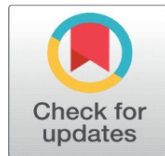


CHALLENGES OF ECONOMIC COMPETITIVENESS AND DEBT MANAGEMENT

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Received 11 September 2025

Accepted 09 October 2025

Published 12 November 2025

DOI

[10.29121/granthaalayah.v13.i10.2025.6447](https://doi.org/10.29121/granthaalayah.v13.i10.2025.6447)

Funding: This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors.

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ABSTRACT

The rapid expansion of global trade, the unprecedented openness of domestic markets, regional integration, and the ongoing intensity of globalization present significant challenges in maintaining a balance between revenues and expenditures. These challenges span international, regional, national, corporate, and individual levels. The coexistence of external trade deficits and internal budget deficits, along with the accumulation of high debt levels by governments, non-financial corporations, and households, highlights the need for fresh theoretical and practical approaches. In the context of the current global financial crisis, new institutions and policies are essential to ensure sustainable growth and reduce the risk of increasingly unpredictable disruptions.

Keywords: Economics, Sustainable Growth, Financial Deficit, Purchasing Power, GDP, Risk

1. INTRODUCTION

Romanians have traditionally avoided relying on loans or living in debt, embracing a debt-free culture that has deep historical roots. This mindset, particularly prominent over the past two centuries, emerged as moneylending and early banking became more widespread in Romanian territories. This cultural inclination is reinforced by a long-standing biblical belief that financial institutions are "parasites." Historically, banks in Romania have not been Romanian-owned and, as such, have neither safeguarded depositors' savings nor supported indebted clients by facilitating transactions. This is evident today, as over 90% of the banking capital in Romania is controlled by foreign shareholders. In the 1980s, the aversion to debt was further entrenched through efforts to eliminate foreign debt. However, after 1990, political and academic voices increasingly promoted indebtedness as a pathway to economic growth and as a means to improve Romania's standing with international financial institutions. As a result, Romania's external deficits surged

dramatically between 1998 and 2007. The current account deficit rose from 2.6 billion euros to 16.7 billion euros, growing 6.3 times and increasing its share of GDP from 3.7% in 2000 to 13.5% in 2007. Similarly, the trade balance deficit expanded from 3.1 billion euros to 21.8 billion euros (6.9 times), with its GDP share rising from 8.4% in 1998 to 17.6% in 2007. Meanwhile, the gross domestic product grew from 37.4 billion euros to 123.7 billion euros, a 3.3-fold increase. In conclusion, every unit of GDP growth has required a doubling of foreign deficits, highlighting the economic cost of this shift toward increased indebtedness.

2. FOREIGN DEFICIT MATTERS

Since the 1980s, the prevailing approach to foreign deficits has been deregulation, driven by the celebrated principles of free movement of goods, services, capital, and labor. In recent decades, competition among nations has increasingly focused on monopolizing the purchasing power of other countries through large-scale exports. This emphasis on exports and the management of trade deficits has led to the evolution of competitiveness theories, which, in our view, go beyond mere productivity. These theories involve measures such as curbing wage increases in high-income countries, offering low-interest loans to export-oriented manufacturers, providing state subsidies (sometimes less transparently), engaging in dumping practices, and implementing foreign exchange policies that favor national currencies. The global economy is increasingly split into two categories: "price makers" and "market makers" on one side, and "price takers" and "captive economies or markets" on the other. Exporting nations use a variety of strategies to capture and dominate the purchasing power of importing countries, particularly targeting households. These tactics range from aggressive advertising and branding to slogans promoting the "consumer's supreme interest and welfare," accompanied by an unprecedented surge in consumer loan schemes.

exports and imports carry additional weight due to the country's dual deficit, its foreign trade and budgetary deficits, which are both exacerbated by high interest rates and unfavorable exchange rates for the national currency. In the Eurozone and the United States, the strength and dominance of their respective currencies often seem to take precedence over productivity. Romania requires economic and trade policies specifically tailored to its unique circumstances, enabling the country to maintain autonomy in implementing counter-cyclical measures for economic recovery. Managing deficits through a delicate balancing act involving the leu, euro, and dollar is akin to walking a tightrope. While consumer loans in either leu or euro may stimulate economic growth in the short term, they risk complicating the sustainable recovery of domestic competitive growth. The national supply of goods and services cannot quickly adjust to frequent fluctuations in exchange and interest rates, let alone meet increasing demands for quality and variety. Before even considering export opportunities, manufacturers are finding themselves increasingly pushed out of their own domestic market. As a result, reclaiming the national market, which remains an integral part of the global economy, should become their primary objective.

3. PURCHASING POWER

The purchasing power of Romanian citizens is low, as are their wages, making them particularly vulnerable to cheaper imports. Low wages result in a limited tax base and declining budget revenues, which contribute to deficits. These deficits fuel inflation, keep interest rates high, and hinder economic recovery, both in terms of

consumer spending and investment. Given these circumstances, it seems unlikely that the Central Bank could mitigate the effects of economic disturbances through monetary policies alone. These disturbances include severe asset devaluation, skyrocketing asset prices, and exchange rate settings tied to two dominant reference currencies, both supported by massive economies of scale and far greater money supplies. Balancing domestic reference rates with inflation and economic growth requirements through loans is another ongoing challenge. Interest rates play a more critical role in productivity than wages or workforce qualifications. Over the past two decades, persistently high interest rates in Romania have been a major obstacle to the modernization and competitiveness of Romanian businesses. The assumption that low wages can sustain competitiveness is fundamentally flawed and counterproductive for economic growth. It is also mistaken to view the current global financial crisis as a mere accident. Instead, it is more insightful to examine why, over the past two decades, the world has become so reliant on borrowing to sustain growth far beyond the internal supply capacities of individual economies.

