THE NOWADAYS CRISIS' IMPACT ON THE ECONOMIC PERFORMANCES OF EU COUNTRIES

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Abstract

The crisis underlines a significant disequilibrium in the economic balance between production and consumption, supply and demand, with direct effects on prices, production and employment. Starting from this universally accepted assumption, the present study aims to identify the consequences of the current crisis on the economic growth of the European Union countries, by analysing the information provided by various official reports, data bases and statistical yearbooks. The findings of the study highlight, on one side, the impact of the crisis on the evolution of the EU states' macroeconomic indicators and on the trend of the foreign direct investments inflows and outflows into and from these countries. On the other side, the results of the paper underline the consequences of the nowadays economic and financial downturn on the employment of the labour force from the European Union region. The conclusions of the study reveal that, even if the crisis' maximum intensity moment has passed, there are many EU countries still confronting with serious economic problems.

Key words: financial-economic crisis, economic development, labour markets, foreign direct investments

JEL Code: G01, F21, J21

Introduction

The effects of the current crisis have been felt since the end of 2007, but in Europe this phenomenon has gained momentum during 2008. The crisis' highest point of intensity was felt in 2009, due to the lack of cash in U.S. banks. The stagnation of the real estate businesses was generated by the collapse of the credit bank system, the developers of the field being unable to continue and/or to exploit the projects they have started and, moreover, to repay the loans to the banks. Therefore, the financial crack was inevitable, spreading out in the whole economic and social life.

The instability of the financial markets, caused by the banking crisis, led to the financial crisis and, then, to the economic crisis of the nations. On its turn, this caused the social crises that are associated with the alteration of the social conditions of life and with the emergence of the depressive states.

Analyzing the roots of the nowadays crisis, some authors have mentioned that, if the money had been more expensive, people would have re-evaluated their options (the saving being one of them) and their consumption priorities would have changed (Diaconu and Popescu, 2009). In the absence of some substantial advantages that cover the risk, the individuals do not like risk and instead of becoming owners of financial assets, they would prefer consuming and placing their savings in deposits.

There are multiple causes that led to the nowadays financial-economic crisis, among which we may mention the rules of the business world, the philosophy of the bankers and the creditors' behaviour, the limits of human nature, the perception of moral and material values etc.. These factors can be grouped into economic, moral, psychological and political causes.

Some of the direct consequences generated by the financial and economic crisis on the population could be the diminishing of the number of jobs (increasing unemployment), cutting wages, the drop of consumption and, therefore, the decrease of the living standards and the emergence of social protests.

The European institutions and the national governments have mobilized significant resources and implemented various political measures to counteract these negative consequences. Despite these efforts, in some EU countries the situation has not improved but, on contrary, the economic and social environment has been altering more.

1 Aim, objectives and research methodology

The analysis of the crisis and its effects on the social and economic life involves the usage of some relevant indicators, based on which it is possible to measure the impact on a certain country. Considering this aspect, the aim of the present study is to determine the consequences of the current crisis on the EU states, by following three main objectives:

- Analysing their economic evolution after 2007, with the help of the macroeconomic indicators;
- Identifying the trends of EU labour markets;
- Analysing the foreign direct investments flows into and from these countries.

In order to achieve these objectives, we have collected, analysed and interpreted the information offered by various statistical reports, data-bases and year-books.

2 Economic trends in the EU states between 2007 and 2012

The evolution of the GDP is one of the most relevant indicators that could reflect the dimensions of the economic and financial crisis in the EU states. As it results from the table 1, the GDP in EU area had significantly decreased in 2009, but starting with 2010 it had an ascending trend, reaching, in 2012, a value superior to that of 2007.

Tab. 1: The evolution of GDP in EU, between 2007 and 2012 (in millions of EURO)

	2007	2008	2009	2010	2011	2012
EU	11,812,382.2	11,852,654.1	11,343,699.2	11,580,682.6	11,766,715	11,826,797.9

Source: Eurostat, *GDP and main components - volume*, 2013a, http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do

The 2009 GDP decrease reflects the general trend of the economic situation from most of the EU states. The economic recession was strongly felt especially by Estonia, Lithuania, Slovenia, Hungary and Romania, which had the highest GDP decreases (see table 2).

