# FINANCIAL CRISIS IMPACT ON WORLD STATES IN 2009

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***Abstract***

*The paper is particularly valuable in content by addressing the whole spectrum of issues faced by the world states in 2009, because of the financial crisis. The paper will present the risks taken by the world states in 2009. Then it will present several measures to combat the financial crisis worldwide.*

***Keywords:*** financial crisis, global government, economic growth, global crisis, jobs.

***JEL Classification:*** $G_{01}$, $O_{11}$.

## 1. Major risks of the world economy in 2009

The year 2009 will be extremely restless from the global economy point of view, according to a survey released by the World Economic Forum (WEF), which launches an advertisement on promoting, by a series of states, some short-term investment policies, on a background of panic, without taking into consideration their consequences. *Economic forecasts for 2009 are sinister for the most economies* says the Forum of Davos, in the annual report on global risks.

The World Economic Forum's Annual Meeting in Davos brought together the leaders of the most powerful countries. The main topic was the economic crisis and its effects on the world's economy. Also, the International Labour Office (ILO) announced that over 50 million people all over the world would join the ranks of the unemployed this year.

The present crisis has deleted 40% of the world's wealth and has evaporated a huge amount of money in the last four quarters, and the future looks even more dismal, with no signs of returning, Stephen Schwarzman, Chairman and Chief Executive Officer of the Blackstone Group, warned at Davos.

IMF expects a slow rate of growth of the world economy from 6.25% in 2008 to 3.25% in 2009. One of the main reasons is the decrease of demand on international markets.

Deterioration of fiscal deficits, lowering the value of assets globally, the potential moderation of China's economic growth and increased unemployment are the risks that will be faced by the world economies in 2009, following the global crisis, is shown in the report submitted by Marsh.

"*In 2009, markets remain volatile, liquidity remains low, unemployment is rising and consumer's confidence in business dropped to the lowest levels*," stated the report on economic global risks this year, submitted by the World Economic Forum and the insurance brokerage and risk consultancy Marsh.

The report highlights that the financial crisis is reflected in all economic sectors, and actions to counter the crisis may bring long-term effects on the financial sector, which may relate to over regulation and lack of resources to prevent other risks, such as those related to the lack of investment in infrastructure.

*"Depreciation of assets worldwide, more severe credit conditions, weak demand and rising unemployment could lead to the formation of a deflationist spiral"* is shown in the report.

This situation is likely to push some countries to promote dangerous long term investment policies, says the study, carried out by consulting about one hundred of senior policy makers, economists and university scientists.

*"Massive expenditure provided by governments to help financial institutions threatens the already precarious budgetary situation of countries like the United States, the UK, France, Italy, Spain and Australia"*, WEF believes.

WEF fears of a slowdown stronger than that foreseen for China (an increase of 6% or even lower), a country faced with declining exports and strongly exposed to a devaluation of the dollar. A "painful landing" for China could further exacerbate the global economic crisis.

Only a *"global action"* could limit the damage, the study concludes, according to which the current financial crisis has revealed a lack of coordination of policy makers globally, "*2009 offers a backup time of global governance and building of the political will to restore financial stability*," argues WEF.

According to the report, in 2009 the risks related to economic policies oriented innward, taken by some emerging countries, become more acute, but new risks related to regulatory costs, fraud or loss of data, flooding, air pollution and diminishing biodiversity appear, too.

The World Economic Forum warns that global governance is required on issues such as financial stability, trade, climate change, water and security.

It is also important that the Financial Regulations which nowadays appear, to keep a balance between solving the current problems and not to hindering innovation in the future, in areas such as climate change, limited resources and infrastructure.

The effects of global crisis began to be felt in 2008. According to the UN's report, growth of the global economy is increasing less and less in recent years.

The International Monetary Fund draws attention on financial markets around the world. Representatives of the IMF say that the global economy is heading in a worrying direction. Statements come while the UK government's data have recently shown that the UK is in recession. Moreover, Germany, Japan and the euro area countries are already in recession.

