INFLATION TARGETING IN ROMANIA IN THE CONTEXT OF A GLOBALISED WORLD

Marius Constantin APOSTOAIE
PhD Student, Doctoral School of Economics,
Faculty of Economics and Business Administration, “Al. I. Cuza” University of Iasi

Dumitru-Cristian OANEA
MBA Student,
Faculty of Economics and Business Administration, “Al. I. Cuza” University of Iasi

ABSTRACT
The two decades of Inflation Targeting as a monetary regime of choice of many central banks around the world can be described through its achievements but also by some failures. The importance of this effects (whether we are talking about achievements or failures) cannot be analyzed independently, forasmuch we exclude the case of a closed economy, where a monetary rule focused on assuring the stability of prices eliminates the inefficiency of costly price adjustment. Currently, central banks implement their monetary policy in the context of a globalised world. Therefore, we are talking about an open economy where the optimality of price stability depends on the size and complexity of international financial markets.

The paper highlights, in the case of Romania, the analytical framework, i.e. the regime of monetary policy, which helped to order, analyse and interpret monetary policy relevant data and present and announce policy decisions made by the National Bank of Romania to the outside world. The purpose of this paper is to identify the challenges and perspectives of direct inflation targeting implementation in Romania in the context of a globalised world.

KEY WORDS: financial globalization, central banks, monetary policy, inflation targeting

1. Introduction

For a central bank, getting the monetary policy right in this globalized environment is crucial to the health of the economy. If the bank promotes an overly expansionary monetary policy these will lead to high inflation, which decreases the efficiency of the economy and hampers economic growth, this scenario happened in Romania, especially in ‘90s, when our country has not been exempt from inflationary episodes. On the other hand, a monetary policy that is too tight can produce serious recessions in which output falls and unemployment rises. It can also lead to deflation, a fall in the price level, what can especially damage the economy.

Considering the above, to get that monetary policy right in order to achieve its primary objective the National Bank of Romania (NBR) has a set of monetary policy instruments at its disposal.

In theory as in practice there was (and still is, in the light of the current imbalances in the financial system) an ongoing debate concerning the optimal monetary policy strategy for a central bank. As we look into the past decades we draw a line and conclude that Inflation Targeting (or IT as it is known in the financial literature or among policy practitioners) eventually emerged as the preferred solution to the complex economical, political and social issues regarding present times.

In Romania the NBR introduced IT as a monetary policy strategy in 2005. This regime was taken into consideration because it brings a series of benefits for a central bank, including a clear policy focus on inflation (as evidence we look upon the evolution of inflation after...
2005). More than that, in the context of a disinflation process in which Romania is engaged since 2000, IT came as a mean to unburden NBR’s monetary policy to achieve further descending inflation rates.

Starting on January 1st, 2007 Romania became a Member State of the European Union. In order to achieve its objective of full participation in the European Monetary Union (the adoption of the euro) it must set its monetary institutions and policy in line with the euro area; in other words, a set of nominal and real convergence criteria must be achieved.

The article is organized as follows. The first part of the paper consists in a survey of the literature regarding financial globalization and IT as a monetary policy strategy for most of the central banks around the world. In the second Part the paper examines the current status of IT in Romania (taking into consideration the impact of financial globalization on Romania), using graphical synthesis and structure analysis and the phenomenological interpretation. Conclusions highlight the most important aspects of the paper and some lessons to be learned.

2. Financial literature regarding financial globalization and IT

Although the concept of globalization is a relative old one, having ruts in the French and Americans writings of the late ‘60s, not even now do we have an exact definition. According to Gangopadhyay and Chatterjee [7] this word became a “byword for an economic imperative on the one hand and a synonym for undermining local cultures and exploiting Third World labour on the other hand”. According to Kenneth J. Arrow in the preface of the same book [7] one can distinguish at least five different aspects of globalization: the increase in international trade, capital movements, migration of people, migration of exotic biota; including pathogens, and the diffusion and possible homogenization of culture and ideas of all kinds. He concludes with the idea that, at the same time, international institutions have involved to encourage the broad movements mentioned above and to the problems they create.

