EFFECTS OF CREDIT LOAN. THE RIVERS OF MONEY DRIED UP

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Abstract. *Nothing compares with the possibility that the economy will disappear when it comes to something to get your attention and disturb you the quiet of everyday life. Industrialized world is facing a major crisis of financial resources. In 2007-2008 banks and financial institutions around the world have ceased to lend to lack of resources. Worldwide financial arrangements suddenly stopped working. Global financial system has taken down the hill and hope for recovery are unlikely in the near future. What can be understood from a global financial system that now works and seems to work perfectly, and the next day is behaving as the Appocalipse is coming. The revolution brought by the information system have transformed the world economy in a global machinary of making money. Scholarships in the world come to rise to unprecedented levels today and the next second day it collapse and people found out from the media that the value of properties held by them may soon no longer even cover the loan amount taken from the bank. They find out that their life savings, saving money invested in funds which they knew of beign sure now it could disappear overnight. On the market there are always new players with new ideas and new perspectives, and a large amount of money circulating with a dizzying speed and competing for the most profitable investment opportunities. In these circumstances it is almost impossible to realize what is happening or what is to happen at some point. Investors acting and acted always in conditions of inequality in terms of information and analysis they have access. Today the playing field is very high, the stakes are higher and economic system because of its size and complexity, is incredibly fragile. Current economy is like a giant castle of cards that can collapse of many reasons, some very minor. This does not mean the collapse itself must have its place but policy makers and politicians must be careful. Today these people important for the smooth running of the world economy must take care of things that before do not really mater for them. In the new global economy, this crazy ocean of global liquidity has not only increased the number of unknown or incomplete information, but it also modified the relations between them and their relative importance. But the most dangerous thing is that most people lack historical perspective. For them the growth periods are normal thing and do*

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not enter into their calculations at any time the possibility of occurrence of stagnation or worse decline. Crisis is not the issue for them. Yet it happens!

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1. Introduction

Upward and downward movements of the production, inflation, interest rates and occupancy that affect the business cycle are forming all market economies. Economic activity is not a linear progression but support increases and decreases in volume and pace of activities over a period of time both in different economic sectors as a whole. If we take, for example, tourism, plant and animal health, construction, etc., we see that after a period of intense activity, it follows a period of significant reductions in production, employment and use of means of production.

A phenomenon as complex as the business cycle[1] that affects and influences all aspects of the economic system may be not the result of a single case. Economic crises experience over the years, as a descendent of the economical cycle created fundamental political mutations, especially in the sphere of ideas and trends of thought.

2. International economic crisis

Hit by a double storm, draining capital inflows and exports decline, the emergent Europe crosses a profound crisis. The continent has evolved rapidly over the past decade, financial and commercial ties are even closer than bringing unexpected growth and income convergence. Therefore, all parts of Europe are in the same boat and fight the same stormy weather and the emerging economies and the advanced ones will have to find their way out together. Governments and central banks took unprecedented measures to find crisis solutions and also make efforts to coordinate their actions. However in both directions is much to do.

The crisis has affected some more than others, bringing the spotlight differences in economic policies from country to country. Financial markets have begun to closely examine the economic fundamentals of the countries. The countries with inflation and larger current account deficits or loans that have financed boom in transnational loans were hit hardest.

[1] Claudiu Ţigănaş, *The Economic Cycle. A Doctrinal Short Break* (in Romanian), The Scientific Annals of „Alexandru Ioan Cuza" University, Iaşi, Economic Sciences, 2005, vol. 50-51, pages 98-106.

They suggest that the macroeconomic and financial policies are healthy again at great price. Governments will be submitting to move carefully when it comes to tax incentives, and many will have to limit deficits to regain confidence in the overall economic sustainability.

The crisis has also highlighted the fact that the economical integration took it before the coordination of the macroeconomic policies and the financial sector in Europe. One area that needs urgent coordination is that of the macro-prudential banking rules. Clearly, the banks of the emergent Europe took big risks when fed an exceptional boom without removing the credit application and create appropriate means to protect against recession. As many of these have parent banks in advanced countries of Europe, often the host country supervisors had no means to ensure a more cautious behavior by all means.

Now, when these banks must be re-capitalized, a better coordination between supervisor's home country and host country is essential. Strong bank balances represent a prerequisite for sustaining a healthy stream, consumer durable loans and charitable company, which is also necessary to support demand and growth in most emerging economies. This is one of the reasons that efforts to address these issues are supported by the International Monetary Fund in cooperation with the European Commission. Another coordination area is the monetary and exchange rate issues problems.

For example, the ECB has been quite selective in respect of support for currencies in countries belonging to non-euro area, and discussions to clarify the roadmap for transition to the euro for countries with credible policies and healthy fundamentals. Given the strong feedback loop between emergent Europe and the euro area, filling the voids of coordination in these fields will help prevent an unwanted volatility on financial and currency markets.