Tab. 2: Top 5 GDP decreases in EU in 2009

Country	GDP variations in III trim of 2009 compared to III trim of 2008 (%)
Estonia	-15,3
Lithuania	-14,2
Slovenia	-8,5
Hungary	-8,0
Romania	-7,1

Source: Adapted from Eurostat, *Euro-indicators,* 2010, http://epp.eurostat.ec.europa.eu /cache/ITY_PUBLIC/2-08012010-BP/EN/2-08012010-BP-EN.PDF

All the EU countries, except Poland where the GDP grew by 1%, have recorded GDP reductions in 2009, but at lower rates than those mentioned in the above table. For example, in Greece the GDP drop was of 1.6%, in Portugal and France of 2.4%, 4.0% in Spain, and in Italy and United Kingdom the GDP has fallen with 4.6% and, respectively, 4.8% (Eurostat, 2010). An economic descendent trend could be also noticed in Germany, where the GDP has diminished with 5%.

The GDP of EU has slightly increased starting with the first quarter of 2010, when it was with 0.6% higher than in the previous year. Ireland and Sweden were the countries with the largest increases in GDP in 2010, of 2.7% and, respectively, of 1.4%, in the opposite situation being Greece, Romania, Latvia and Ireland, with decreases of -4.9%, -1.1%, -0.9% and, respectively, of -0.8% (Eurostat, 2011).

According to the statistics, in Romania the crisis' consequences were strongly felt especially in 2009 and 2010, when the GDP dropped from 98,250.3 million EURO in 2008 to 91,789.3 million EURO in 2009 and to 90,734.7 million EURO in 2010 (Eurostat, 2011).

In 2011, most of the EU states experienced an increase of the GDP, compared to the previous year, the most significant being in Estonia (8.3%), Lithuania (5.9%), Latvia (5.5%), Poland (4.5%), Sweden (3.7%), Slovakia (3.2%), Germany (3%), Finland (2.8%) and Austria (2.7%) (Eurostat, 2013a). The only states that faced a decrease of GDP in 2011 were Greece and Portugal. In 2012, the economic situation has worsened for some other 10 countries, which have joined Portugal and Greece in the top of the EU states with GDP decrease: Belgium, Czech Republic, Denmark, Spain, Italy, Cyprus, Hungary, Netherlands, Slovenia and Finland. However, from the point of view of the GDP level, in 2012, Bulgaria was the country with the lowest level of GDP per capita among all EU Member States, at less than 50% of the EU average (Eurostat, 2013b).

In the economic literature, many studies have demonstrated that there is a positive correlation between the economic growth in the EU countries and the trend of the foreign direct investments (FDI), in the way in which these investments may have a significant influence on the evolution of the GDP (for example Bengoa and Sanchez-Robles, 2003; Pavliková and Siničáková, 2012). Starting from this assumption, in the next part of the present study we analyse the evolution of the foreign direct investments flows into and from the EU states in the context of the nowadays crisis, in order to determine if the trend of the GDP between 2008 and 2012 might have been influenced by the FDI.

3 The evolution of the foreign direct investments flows into and from the EU states after 2007

The global crisis had a significant influence on the trends of the foreign direct investments inflows and outflows from the EU states. Although in other past recessions, there was a lag of one or two years before being affected the foreign direct investments, in the case of the nowadays crisis the decline was almost instantaneous.

European Union was one of the regions where the FDI inflows decreased most during the period 2008-2010. In 2010, the level of the inward flows of FDI was half than in the previous year. The decline in the investments attracted by EU states was caused especially by the severe drop in transactions with the EU's main partners - United States and Switzerland, between 2008 and 2009 being registered a decrease of 51 % and, respectively, of 67 % in the investments in these two states (Eurostat, 2012a). However, there were still some countries, such as Czech Republic, Slovenia or Slovakia, which have attracted a relatively high number of foreign investors after 2008. Some of the key aspects that determined many multinationals from Austria, Germany and Switzerland to relocate their production, after 2007, to these states are the production skills, the low labor cost, the low level of unionization and the favorable geographical location (Chidlow, Salciuviene and Young 2009).

While EU's general trend of the inward flows was descendent in 2010, the outflows had a significant increase: from almost 394,618 million USD (in 2009) to about 483,000 million USD (see table 3). However, in 2011, the EU FDI flows showed signs of recovery both in the case of inwards and of the outwards. The EU inflows of FDI have increased in 2011 for the first time after 2007 but, despite the positive evolution, these gains have only partially compensated the considerable declines that were recorded during 2008 and especially 2009 (UNCTAD, 2012). As a consequence, in 2011, the EU FDI flows with the rest of the world have still remained well below their record peaks reached in 2007, for both inward and outward flows.

