff, tax, selling price).

The market services mainly rendered to the enterprises include those services that are sold and bought on the market and which are obtained within units whose revenues mainly come (50% or even more of the turnover) from selling their own production of transport services, post and courier, cinema production, video and TV programs, broadcasting of programs, telecommunications. The market services mainly rendered to the enterprises also include information technology, legal and accounting activities, architecture and engineering, publicity, professional, scientific and technical activities, investigation and protection activities, cleaning activities, secretariat, support services, real estate transactions, renting and leasing activities, no matter the type of the prices (tariff, tax, selling price) and the charging methods they practice.

In case of the market services rendered to the population the negative results were registered for two main components: hotels and restaurants (-19.5%) and tourism (-48.5%), while recreation activities registered a modest increase (+4.2%). In case of the market services mainly rendered to the enterprises the biggest reductions were registered for rental and leasing activities (-43%) and for programming and broadcasting activities (34.7%). However, there are some services that registered a turnover, in nominal terms higher in 01.01.2009-31.08.2009 period of time than in the same period of the previous year: legal, accounting and management consultancy activities (+44.8%), informatics service activities (+36.3%), postal and courier activities (+13.9%), telecommunications (+5.9%), cleaning activities (+15.4%), office administrative, office support and other business support activities (+11.9%), and other professional, scientific and technical activities (+29.7%). Information technology, telecommunications, public services, etc. are services that may be further developed (Isărescu, 2009c).

The *consumer prices* indices (Figure 5) have increased during the first eight months of 2009 compared to the same period of time in 2008. Moreover, in August 2009, as against the previous month the tariffs for services increased by 0.3%. This evolution of tariffs for services was influenced by the increase in tariffs for water, sewerage, sanitation (+1.4%), urban transport (+0.6%), motor and electronic repairs, photo works (+0.3%), medical care (+0.3%), hygiene and cosmetics (+0.2%).

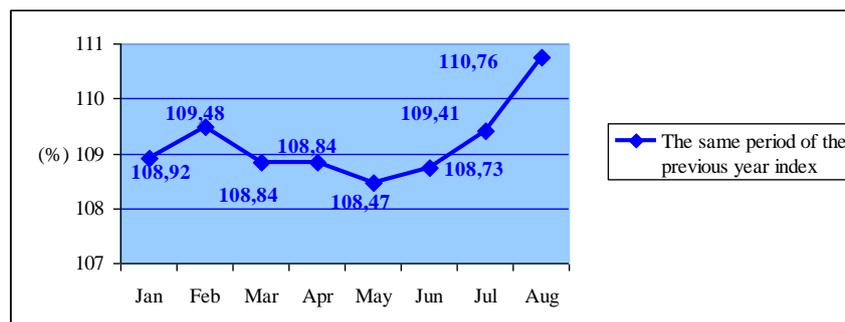


Figure 5 Evolution of the consumer price indices
Source: INS, 2009

The *number of employees* from the sector of services (in the units having 4 employees and over) decreased by 54.5% in August 2009 as against August 2008 (Figure 6). The biggest reduction of the number of employees was registered in the wholesale and retail, including repair of motor vehicles and motorcycles (-43%).

Unsurprisingly, the only sub-sectors in which the number of employees increased were the ones that include mainly public services, financed by the state. These sub-sectors are the following: public administration and defence and social insurance of public sector (+6.2%), education (+1.7%), and health and social assistance (+9.9%).

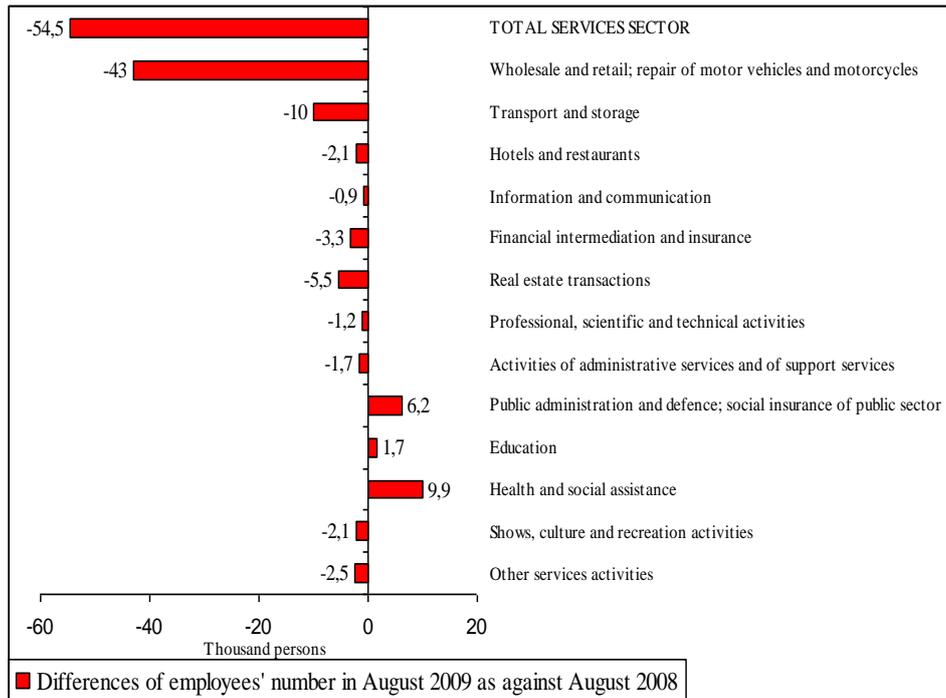


Figure 6 Differences of employees' number in August 2009 as against August 2008
Source: INS, 2009

Other sub-sectors that include mainly private services have registered reductions in the number of employees, such as -0.9% in information and communication or -10% in transport and storage. A possible explanation of the reductions in the number of employees from private services is that these companies are not financed by the state and therefore their reaction to the crisis is faster and stronger than in case of public services.

4. Conclusions

This study has revealed that the economic crisis had and has a strong impact on the Romanian services sector. This conclusion is based on the premise that within the period 01.01.-31.08 2009 compared to the same period from the previous year, the following modifications have been registered for the analysed indicators: (1) reduced turnover for the market services rendered to the population (-15.7%), as well as for the market services mainly rendered to the enterprises (-10.1%); (2) increased service tariffs (+0.3%); and (3) increased unemployment expresses by reduced number of employees (-54.5%).

Another conclusion of this study is that policy makers and services managers may fight crisis through different ways, such as: identifying the solutions aimed at gaining investors' and customers' trust, reviving investments in the service sector, business ethics, promoting coherent and credible economic policies, developing services with high potential of economic growth (information technology, telecommunications, public services – infrastructure, etc.), and increasing the efforts to change mentalities and managerial practices.

Te findings of this study could justify the effort invested in studying the options for reviving the services sector and also in identifying the combination of instruments with a proper level of complexity, which could raise investors' interest for the services sector.

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