THE GLOBAL FINANCIAL CRISIS AND ITS IMPLICATIONS ON THE CONVERGENCE OF ROMANIA WITH THE ECONOMIC AND MONETARY UNION

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1. General considerations

The European economic integration aims at the elimination of the delays, the reduction of the deficiencies, the closeness of some economic, social, demographic, financial indicators and, in general, the compatibility of the structures and the institutional and administrative mechanisms of the different countries and regions.

All the evolutions that lead to this objective are considered to be convergent, while all those situations that are pushing us away from reaching the objective are considered divergent. In reality, they act as convergent forces that bring us closer to the objective, as well as forces that can delay the achievement of the objective. The international financial crisis launched at the same time with the subprime credit crisis from the Unites States of America leaves its mark on the potential of convergence for the delayed countries and the regions, but at the same time, the progresses achieved on the convergence path pave the way for the possibilities of counter-balancing the effects of the financial crisis on the economies of these countries.

The literature emphasizes the three types of convergence, such as:

- the institutional convergence;
- the nominal convergence;
- the real convergence.

2. The institutional convergence

The institutional convergence is reflected in the economic and administrative compatibility, in the acknowledgement of the same values, in laws and uniform procedures, in the coherence of the business environment at a continental level.

Romania recorded notable progresses on the institutional convergence line, for the adoption of the community acquis, which allowed the adherence to the European Union on January 1st, 2007, after having fulfilled the necessary criteria.

The measures taken to ensure the institutional convergence have propelled the direct foreign investments in Romania, firstly through the compatibility of the legislation regarding the corporate government, which has made possible the increase of the direct foreign investments.

The beginning was very difficult because Romania had to act in conformity with the business environment that seemed very hostile for the ones willing to invest. Regulations in the field of the corporatist management were necessary, the OECD principles regarding the corporatist management had to be assimilated in the internal legislation, as they were adopted in 1999 and reviewed in 2002, with important amendments to the Law 31/1990 regarding the companies and to the Accountancy Law no. 82/1991.

The Directive 2006/46/CEE which has amended and completed the Directives 78/660/CEE and 83/349/CEE, stipulates, for the entities whose securities values are admitted in transactions on the regulated market, the mandatory reports of information like:

- the corporatist management code, which is applied to the entity and which has been adopted willingly by the entity;
- relevant information regarding the corporatist management practices applied in the entity;
- the description of the main features of the internal control and of the risk management systems related to the process of financial reports;
- the key attributions of the AGA and the description of the shareholders rights;
- the structure and the manner of operation of the management, administration and surveillance bodies and of their committees.

The legal frame in the field of accountancy has entirely taken over the stipulations of the Statute 1606/2002 of the European Commission regarding the application of the IFRS/IAS together with the adoption of OMFP no. 1121/2006, of the Directive 2006/46/EEC through OMFP no. 2001/2006, the conformity with the 4th Accountancy Directive (78/660/EEC) and the 7th Accountancy Directive (83/349/EEC) together with OMFP no. 1752/2005, modified and completed with OMFP 3055/2009. The Ordinance no. 90/2008 approved by Law 278/2008 transfers the Directive 2006/43/EEC regarding the statutory audit into the internal legislation.

All these measures have contributed to the increase of transparency and to the compatibility of the business environment from Romania with the one from the European Union. The institutional convergence is not a completed process, it will continue, it will increase, it will have as effect the possibility to elaborate and fundament the decision of investing in a predictable environment, thus contributing to the increase of the convergence potential of Romania with the European Union.

3. The nominal convergence

The nominal convergence names the criteria that the member states of the European Union must fulfil in order to be admitted in the Economic and Monetary Union, in order to adopt the euro currency, thus:

- **the stability of the prices**: the inflation rate must situate at most at 1.5 percentage points over the average of the first three member states with the lowest inflation;

The inflation rate (comparison between Romania - EU-25)
(the average rate of the change in the Harmonised Index of the Prices for the Consumption goods)

% Table no. 1

Years / Countries	2003	2004	2005	2006
Romania	14.1	9.3	8.6	8.0
EU-25	1.9	2.1	2.2	2.1
The average of the first 3 countries with the smallest inflation rate from the EU	1.2	1.1	1.4	1.6

Source: www.mfinante.ro/programdeconvergenta

The inflation rate (comparison Romania - EU-27)
the average rate of the change in the Harmonised Index of the Prices for the Consumption goods)

Table no. 2

Years Countries	2007	2008	2009	2010	2011	2012
Romania	6.57	7.85	5.59	3.7	3.2	2.8
EU-27	2.4	3.7	1.0	1.3	1.5	1.7
The average of the first 3 countries with the lowest inflation rate from the EU	1.7	3.2	0.8	1.0	1.2	1.3

Source: www.mfinante.ro/programdeconvergenta

Inflation proves to be a major problem of Romanian economy, in spite of the policy of aiming straight to the inflation implemented by the NBR. The prices are situated each year above the target-level set forth by the national currency authority. The Romanian economy structure makes the prices increase even under the conditions of the international financial crisis because of the disproportion between the aggregated demand and offer.