3. Is the monetary policy the main reason?

The economic crisis started in 2007 and with uncertain completion time is a hot topic and stressful for many people. It is clear that today we are witnessing the worst crisis of the past 80 years. We have an official explanation of the crisis, provided by public institutions, that the problem stems from inappropriate behavior of economic agents.

First, a sentence strongly determined by economic science is that any major systemic crisis is the result of "excess" money, a process of artificial reduction of interest rates and credit expansion. History is pigmented with numerous episodes of boom-bust type, which affects state policy inflationary economic calculation of market participants, creating illusory profits and fueling a speculative frenzy that eventually, crumble under the weight of its own inconsistencies.

From this perspective, the current economic crisis is no different from the 1930 crisis, known as the Great Depression. The determining factor is the fundamental crisis of the early inflationary policy in 2000. Advised by Ben Bernanke, the current governor of the U.S. central bank (EDF), then a simple member of the Governing Board, Alan Greenspan decided to reduce interest rates by issuing money. We witnessed such an extremely serious "monetary relaxation" matter, not taking into account the standard interest rate we refer, this interest rate falling from 6.25% to 1.75% at the beginning of the year to its end. It continued to decline, reaching a record level of 1% in 2003, the level where he remained for a year.

In the context of rising prices, the actual rate was even negative for 2 1/2 years, which means that banks were paid to take money from the Fed money have focused on the economy taking into account other incentives and political constraints affecting their decisions.

But the U.S. did not go alone in this war against economic stability. Bank of Japan had already adopted a similar policy, offering banks subordinated zero nominal interest money and the European Central Bank cut interest rates at around 2% level that has maintained nearly 4 years. Thus, by 2006 the real interest rate in the euro area and Japan was also located at a level close to zero. In Britain, the central bank's monetary policy conducted by a similar pattern. Some of the money made available by central banks have been playing "at home" and invest in their economies.

The best example is just the U.S. housing boom, but such events have been anywhere where monetary conditions have allowed the flourishing real estate speculation and Spain and Iceland are two good examples. Researchers corroborated OECD statistics from different countries and showed how the housing market boom amplitude is directly associated with the extent of credit expansion.

The other part of money have been playing "away", that took way foreign investment materialized in turn operated the most risky investment opportunities. Historical scale, expansion of credit to developing economies is unprecedented not only similar episode in the second half of the 1970s and early 1980s, which was followed by the famous "debt crisis" they were particularly affected Latin American.

Basically, these capital flows have been filtered by the banking system. Thus, Western financial groups have attracted massive short-term resources at a reduced cost of international financial markets using them to sponsor increased turnover of their subsidiaries in emerging economies in developing countries. Most of these capital inflows were also invested in real estate assets, less liquid and risky investments by their nature, but very lucrative market as time continues to grow. This phenomenon occurred in Eastern Europe, including Romania. According to statistics, by mid 2007, when panic broke sub prime dynamics deposits ceased to keep pace with credit, banking sharply and rapidly accumulating debts of around 250 billion dollars, mostly short term. It is estimated that European banks hold 90% of these debts. According to statistics, by mid 2007, when panic broke sub prime dynamics deposits ceased to keep pace with credit, banking sharply and rapidly accumulating debts of around 250 billion dollars, mostly short-term and estimated that 90% of these debts are held by European banks.

4. Financial crisis

The current international crisis[2] is the crisis of too much[3], but its origins are corresponding to the 1988-1989 period of the communist bloc and the disintegration of the monetary disturbances of the 1990s – early 2000s, which led the U.S., China and Europe, each for himself to develop a different policy. The main reason is the U.S. credit crunch that rocked global financial system.

But analysts and economists are divided when it comes to finding a single explanation of the most serious crisis in decades. Theories vary from one case to another, but none seems to cover the whole range of factors that have brought humanity into full crisis.

Internationally, there were five[4] fundamental reasons as Joseph Stiglitz, which resulted in economic and financial crisis we are in:

1. Replacement in 1987 of Paul Volcker as president of the Federal Reserve (Fed) Alan Greenspan, at the request of Republican President Ronald Reagan opened the "tap" of monetary policy, without putting in motion what he de-second function of the central bank,

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[2] Ludwig von Mises, *The Causes of the Economic Crisis*, p. 163.

[3] Joseph Stiglitz, *The Globalization Mecanism* (in Romanian), Polirom Publishing House, Iaşi, 2008, p. 187.

[4] Joseph Stiglitz, http://www.vanityfair.com/magazine/2009/01/stiglitz200901?-current Page =1.

namely regulatory oversight. Uncontrolled monetary expansion "chaired by Mr. Greenspan" has resulted in two "bubbles" financial: the IT (crisis 'dot com') to 90 and the present building.