Another important point of view in the financial literature is that of Friedman’s [6], according to whom, globalization, in broad terms, involves integration of markets, nation-states and technologies to a degree never witnessed before – in a way that is enabling individuals, corporations and nation-states to reach around the world farther, faster, deeper and cheaper than ever before, and in a way that is also producing a powerful backlash from those brutalized or left behind by this new system. Other economists [18] conclude that “globalization refers to a situation where each country’s economy, including its financial markets, becomes increasingly integrated resulting in development towards a single world market.”

Globalization is defined by IMF [8] as a “historical process, the result of human innovation and technological progress, which refers to increasing integration of economies around the world, particularly through trade and financial flows.”

The process of globalization, briefly described above, has implications in all macroeconomics policies, but the core element of this process is considered to be the process of financial globalization, which has important consequences on the manner of how monetary policy is conducted and consists in a complex integration of financial markets through exchange and financial flows. According to the financial literature, “the countries with high levels of financial openness are more likely to generate, better monetary policy outcomes in terms of lower inflation” [9].

Financial globalization, which Lane and Milesi-Feretti [10] calls it “financial openness” it’s considered to be the sum of the stocks of external assets and liabilities of Foreign Direct Investment (or better known as FDI) and portfolio investment as a percentage of GDP – recorded an increasing trend in both industrial and emerging market economies in the latter half of the 1990s.
The whirlwind of financial globalization has descended upon many economies in the world and thus bringing both benefits and problems upon the nations with rapid change. An important benefit of financial globalization is that it has had a “disciplining effect” upon the central banks and the way they operate in this continually changing environment. Thereby we can bring into discussion the way in which central banks implement their monetary policy, resulting that “monetary policy over recent years has placed more emphasis on stabilizing inflation, resulting in reduced inflation and greater output stability” [19].

Regarding the second term, Inflation Targeting (or IT), in broad terms, according to Setterfield [17] the IT policy framework involves “the public announcement of inflation targets, coupled with a credible and accountable commitment on the part of government policy authorities to the achievement of these targets”. To other authors [1] IT normally involves delegation of responsibility for medium term control over inflation to an independent central bank using interest rates as its primary instrument to influence inflationary pressure.

Many practitioners simply adopt the widely cited definition of Alan Greenspan, the former Governor of the US Fed, issued at the July 1996 meeting of the Federal Open Market Committee, as “a rate of inflation that is sufficiently low that households and businesses do not have to take it into account in making every day decisions” [5].

Although the literature and practice of IT is anything but uniform across various countries, a number of common elements of central banks’ IT policies [2], [4], [12] an emphasis on long-run price stability as the principal goal of monetary policy; 2) an explicit quantitative target for inflation and a timetable for reaching that specific target; 3) a high degree of transparency with regard to monetary policy formulation; 4) central bank accountability for performance in achieving the inflation objective; 5) a policy approach based on a forward-looking assessment of inflation pressures, taking into account a wide array of information.

All these elements conduct towards the idea that central banks cannot consistently pursue and achieve multiple goals, such as low inflation and low unemployment, with only one basic instrument, the policy interest rate.

Reviewing the literature a range of “technical” conditions to support efficient and effective implementation of IT can be mentioned [15]: 1) institutional arrangements, including legislation or public commitments, providing clear prioritization and specification of the policy target, and giving the central bank with necessary autonomy to pursue the objective; 2) analytical capabilities and data availability to conduct a forward-looking assessment of inflation pressures and the appropriate policy response; 3) an economic structure that promotes transmission from the policy instruments to inflation outcomes; 4) a sound financial system conducive to effective policy transmission, and avoidance of conflicts between the policy objective and maintenance of financial stability.

After this briefly presentation of the existing financial literature and practice an obvious question may arise, and that is, whether macroeconomic performance under IT has been as good as or better than under alternative policy approaches, such as targeting money growth, exchange rate pegs, or “eclectic” frameworks with multiple objectives.