Tab. 3: The evolution of the FDI inflows and outflows into and from EU, between 2007 and 2011, in millions USD

	2007	**2008**	**2009**	**2010**	**2011**
EU inflows	853,966	542,242	356,631	318,277	420,715
EU outflows	1,204,747	957,798	393,618	482,905	561,805

Source: Adapted from UNCTAD, *Inward and outward foreign direct investment flows*, 2012, http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=88

Among the EU states that have faced the major declines of the FDI inflows between 2007 and 2011 could be mentioned Bulgaria, Cyprus, Estonia, Finland, France, Romania, United Kingdom and Netherlands (see table 4). Some other countries such as Germany, Ireland, Slovakia, Slovenia, Spain, Sweden, Austria or Czech Republic have also experienced a drop of the attracted FDI, but the reduction was around 45 to 55% (UNCTAD, 2012).

Tab. 4: EU countries with the biggest decrease in the FDI inflows (in million USD), between 2007 and 2011

Country	2007	2011
Bulgaria	12389	1864
Cyprus	2226	276
Estonia	2716	257
Finland	12451	54
France	96221	40945
Netherlands	119383	17129

Source: Adapted from UNCTAD, *Inward foreign direct investment flows*, 2012, http://unctadstat.unctad.org/TableViewer/tableView.aspx

Despite these descendent trends of most of the EU countries, according to the information offered by UNCTAD (2012), there were still three states where the FDI inflows have considerable increased between 2007 and 2011: Denmark (from 11812 million USD to 14771 million USD), Hungary (from 3951 million USD to 4698 million USD) and Portugal (from 3063 million USD to 10344 million USD).

From the point of view of the FDI outwards, the only EU countries with positive trends between 2007 and 2012 were Cyprus, Denmark, Hungary, Malta, Poland and Portugal. Meanwhile, nine EU states have experienced significant declines (over 60%) in the FDI outwards: Germany, Greece, Ireland, Latvia, Lithuania, Luxembourg, Romania, Slovakia and Spain. Other countries, such as Estonia, Italy, France, Germany, Netherlands and Sweden, had also faced a decrease in the FDI outflows since the crisis, but with lower percentages.

4 The EU labour market after 2007

The dynamics of the unemployment rate is, from the social point of view, a significant indicator for understanding and evaluating the economic crisis. The unfavourable situation from U.S. has very quickly spread out all over the world, including on the European continent. The EU labour market has gradually begun to suffer imbalances, after the second half of 2008. It can be seen that the unemployment rate in EU states increased from 7.3% in the first quarter of 2008 to about 10% at the end of 2009 and, subsequently, to almost 11% in 2010 and to 11.3% in July 2012 (European Central Bank, 2012). Before the financial crisis, the EU labour market experienced an improvement, in 2007 the European employment rate being of 68% and the unemployment decreasing to about 7%.

While about 9.5 million new jobs were created between 2006 and 2008, in all the EU states, starting with 2009 and until the end of 2012 around 18 million people have lost their jobs in the euro area countries (European Central Bank, 2012). In 22 EU countries the unemployment rate has risen in November 2009 by 9.5%, this being the most significant increase recorded since then, from the beginning of 2000. According to a study conducted by the European Central Bank (2012), in Europe, the employment rate has experienced a decrease of 2 percentage points (meaning 4.7 million people) in 2009 compared to the previous year, by the third quarter of 2009 only 223 million persons being employed.

Although the economic crisis has had negative effects on the labour market in the EU, we must take into consideration that the changes of the workers' unemployment and employment rates have significantly varied from one country to another, during the period 2007-present, being influenced by the sectorial developments, by the nature of the shocks and by the differences in the usage of labour hoarding practices. However, it was noticed that the low-skilled and young workers were the worst hit by the recession. According to the Eurostat estimation, the employment rate of workers with tertiary education grew by 12.6% between 2008 and 2012, while this rate has fallen to almost 17% for those with primary and secondary education, during the same period (Eurostat, 2013c). In the case of youth, the unemployment has risen in EU from 21.1% in 2010 to 23.2% in 2012, according to Eurostat (2012b). The situation is very worrying since almost 30% of youth from EU were at risk of poverty or social exclusion in 2011. The worst affected by this type of unemployment were Greece and Spain, where the youth unemployment rate was about 58.4% and 55.7%, in February 2013. The only EU state where the youth unemployment has declined since 2008 was Germany.