2. Promoting the philosophy of deregulation, which continued operations costs that are currently experiencing and we will pay for years to come. Thus, in 1999, was repealed Glass Flag Act law was in force since 1933 (under the Roosevelt administration promoted) and that strictly separates the powers of investment bankers (Investment Banks) of the commercial banks (which collect deposits the population and were entitled to pay in return for loans only). By repealing this law and allowed commercial banks to investment risk, and investment banks, thereby jeopardizing their stability and thus attracted resources as deposits from individuals and legal entities, and which finally were lost, requiring government intervention.
3. Bush Jr. administration has conducted the famous "tax cut for the rich" who, in conjunction with the opening tap money by the Fed, has stressed the tendency "living on credit" of Americans (the rich have wanted more, and those with incomes environments and modest, not social protest, were given access to loans covered under Prudential, generating the sub prime crisis). In other words, anticipating the situation in Romania, the United States similar effects have been flat, while the beneficiaries of the tax system had greater access to credit to meet the needs extravagant flat and the losers were "chance" access, not America as a house of wood and plastic, but a few necessary household goods (household items, possibly cars), the so-called the "ID"credit.
4. Weak and incomplete regulation practices of rating agencies and audit companies, which allowed amplification of risk in the financial sector and companies, hindered by "bill" for taxpayers today.
5. Coup de grace, in Stiglitz's view, came when the Bush administration and the Central Bank on October 3, 2008 gave the final blow to the financial system by allowing the rescue of the financial system (The Emergency Economic Stabilization Act of 2008) Paulson's.

Another theory that belongs to the economist John Taylor of Stanford University, known as "Getting Off Track, argues that" government action and its interventions have caused prolonged and worsened the financial crisis. Markets have not given up, says John Taylor (contradicting the theory that the crisis is a failure of free market and capitalism), but the government wrong. In recent years, explained John Taylor, the U.S. experienced a boom in the housing market, then a "bust" (disintegration) of the housing market. Almost all of our problems today arise from these processes. What caused the boom and bust site? The answer: The poor government policy, more specifically, the wrong monetary policy.

From 2002 to 2004, the Federal Reserve kept the federal funds rate below 2% by adopting the policy "easy to obtain money". In doing so, the Fed dropped moderate policy of the last decades, which produced growth and stability. Cheap money led to rising prices of homes and led to confusion in the entire financial system.

On Main Street, the credit banks, people began to get easy money, despite a bad "credit history" and seemed for a while, determined to pay installments on time and full houses. Lenders have started to credit from increasingly risky. On Wall Street investment banks have responded to the financial boom of real estate mortgages gathering in one place, using such measures to ensure financial instruments acquired complicated.

This explains the sub prime[5] crisis emerged amid credit offered to customers who would not normally have qualified for credit. One reason for triggering the crisis sub prime was the saturation of credit market on housing with normal credit products. Following market shares and higher earnings, banks have relaxed the conditions for application and approval for a loan. And so were born loans called "sub prime", i.e. loans for which the bank accepts a higher risk of default, failure to guarantee the property other than property that would be purchased with credit, accepting a minimum wage of the person who receives the credit or less work experience etc.

However, because banks have realized the risk to which the subject wanted to broadcast it on the market and created financial instruments based on packages of sub prime mortgages, which were sold to investors. On the other hand, they seized packages insured risk and credit insurance companies. The result of these economic exchanges was a "soap bubble" which broke in August-September 2007, when the insolvency of the sub prime credits caused banks to begin the liquidation process of credit secured by real estate. Banks were virtually overnight the owners of many houses they put on the market to recover money invested in loans. There

[5] http://www.semneletimpului.ro/html/Economic/art1-crize-financiare.html

was a chain reaction, increasing the supply of houses has reduced their prices, which caused a partial recovery of large losses in value of loans and bank accounts that gives such loans. Moreover, investors who have purchased packages of sub prime mortgages have lost because they could not recover the money and wanted to collect money from insurance companies, and bringing them to a standstill.

The crisis that started in the real estate market by lowering the price of housing has created an acute need of liquidity to banks and financial and property investment companies (which are players on stock exchange) to cover losses on exchange resulting in a crisis by lowering decrease the number of transactions and general willingness to invest. As a result, many wanted to sell. Thus, prices of traded goods fell, causing big losses for many banks and real estate investment firms.

Chain reaction started a year later, in September 2008, with the bankruptcy of investment bank Lehman Brothers, which was followed by a series of spectacular falls, including the largest global insurance group AIG, rescued in extremis by the U.S. state. With the collapse of several U.S. financial institutions, banks worldwide have begun to assess losses. Billion dollar losses were announced daily by the various financial institutions in Europe and worldwide.