The study conducted by Roger [16] made comparisons between similar countries with different approaches: IT countries and non-IT countries, because it’s not possible to compare directly one country’s performance under two different policy regimes over the same period.

According to Figure 1, inflation and growth rates improved in most countries between the periods taken into account, but slightly better rates were registered in IT countries. In the next Figure (2), we can notice that swings in both inflation and growth were less volatile in the period 2001-2009 than in 1991-2000, but the decline was greater in IT countries.
In what concerns these important aspects, we can conclude that: 1) regarding IT and non-IT low-income-economies, both groups of countries experienced major reductions in inflation rates and in the volatility of inflation and output and considering improvements in average growth rates, but better performances war registered by the inflation targeters; 2) regarding the high-income-economies, IT countries showed little change in performance, on average, between the two periods, whereas the non-IT countries typically experienced a decline in growth.

3. The current regime of NBR’s monetary policy in financial openness context

In most countries adopting IT as a monetary policy regime, there has been an initial phase of disinflation. Romania is not an exception. The disinflation process has been pursued successfully in Romania in this decade. The inflation rate came down from over 40% in 2001 to 4.9% (Dec. on Dec.) in 2006. In 2007, when Romania joined the EU, inflation went up again (above 6.5%) owing to adverse internal and external shocks. Nowadays, in the context of the current financial crisis, despite the sharp downturn, inflation has remained relatively high by regional standards. Beginning-2010 CPI inflation was 4.2%, down from 6.7% in 2009.

In the period 1997-2004, Romania followed an eclectic monetary-base-targeting framework, with increased reliance on interest rates and relatively frequent interventions within a managed float regime [14].

The NBR shifted to direct IT in August 2005 in order to strengthen disinflation and bolster the central bank’s credibility. This monetary policy strategy was adopted after completing a preparatory process, whose last stage was to set up and test the functioning of the economic analysis and monetary policy decision framework specific to IT [13]. NBR received technical assistance from the IMF and the Czech National Bank and the adjustment phase including the efforts to set up the organizational and technical framework spanned 16 months.

NBR’s adoption of IT was judged as a means to bring major benefits for Romanian monetary policy. Daianu and Kallai [3] highlighted three main benefits by adopting IT. “First of all, the central bank would escape from the trap of time inconsistency. Second, the central bank could manage inflation expectations so that the required short-run deviation from the target does not jeopardize the final goal. Third, the central bank might benefit from a kind of demonstration effect by using a method adopted in some of the EU’s newest members”.

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**Figure 1**

**Figure 2**

Inflation and growth performance

Output and inflation smooth

Source: 16, pp. 47

Source: 16, pp. 47
An important aspect worth mentioned here as a preparatory measure is the changing in the type of nominal exchange rate. In October 2004 the Board Council of Administrators of the NBR decided to implement a favourable policy to increase the flexibility of the exchange rate, going from a hard managed floating to a soft managed floating exchange rate (see Figure 3); the benefits consisted in: stabilizing the exchange rate at a lower value diminishing the Romanian economy's vulnerability to exchange rate movements, a nominal exchange rate compatible with IT and fewer intervention of the NBR on the currency market.

*Figure 3 The evolution of the Consumer Price Index and the Nominal Exchange Rate, 2000-2005*

Once the inflation targeting has been adopted, NBR chose a new set of communication instruments for increasing the degree of the monetary policy transparency: first, monetary policy strategies, by presenting the objectives, priorities and the short and medium term monetary policy risks; second, the Inflation Report with biannual frequency starting from 2001, and published quarterly from 2005, third, Press Communicates after the Board meetings, in which can be undertaken modification of the monetary parameters and the last, Studies and International scientific conferences.

The Romanian IT is established in terms of Consumer Price Index (CPI), having a band of ±1%, annual targets of an initial two-year horizon (this target is established in conjunction with the Government). In the second part of 2005, NBR has announce the ±1% target range and the time horizon, which initial was at six quarters and after enlarge at eight quarters at the end of 2006. The rationale for choosing CPI instead of core-inflation it is justified by CPI’s larger public transparency and availability.