The engines of the global economy will stop this year, registering the lowest growth rate since the Second World War, due to the severe recession of the industrialized countries, which will cause damage to economies and developing countries, too, the International Monetary Fund (IMF) warned.

Fund's projections indicate an advance of the global economy of just 0.5% and estimate losses caused by the banking crisis of 2,200 billion euro, according to the World Economic Outlook.

According to IMF, advanced economies will have the strongest contraction, reducing themselves with 2%; two months ago it was said they would have a negative growth of 0.3%.

"*We expect the global economy will stop*", said Olivier Blanchard, IMF chief economist. Simultaneous recession in the economies of the United States, Japan and the euro area will be more severe than we suspect. Recession of the U.S. economy will be 1.6%, and Japan will fall by 2.6% in 2009. The euro area will suffer a decrease of 2% of GDP, which occurs after an increase of 1% in 2008.

Regarding Romania, it will lose at the exports chapter. Eastern Europe, Romania being part of this region, too, will slide into recession this year because of the collapse of demand for its products for export and, in general, due to the falling of the consumption of goods produced in the area.

Analysts say the IMF's report should be interpreted as a serious warning against the danger that small economies, such as Romania, have severe problems in 2009.

Economic analyst Matthew Peacock says: "*If large economies decline, exports are reduced instantly. Globally, there will be a rush for money, and the competition for funding will be fierce*".

Billionaire George Soros, warned that the current governmental programs to support the economy are insufficient and calculated that just to save the U.S. banks 1,500 billion dollars would be needed. He suggested the IMF should use its own international currency, known as Special Drawing Rights (SDRs), to pump more money into the global economy. His comment was a response to the IMF's announcement according to which the international financial institution could run out of money, if all potential claims were to be met.

## 2. The issue of jobs in the world

Companies all over the world announced that they will eliminate appreciatively 70,000 jobs, due to the worsening of the crisis which started in the banking sector.

For example, in New York, the manufacturer of construction equipment, Caterpillar, announced that it intends to eliminate 20,000 jobs worldwide, to cope with decreased sales, and the mobile operator Sprint Nextel announced the elimination of 14% of its staff and 8,000 jobs.

In Japan, the top 12 auto manufacturers reduced, in 2008, approximately 25,000 jobs, to cope with the crisis in the automotive sector, is shown in a survey published by Jijia Press.

In Europe, the banking and insurance Dutch ING group announced the elimination of 7,000 jobs and an agreement by which the Netherlands will take over 80 percent of the portfolio of the risky assets of the group, valued at 27.7 billion euros. The Dutch manufacturer of electronic equipment Philips removed approximately 6,000 jobs.

It is interesting to notice that the U.S. President Barack Obama, plans to save the U.S. economy from a paralyzing recession. The U.S. Congress has started the plan of stimulating the economy, worth 825 billion dollars.

In his first radio message from the presidential installation, Obama warns that the economic problems will not be solved in a short period of time, but has expressed hope that the determined plan will remedy the situation. *"If we do not take rapid and bold measures, the bad situation could worsen"*, the new American president said.

In a speech held in front of the press, the British Prime Minister Gordon Brown called on governments to avoid pessimism and avoid falling into *"financial protectionism"*, with dramatic consequences for the economy and jobs.

## 3. Measures to combat financial crisis worldwide

An international collaboration to obtain the substantial involvement of all participating countries and more investment in technologies with low emissions of carbon dioxide is needed to alleviate a crisis much larger than that of loans, is the conclusion drawn by four important executive directors of international companies, in an analysis published by the Copenhagen Climate Council.

"*The measures taken in response to the financial crisis showed that there is a possible bold reaction, coordinated at the international level, to a global problem*," said Samuel A. DiPiazza Jr. Executive Director of PricewaterhouseCoopers International Limited, James E.

Rogers, Executive Director Duke Energy, Anders Eldrup, Executive Director of DONG Energy and Rob Morrison, Chairman of CLSA Asia-Pacific region.