5. Financial restructuring

More than likely the world will look different in coming years. This is because we are witnessing an unprecedented crisis, global, systematic, deep and lasting, the imbalance is increasing demand decreases, welfare decreases, but increases unemployment, and the fear for tomorrow. Effects are comprehensive and visible in all aspects of life: economic, political, social, and cultural. Power poles will focus on advanced economies to developing ones, will put more emphasis on "modesty" in business and capitalism will be less aggressive. We will see increased state intervention in the economy, at least for the coming years, including greater cooperation between the private and state, between shareholders and companies, stock indices will increase more slowly and more accurately reflect reality. Increased coordination will lead to changing global financial system today. Will be banks and insurers who will fight for survival, while others will find opportunities.

According to European Central Bank, developed countries will experience a decline in growth in the Euro zone from –2.2% to –3.2%, United Kingdom being the most seriously affected. More countries have officially declared a state of recession, from U.S., Japan, followed by European countries considered very strong recently.

As insurers, we can say that they are affected in the short term primarily due to pressure on the balance sheet assets, reducing the market value of investments in private equity, real estate, alternative investments and the reduction in interest rates. Direct effects of these decreases, until December 2008 had risen to losses of over $ 150 billion. The volatility and financial instability are stressors insurance. Reducing the value of assets of insurance companies is complemented by input reduction of assets, as customers are turning to bank deposits or instruments without risk. Risk insurance will be concluded with greater transparency, which will be required by regulations. New risks, which assume other dimensions, are real opportunities for insurance. For example, political risk: nationalization, expropriation, changes in legislation, profits or capital repatriation restrictions. For life insurance will put more emphasis on the protection and traditional insurance and less on the investment by insurance.

6. Before conclusions...

The situation is unclear. The crisis has spread with amazing speed, being initially triggered by imprudent loans on the property market then exploded with the American colossus Lehman bankruptcy. Most serious consequence of this failure was that the banks have lost trust each other, becoming extremely suspicious. Inter-banking credit was abandoned, leading banks liquidity in finesse. Stocks that were left were deposited at central banks, where money is not lost, thus leaving the market almost dried up.

Americans believe they will resolve the crisis through excessive consumption, the money they do not have, and that it lends. Germans save as the main economic sectors are affected.

What is clear is that as first it will lose jobs and that unemployment will increase further. It is clear that the state can not solve all economic problems and that entrepreneurs should also help them with appropriate solutions, primarily through maintaining and raising the technological level. It provides a fierce fight technology. The winners of this fight will be the winners of the crisis.

It is also clear that the role will grow interventionism, the idea of economic stabilization and growth opportunities to support companies whose possible failure would expose the economy to risks of the system. Following the review will be to increase taxes and fees tax practices and other areas, and increased private public partnerships. Moreover, for individuals the cheap loans were long gone, which for much of the population will mean reducing consumption and postpone retirement. Moreover, the money banks and companies will have increased freedom of operation and will restrict innovation, while the level of profitability. Also, there will be new business models and industry will restructure.

The crisis will undoubtedly polarize the economy. Firms will survive occupying extreme positions, on the one hand those with very cheap products and cheap, on the other hand the products expensive and very expensive.

Whatever it will be the end of this crisis, people should learn at least one thing: greed is not good nor for the economic health nor mental health of those living from it.

7. Conclusions

Crisis remains an exceptional phenomenon for both individuals and systems, it has a high degree of risk, and sometimes ends with a dramatic final. For this reasons the identification, understanding and proper management of this phenomenon should be the result of a learning process supported by a scientific-methodological support. Any crisis that occurs in the life of a structure is enhanced by a number of relational factors, fueled by divergent interests, which may guide the development organization for hazardous areas (dramatic changes, disasters, casualties, damage, or even war). However, the crisis may be an amount of opportunities that lead to abandonment of bad elements change (performance efficiency) and re-launch as a pattern, the structure ability to continue normal operations. Typically, crises occur by surprise. People, organizations, countries and even regions have learned to live under their assault, but very few of them strive to enter the world and tame them. In separate meetings, official events crises are dealt with as hazardous and are supported scenarios, imaginary, most often giving the impression that we are in possession of an efficient and comprehensive crisis management.

Contemporary history of humanity, present and even future, shows that whenever humanity has gone through such a “lock” crisis management failed, causing needless suffering and multiple dismantling all levels. People rightly wonder what happens all these oddities: revolutions, wars, unemployment, disease, poverty, organized crime, inflation etc.? And still expects to end a world and start a new one, more conducive to their ideals and long period of waiting and disappointment produces deep changes on a spiritual level, decreasing their confidence in policy makers.

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