Historically, women have been more affected by unemployment than men. Yet, during the crisis period, in EU, the unemployment was more visible in the case of men than women. Since the first quarter of 2008, the male and female unemployment rates in the EU have converged, and after the second quarter of 2009 the males' unemployment rate started to overpass the female's rate. According to the data offered by Eurostat (2013c), the unemployment rate in the case of men has increased from 6.2% to 9.8%, between 2008 and 2011, while the women's unemployment rate has risen only with 2 percentage points (from 7.3% to 9.3%), during the same period of time. Meanwhile, it has to be mentioned that men's activity rate at the European level is superior to that of women (for example, in 2010 this rate was of 77.7% in the case of men and only 70.1% for women).

According to the Eurostat information, the lowest fluctuations in the unemployment rate, between 2007 and 2012, were in Austria, Belgium, Finland, Luxembourg, Malta, Poland and Romania (Eurostat, 2013c). In Germany, the unemployment rate has significantly decreased after 2007, when it was 8.7%, reaching 5.5% in 2012. However, in most of the EU states the unemployment rate has augmented after 2007, the highest levels of unemployment being reached in 2012 in Spain (25.0%) and Greece (24.3%). Other countries that were experiencing high level of unemployment in 2012 were Portugal (15.9%), Latvia (14.9%), closely followed by Ireland (14.7%) and Slovakia (14.0%) (Eurostat, 2013c).

In December 2008, it was discussed an implementation of a European economic recovery plan, meant to stimulate the economy and to minimize the effects of the financial crisis. According to this plan, the main challenges for the EU economy were to reduce the loss of jobs, to counteract the long-term unemployment and to encourage the job retraining.

Despite some encouraging signs of recovery that started to materialize in 2010, in the end of 2011 the total number of employed persons was still over 3 million lower than before the crisis, while the employment rate (defined as total employment divided by working age population) had fallen to 64.2% in the third quarter of 2011. The situation has been worsening during 2012, when the EU employment rate reached 57.6% in the third quarter of the year. This percentage reflects a deficit of 5.9 million jobs, compared to the pre-crisis situation.

At the end of 2012, only 5 EU countries, out of 27, have witnessed employment rates above pre-crisis levels: Austria, Germany, Hungary, Luxembourg and Malta, while in other states, such as Cyprus, Greece, Portugal and Spain, the employment rate has decreased by more than 3 percentage points between 2010 and 2012 (Eurostat, 2013c).

The present unemployment situation in EU states is very worrying especially because over 40% of the unemployed persons are without work for more than one year. It is noticeable that Estonia, Ireland, Lithuania and Spain are the EU countries with the largest increases in the long-term unemployment, after 2008.

According to the latest estimations of the European Regional Meeting, the worsening employment situation in EU has intensified the risk of social unrest: this was with 12 percentage points higher in 2012 compared to 2007 (ILO, 2013). The risk of social unrest is an important indicator which may influence the macroeconomic stability of a country. Since this stability is essential for economic growth and development (Fischer, 1993), it is explainable why the countries with highest increase in the risk of social unrest between 2010 and 2012 (Cyprus, Spain, Greece, Italy, Portugal, Czech Republic and Slovenia) have also faced a decrease in the GDP, in 2012 (as we have shown in the first part of this paper).

Conclusion

As it results from our study, most of the EU countries were hit by the economic and financial recession that started in 2007, some of them worse than others. It was noticed that, up to now, the maximum intensity level of the crisis was in 2009, when both the EU GDP and the FDI inflows and outflows into and from this region have significantly decreased. Starting with 2010, there were slight signs of improvement in the levels of GDP and FDI, despite the fact that the recession has still continued since then.

Analysing the evolution of the GDP and the trend of the FDI flows between 2008 and 2012, we can notice a significant correlation between them, fact which proves that the theoretical assumptions, formulated in the specialized literature, were confirmed.

From the point of view of the EU labour market, we can underline the fact that it has gradually begun to suffer imbalances, after the second half of 2008. It is noticeable that the unemployment rate in the EU states has gradually increased between 2008 and 2012, reaching 11.3%, in the last year. The worst hit by the recession were the low-skilled and young workers, but also the men compared to women.

Considering all these aspects, we can conclude that, even after 5 years from the beginning of the crisis, many EU states are still confronting with serious problems that may affect not only the economic environment of the region, but also the social and political ones.

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