*Figure 4 Inflation Developments*

After adopting the IT regime, the inflation rate entered a downward trend. In 2005 Quarter 4 the annual inflation rate stood at 8.6%, overshooting with ±1.1% the target of 7.5% established for 2005. The main reason for the deviation of the inflation rate was the unexpected large supply side shocks augmented by the excess demand in the final months of 2005. Although the target was missed the disinflation process continued also in 2006, with an annual inflation rate at the end of the year of 4.8%, slightly below the 5% target. At the end of the Quarter 4 of 2007 the annual inflation rate reached 6.57%, well above the target of 4% and the ±1% variation-band. The main reasons of this development were the supply of agro-food items, the depreciation trend of the national currency and the adverse influence exerted by higher fuel prices (see Figure 4).

Starting Quarter 3 of 2008 the inflation rate entered a downward trend, the annual inflation rate at the end of September being situated at 7.30%, remaining outside the ± 1% variation-band around the target of 3.8%.

At end of 2009, the 12-month CPI inflation rate went down to 4.74%, with a margin of 0.24% above the upper limit of the 3.5% target for 2009 and the ±1% variation-band. Also the rate situates with 0.2% below the September reading of 4.94%. “The persistent negative GDP gap and the RON exchange rate dynamics were conducive to the decline in consumer price inflation. Nevertheless, their contribution was largely offset by the adverse impact of supply-side factors, and particularly by the hikes in excise duties on tobacco products” [11, pp. 8-9].

Figure 5 Average inflation in advanced economies and emerging and developing economies countries after 2000

The inflation’s evolution from Romania is the same with the evolution of the average inflation from emerging and developing economies, how it can see from the figure above. The similar evolution of the inflation from advanced economies and emerging and developing economies, after the middle of the 2007, suggests one more time the global level of financial integration, showing that monetary policy of national banks is affected by global movement of financial flows.

As for 2010 and 2011 the NBR inflation report for August 2010 shows that disinflation process will continue. Thereby the annual CPI inflation rate will situate at 3.5% for end-2010 and 3.5% for end-2011. CPI inflation is expected to return inside the variation band around the central targets, i.e. 3.5% in the second part of 2011.

In this study on the inflation target regime in a globalized world (or more specific, in the context of financial globalization), in the case of Romania, we tried to find some key variables which influence in an important manner the inflation value. For describing the financial
openness we chose the following variables: the BET index and the Net current account, both describing the free movement of capital market. Using data starting December 2006 until June 2010, we searched for a relationship between those three variables, by using the EViews program, and thus, obtained the following results, that can be seen in the next table (Table 1):

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob*</th>
</tr>
</thead>
<tbody>
<tr>
<td>constant</td>
<td>0.06576</td>
<td>0.05355</td>
<td>11.7581</td>
<td>0.0000</td>
</tr>
<tr>
<td>BET</td>
<td>-4.47E-06</td>
<td>1.18E-06</td>
<td>-3.797592</td>
<td>0.0005</td>
</tr>
<tr>
<td>CURRENT_ACCOUNT</td>
<td>-7.24E-11</td>
<td>1.71E-11</td>
<td>-4.236845</td>
<td>0.0001</td>
</tr>
</tbody>
</table>

Table 1 Regression model results

Note: *Prob. Value<0,05 indicates a statistically significant coefficient for the level of 95% confidence

Analyzing the regression model and the results we have obtained, we can conclude that two variables taken into consideration – the BET index and the net current account – influence the inflation value. A very important aspect worth mentioned here is that these two variables are not the only ones which influence the inflation, but given the fact that the aim of this paper is to analyze the influence of financial globalization on monetary policy (and more specific on the central banks to conducted there process of inflation targeting) we focused our attention only upon this two. At the same time, according to the result in Table 1, we can see from the coefficient’s values for each variable, booth been negative, the fact that BET index and current account exert an inverse influence on the rate inflation, influence which is shown by correlation coefficient value of -0.2882 between inflation and current account, which is higher than correlation coefficient value of -0.1541 between inflation and BET index, highlighting that the relationship between inflation and current account is tighter than relationship between inflation and BET index.