The convergence program which is aimed by the authorities starts from the target inflation compatible with the reference value set forth by the Treaty for the year 2012-2013.

- **the long term interest**: the nominal long term interest rate should not exceed with more than 2 percentage points the average of the three member states with the best performances in the field of the stability of the prices;

The long term interest is directly related with the inflation rate, as the inflation decreases it is possible that the long term interest to decrease as well. The financial crisis affect the level of the long term interests as it makes possible the action of the "crowding-out" phenomenon, respectively the supplementary needs of covering the budget deficits restricts the access of the economic agents to the long term loans and favours the increase of the interests.

- **the public finances**:
  - the budget deficit should not exceed 3% from the GIP;
  - the public debt should not exceed 60% from the GIP;

The Public Finances situation 2008-2012

Table no. 3

Indicators	2008	2009	2010	2011	2012
The budget deficit % in GDP	-5.5	-8.0	-6.3	-4.4	-3.0
The public debt % in GDP	13.6	23.0	28.3	29.4	29.7

Source: www.mfinante.ro/programdeconvergenta

The budget deficit increased in 2008 reaching 5.5% and in 2009 to 8% from GDP when the GDP recorded a contraction of 7% under the impact of the international financial crisis, which led to the launching of the procedure of excessive deficit pursuant to art. 126 of the Treaty, according to the decision of the Council from July 7th, 2009. Measures have been agreed upon with the governmental authorities for the reduction of the deficit at the level of 3% from GDP in 2012, and the deadline for the implementation of the agreed measures to be August 16th, 2010.

The public debt is situated a lot under the level of 60% from GDP regulated by the Treaty, but the spectacular increase from 2009 when the public debt almost doubled is concerning. The predicted level for 2012 does not seem to be realistic when the investments for the infrastructure development, necessary for the closeness to the level of the other European countries, but also seen as a package of anti-crisis solution shall lead to exceeding the target level.

- **the stability of the exchange rate**: the exchange rate of the national currency in comparison with the unique currency should fluctuate around the pivot rate declared, with a margin of ±15%, on a period of at least two years, without the possibility of the National Central Bank to intervene on the market.

In order to ensure the stability of the exchange rate, either the control of the deficit of the current account so that there is no pressure on the exchange rate of the national currency or a constant flux of foreign direct investments is necessary. The flux of the foreign direct investments in Romania has had a favourable influence on the external payment balance sheet, contributing to the increase of the foreign currency reserves of the country. The emphasized tendency until 2007, that is the increase of the FDI fluxes is threatened, on the one hand, by the quantity and value reduction of the entities for privatisation from the Romanian economy, and, on the other hand, by the generalising of the world financial crisis, which will reduce the direct foreign investments in general.

The degree of coverage of the current account deficit

Table no. 4

Indicators	*2006*	*2007*	*2008*	*2009*
Current account deficit – mil. of euros	-10156	-16677	-16000	-13700
Foreign Direct investments – mil. of euros	9059	7250	9500	5500
Degree of coverage from the foreign direct investments – mil. euro	89.2%	43.4%	59.3%	40.2%

The source: www.bnro.ro; www.banatbusiness.ro/stiri

In 2009, a reduction of the current account deficit was recorded for the first time: from 14% from GIP in 2008 to 12% from GIP in 2009, but, unfortunately, accompanied by a reduction of the FDI flux, which made the authorities find a credible alternative to cover the deficit, one of the possible sources being the increase of the access to the European funds. The indirect influence of the foreign direct investments on the stability of the exchange rate can be emphasized by the positive effects triggered by the FDI:

- the increase of the production of goods and services destined to export;
- the qualitative increase of the goods and services destined to the internal market, as an argument for the reduction of the imports;
- the workforce employment;
- the improvement of the management and of the market conduct in general of the Romanian companies, by taking over the experience gained with the FDI.

The connection between FDI and the criterion of the stability of the prices can be emphasized through the study of the Balassa-Samuelson effect, as follows: through the means of FDI the productivity of the work in the tradable sector increases, which produces goods for export. Based on this, the wages from the sector start to rise, which fuels the union pressures for wages rises in the non-tradable sector, where the wages rises cannot be supported by a rise of the work productivity. This is the beginning of a series of movements of prices that will finally lead to the increase of inflation, which can have as effect the failure of the stability of the prices criterion. In order to counteract the Balassa-Samuelson effect, the activation of the partnership between the government, the unions and the employer's associations, a more accurate understanding of the social solidarity and the understanding of the fact that aiming at the inflation is not only the problem of the Central Bank are necessary.