Contrary to Say's Law, internal supply has not generated sufficient demand within economies. Instead, demand has been sustained by external supply through competitive pricing and consumer credit, further widening the gap between the real economy and the financial economy. Currently, the European Union is grappling with the conflicting coexistence of three models: private indebtedness, hyper-competition, and the European social model, collectively referred to as the "triangle of European incompatibility." The Maastricht criteria impose a public debt ceiling of 60% of GDP for EU member states, but this has inadvertently pushed business and household debt off course, as they are not regulated by convergence criteria. Meanwhile, trade deficits in the United States and surpluses in rapidly emerging economies like China, India, and South Korea persist. In discussing deficits and debt management, globalization has led to unpredictable and often adverse outcomes. Recycling the deficits of some countries and the surpluses of others generates significant profits for the banking and financial sectors but undermines the real economies of many nations. The focus on the debts of developing countries has gradually shifted over recent decades toward managing the debts of developed nations, reflecting the evolving challenges of the global economy.

Between 2005 and 2008, Romanian households were heavily targeted by banks offering consumer credit, which aimed to stimulate purchasing power while driving demand for imported goods predominantly supplied through hypermarkets. This trend severely undermined domestic manufacturers, who struggled to compete under the dual burden of low wages and high productivity demands. Romania's low salaries and high-interest-rate loans have given imported goods a clear competitive edge over domestic production and exports. This disparity is evident in the stark differences in per capita debt across Europe. In 2004, Romania's per capita debt was just €175, compared to much higher figures in countries like Denmark (€39,800) and the Netherlands (€32,800). By 2008, household debt in Romania had risen to €2,516 per capita, which, while showing apparent progress, loses its optimism when annual salaries are compared with those of other EU nations. Interest rates exacerbate this gap. While Eurozone interest rates have remained steady at 2–3%, Romanian loans in euros carry interest rates at least twice as high, with loans in lei being five times higher. Such rates disadvantage both businesses and individual borrowers, reducing their competitiveness. In the Eurozone, the standard practice is for corporate borrowing to occur when profit rates exceed interest rates, with profits often reaching 15% compared to 3% interest rates. Romanian companies, however, face far higher borrowing costs, making this balance almost impossible and rendering equal treatment in competition policies more theoretical than

practical. Economic growth, spurred by increasing national debt after the Eurozone's creation, has been accompanied by a rapid rise in money supply and marketable debt instruments.

Simultaneously, financial markets inflate the value of shares and assets, while manufacturing shifts to lower-wage countries. This "recycling of profits" through financial engineering distorts the true value of labor and capital, key factors in any economy. Surprisingly, trade surpluses in low-wage countries often create deficits in their trading partners. These trends highlight failures in certain economic theories and policies when tested in practice. It is a well-known economic principle that when interest rates fall, the stock market and real estate values rise faster than GDP growth. This dynamic enables greater borrowing capacity for households and corporations, even as the physical stock of properties remains unchanged. Over the centuries, productivity growth has been limited to around 2–3% annually, driven by knowledge and rational choices. In contrast, the rapid rise in asset prices is often attributed to "irrational exuberance." The growth in housing prices, disconnected from GDP, productivity, or income levels, further illustrates this mismatch. Nonetheless, property price increases, estimated to spur 3–5% annual growth in demand for various goods and services, can stimulate short-term economic activity while creating long-term instability.

4. CONCLUSION

Countries with strong currencies treat deficits and debt differently. For example, the U.S. deficit represents a surplus for other nations, and the key concern is how these nations utilize their dollar surplus. If they reinvest it in U.S. financial instruments like bonds and shares, the money effectively returns to the U.S. Similarly, trade surpluses in countries like China and Japan stabilize their currencies while strengthening the dollar, creating an indirect form of protectionism through foreign exchange rates rather than trade policies. Romania, lacking the economic strength to engage in such global financial maneuvers, remains on the sidelines until it fully integrates into the Eurozone. However, current corporate and household debt levels could eventually benefit creditors. Rising land prices suggest further indebtedness is likely. For instance, the market value of agricultural land grew from €5.4 billion in 1999 to €13.2 billion in 2005, with urban land values increasing tenfold during the same period.

Despite this growth, farmland remains undervalued compared to neighboring countries like Ukraine and Serbia or EU members like Ireland. In this context, the real estate market, though temporarily stagnant, could drive future economic growth but also pose risks of instability. As countries develop their infrastructure and align with EU standards, land price disparities with other member states are expected to diminish. At a broader level, the surplus in emerging economies often exceeds their domestic investment capabilities, while the debt management of developed nations poses challenges for the global financial system. Financial markets and global economic balances should not be ends in themselves but tools to maximize the sustainable use of global resources. For Romania, it is crucial for citizens to make informed decisions about their spending. Financing imports and consumer credit serves a different purpose than investing in housing, innovation, or manufacturing new products. Prioritizing the latter is essential for fostering sustainable growth and reducing reliance on foreign debt.

CONFLICT OF INTERESTS

None.

ACKNOWLEDGMENTS

None.

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