4. Conclusions

After the failure of money targeting in the mid 80’s and the collapse of fixed exchange-rate-peggs in the early 1990’s a new monetary policy framework was needed. In this context inflation targeting, or better known among practitioners as IT, with floating exchange rates, emerged as the new monetary regime of choice. According to the Bank of England report from January 2010, at this moment there is a number of 27 central banks considered fully fledged IT-ers, and many others in the process of establishing a full IT.

The NBR shifted to direct IT in August 2005 in order to strengthen disinflation and bolster the central bank’s credibility. This monetary policy strategy was adopted after completing a preparatory process, whose last stage was to set up and test the functioning of the economic analysis and monetary policy decision framework specific to IT. Another important aspect is the fact that among the preparatory measure one of them consisted in changing the type of nominal exchange rate. In October 2004 the Board Council of Administrators of the NBR decided to implement a favourable policy to increase the flexibility of the exchange rate, going from a hard managed floating to a soft managed floating exchange rate, these benefits consisting in: stabilizing the exchange rate at a lower value diminishing the Romanian economy’s vulnerability to exchange rate movements, a nominal exchange rate compatible with IT and fewer intervention of the NBR on the currency market.
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6. REFERENCES


MONETARY POLICY STRATEGIES IN THE CONTEXT OF AN UNSTABLE GLOBAL FINANCIAL ENVIRONMENT

Marius Constantin APOSTOAIE
PhD Student, Doctoral School of Economics,
Faculty of Economics and Business Administration, “Al. I. Cuza” University of Iasi

ABSTRACT
In theory as in practice there is an ongoing debate concerning the optimal monetary policy strategy. As we look into the past decades we draw a line and conclude that Inflation Targeting (IT) eventually emerged as the preferred solution to the complex economical, political and social issues regarding present times for many industrial countries and emerging markets alike. Nevertheless, we must not overlook the fact that the central banks had to operate in the context of an increased globalization of financial markets and the environment. The purpose of this paper is to make a critical analysis of the strengths and weaknesses of different monetary policy strategies in the global financial environment. The paper highlights also the case of Romania, were the policy framework promoted by the National Bank of Romania has changed throughout the transition period, from broad money targeting (from 1990 till 1996) to high-powered money targeting (from 1997 till 2005), and then to inflation targeting (starting August 2005). Therefore we intend to analyse the past monetary policy regimes in Romania and emphasize what went wrong.

KEY WORDS: central banks, monetary policy, monetary policy strategy, nominal anchor, globalization

1. Introduction

The whirlwind of globalization has descended upon many economies around the world and rapid change has brought both benefits and problems upon these nations. The process of globalization has implications in all macroeconomics policies, but the core element of this process is considered to be the financial globalization, which has important consequences on the meaner of how central banks, as one of the most important financial players, react and how monetary policy is conducted.

Regarding the regime of monetary policy of central banks, after the failure of money targeting in the mid-1980’s and the collapse of fixed exchange-rate-peggs in the early 1990’s a new monetary policy framework was needed. Monetary targeting regimes have been abandoned, primarily due to the inability of central banks to reach targets set for money stock growth. In this context, Inflation Targeting (IT) with floating exchange rates emerged as the new monetary regime of choice for many countries.

According to the Bank of England report from January 2010 [13], at this moment there is a number of 27 central banks considered fully fledged inflation targeters, and many others in the process of establishing a full IT.

In the case of Romania, the monetary policy framework has changed throughout the transition period, from broad money targeting (1990–1996) to high-powered money targeting (1997–2005), and then to IT (2005).