- **the compatibility of the National Central Bank with the Eurosystem**

In order to get actively involved in the preparation of the access requirements for Romania to the Euro zone, NBR had to adapt its Organisational and Operational Statute. The main amendments and completions brought to the Law no. 101/1998 regarding the NBR Statute aimed at:

• The setting of the uniqueness of the fundamental objective of the National Romanian Bank to ensure and maintain the stability of the prices.

• The consolidation of the National Romanian Bank's independence under:

- the institutional aspect, through: (i) the definition of NBR as an independent public institution; (ii) the stipulation of the fact that the support by NBR of the general economic policy of the state is performed without the prejudice of its fundamental objective and (iii) the stipulation of the independence of the members of its management bodies towards the public authorities or towards any other institution or authority, in fulfilling the attributions;

- the personal aspect, through: (i) application of the entire duration of the mandates of all the members of the Administration Board of NBR including the ones appointed in the vacant places as it becomes incomplete; (ii) the stipulation of the possibility of the revocation from the position of a member in the Administration Board of NBR only if he/she ceases to fulfil the necessary conditions to exercise his/her attributions or if he/she is guilty of serious errors; and (iii) the extension of the stipulations regarding the conflict of interests on all the members of the Administration Board and on the NBR employees with management positions, as well as the qualification as inconsistencies and as a conflict of interests stipulated by law;

- the financial aspect, through the stipulations referring to the elaboration of the annual financial situations and the issue of the own regulations for the organisation and the management of the accountancy by NBR, as well as the accountancy of the financial and economic operations of NBR, which are performed with the endorsement of the Ministry of Public Finances.

-the prohibition of any direct finance possibility by the central bank of the public institutions, through:

- the prohibition of the purchase from the primary market by the National Bank of Romania of the debts of the state, of the central and local public authorities, the government business enterprise, the national enterprises, the national companies and other companies with a majority state capital;

- the prohibition of loaning as overdraft or as any other type of loan by the National Bank of Romania of the state; the local and central public authorities, the government business enterprise, the national enterprises, the national companies and other companies with a majority state capital;

- the commissions for the settlement of the operations through the general current account of the State Treasury, opened at the NBR;

- the elimination of the possibility of loaning by NBR, based on the conventions concluded with the Ministry of Public Finances, for the coverage of the time gap between the cashing and the payments from the general current account of the state Treasury;

- the limitation to the secondary market of the purchases, selling and the performance of other transactions having as object the treasury bills and the bonds;

- the elimination of any reference to the possibility of the use of transfers of state bonds within the system of coverage of losses from the NBR balance sheet;

- the elimination of the privileged access of public institutions to the resources of the financial institutions, through the expansion of the sphere of the eligible assets for guaranteeing the loans awarded by NBR to the credit institutions, removing the indirect obligation to supply the state bonds as a guarantee, which could trigger the obligation of the credit institutions to purchase state bonds.

4. The real convergence

The real convergence emphasises the tendency of closeness of the general level of development through emphasising some performances, such as: the work productivity, GDP/inhabitant, the productivity of the production factors, the consumption per inhabitant etc. The real convergence is ensured in the case of a country with a lower level of development when the increase of GDP above the European and global average is achieved, fact achieved by Romania before it was affected by the global crisis, as it results from the following table:

GDP evolution

- % **Table no.5**

Indicators	2006	2007	2008	2009	2010
GDP Global economy	5.1	5.1	3.1	-1.2	3.1
GDP EU-27	3.2	2.9	0.8	-4.1	0.7
GDP Euro zone	3.0	2.8	0.6	-4.0	0.7
GDP Romania	7.7	6.0	7.3	-7.0	1.3

Source: www.mfinante.ro/programdeconvergenta

Under the impact of the global crisis, the decrease of the GDP in Romanian has been one of the highest in Europe, the overcoming of the recession being predicted only for the second semester of 2010.

In comparison with the average UE25, Romania records a level of the work productivity /employee of over 1/3 from the European average, a bit more than Bulgaria and over 50% from the average productivity from Hungary, fact revealed in Table no. 6.

The work productivity / employee

Table no.6

Year The country	*2003*	*2004*	*2005*	*2006*
Bulgaria	31.9	31.7	32.6	33.6
Romania	34.0	36.3	36.6	37.9
Hungary	66.8	68.1	70.1	71.6
EU 25	100	100	100	100

The source: EUROSTAT, 2006

In order to increase the work productivity, the increase of the business investments as a share in GIP is necessary, FDI being welcomed in this field. The advantages of Romania in the FDI attraction start from the dimensions of the internal market (the 7th country as size from the European Union), the relatively low cost of the work force, the low political risk and in general the achieved progresses on the line of the institutionalised convergence. If FDI contributes to the increase of the work productivity, there are reasons to find the productivity pulse in an increase of the export capacity. FDI contributes to the increase of the training level of the employees and of the level of higher wages than the ones of the local companies, which, on a long term, contributes to the reduction of the delay compared to the developed countries.

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