The impact of financial crisis, including the alarm signals ignored in the past, shows the risks and dangers of the lack of action. Studies show that the possible impact of climate change could significantly reduce consumption worldwide. Meanwhile, a quick reaction, whose costs would be 1% of GDP, could substantially reduce the risk of more serious repercussions. Worldwide crisis measures, as decided at the Summit G20 in Washington, are required to tackle global warming and accelerate the economic costs associated with it.

The authors of the studies urge world leaders to set a price for the gas emissions that lead to the greenhouse effect and also require:

- effective regulations on carbon emissions, to include more sectors of activities and more countries, better connected and more ambitious with regard to the establishment of substantial reductions and duration of emissions;

- completion, by governments, with regulations of measures generated by market, such as rules on energy efficiency in transport and housing sector and encouragement of sustainable practices;

- more direct governmental investments, through public-private partnerships, to support the development, introduction and presentation of environmental technologies such as carbon capture and storage.

Anders Eldrup, chief executive of DONG Energy, says that "*to reduce CO2 emissions effectively, we need a wider framework than the present one. At the international level we should develop a more effective emissions trading scheme. At the national level, increased support from the public for research and development, new technologies and more stringent rules on energy efficiency are key instruments for reducing emissions. Climate change is emerging from a multitude of cases, so the framework should have broader and multiple purposes, targeting emissions from all sectors of the economy, including energy, transport and agriculture*".

Valentin Durigu, Senior Manager in the Department of indirect taxes, PricewaterhouseCoopers Romania, says that "*Romania is on track, as co-signatory of the Kyoto Protocol, and follows the steps needed to fulfill commitments made by this protocol*".

The Romanian government approved the state budget for 2009, and then a set of measures to combat the economic crisis was adopted too.

For the next period, Romania will propose the following measures to fight the economic crisis:

1. The government will allocate 20% of 2009 budget for public investment in infrastructure - transport, environment, education, health etc. This measure aims to support the creation of new jobs;

2. Government debt legacy left by the former executive will be paid to avoid the risk of blocking the economy;

3. Increasing the absorption degree of EU funds;

4. The waiving of tax on reinvested profit (this measure will be implemented in 2010);

5. Entrepreneurs will be able to compensate for the VAT recovered by the paid, but also with other budgetary obligations, in order to remove bottlenecks in the economy;

6. Government decided capitalization of CEC and Eximbank;

7. Setting up the Counter-guarantee Credit Fund for SMEs and within the CEC, the fund for financing SMEs;

8. Promotion of exports supported by the allocation from the state budget of the same amount approved for 2008;

9. Continuing the "*Rabla*" program, which, unlike the previous years, provides the acceptance of old cars up to 10 years and the increase of the amount granted from 3000 to 3800 lei;

10. Including the revenue of the institutions and government agencies in the consolidated state budget (such income will be used in the general interest and not the particular persons who lead these agencies).

## 4. Conclusions

From those presented above, we can draw the conclusion that the world states lack fiscal measures. We should not forget that the IMF has asked world governments for a package of fiscal measures, amounting to 1,200 billion dollars, to overcome the problems caused by the collapse of demand, as a result of the credit crisis.

According to IMF experts, a global economic recovery, which will face major difficulties, will begin at the end of 2009 or first months of 2010.

Also, environmental issues must not be forgotten whereas international collaboration to obtain the substantial involvement of all participating countries and more investment in technologies with low emissions of carbon dioxide, are necessary to alleviate a crisis much larger than credits. This will guide the choices of consumers, companies and governments and will be the basis of strengthening an economy characterized by low emissions of carbon dioxide by 2050.

Ion Petrescu, the renowned professor, said the following: "*We have an obligation not only to analyze but also to learn*" (2006). The impact of financial crisis, including the alarm signals ignored in the past, shows the risks and dangers of inaction.

Studies show that the possible impact of climate change could significantly reduce consumption worldwide.

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