Since 1990’s (when the transition process to a market-driven system started) Romanian’s monetary policy had to carry the burden of too slow a restructuring of the economy. Price stability, considered to be the prime aim of monetary policy, was frequently sacrificed, thus causing Romania to build up an image as a high-inflation country. In order to lower the inflation rate, and thus “putting the country back on a path of sustainable economic growth” [11, p.7], the NBR adopted monetary anchors. These monetary policy frameworks “preserve the independence of the monetary policy and are suitable for an economy facing both money demand shocks and external competitiveness difficulties” [21, 1998, p. 257].
The Romanian high-powered money targeting regime (1997–2005) failed to provide monetary authorities with a predictable control of either the intermediary target or prices, thus presenting to NBR the necessary arguments to shift its framework from monetary targeting to IT. The NBR introduced IT as a monetary policy strategy in August 2005. This regime was taken into consideration because it brings a series of benefits for a central bank, including a clear policy focus on inflation. More than that, in the context of a disinflation process in which Romania is engaged since 2000, IT came as a mean to unburden NBR’s monetary policy to achieve further descending inflation rates.

The paper is organized as follows. Part 2 of the paper consists in a survey of the literature regarding the process of globalization, in general, and financial globalization, in particular. In Part 3 the papers makes a general overview regarding the main monetary policy strategies of different central banks around the world. In Part 4, the paper focuses on the case of Romania summarizing the main distinguishing features of the four distinct subperiods of Romania’s monetary policy framework since the 1990’s. Conclusions highlight the most important aspects of the paper and some lessons to be learned.

2. The process of financial globalization – general overview

According to the financial literature, the concept of “globalization” has come into common usage since the 1980s, reflecting technological advances that have made it easier and quicker to complete international transactions, both trade and financial flows.

Although the concept is a relative old one not even now do we have an exact definition. According to Gangopadhyay and Chantterji [10, pp. xi-xv] this word became a “byword for an economic imperative on the one hand and a synonym for undermining local cultures and exploiting Third World labour on the other hand”. According to Kenneth J. Arrow in the preface of the same book [10] one can distinguish at least five different aspects of globalization: the increase in international trade, capital movements, migration of people, migration of exotic biota; including pathogens, and the diffusion and possible homogenization of culture and ideas of all kinds. He concludes with the idea that, at the same time, international institutions have involved to encourage the broad movements mentioned above and to the problems they create.

Globalization is defined by IMF as a “historical process, the result of human innovation and technological progress, which refers to increasing integration of economies around the world, particularly through trade and financial flows” [14].

The former president of FED, Alan Greenspan, defines globalization as “the increasing interaction of national economic systems” [12]. The economist links this trend to technological progress as well as to government policies that have promoted deregulation and privatization in markets around the world. If we take for example the case of technological improvements, one can notice that they have lowered transactions and information costs, promoting the efficient operation of market-based economic systems. Thus, the resulting expansion of markets has been associated with increased competition and reduced tariffs and trade barriers.

The process of globalization, from an economic point of view, represents a process of increasing international division of labor on the one hand and growing integration of national economies through trade in goods and services, cross-border corporate investment, and capital flows on the other. There is serendipity in globalization [4, pp. xi-xii].

According to Shirakawa et al. [28], globalization refers to a situation where each country’s economy, including its financial markets, becomes increasingly integrated resulting in development towards a single world market. Financial market globalization includes globalization of all production relation, including labor itself.

Summarizing all this definitions and many others Kahveci and Saylıgan [17] extract six main forces with four main aspects of globalization, as we can see in Figure 1.
The process of globalization, briefly described above, has implications in all macroeconomics policies, but the core element of this process is considered to be the process of financial globalization, which has important consequences on the manner of how monetary policy is conducted and consists in a complex integration of financial markets through exchange and financial flows. According to the financial literature, “the countries with high levels of financial openness are more likely to generate, better monetary policy outcomes in terms of lower inflation” [18].

Financial globalization, which Lane and Milesi-Feretti [19] calls it “financial openness” it’s considered to be the sum of the stocks of external assets and liabilities of Foreign Direct Investment (or better known as FDI) and portfolio investment as a percentage of GDP – took off in both industrial and emerging market economies in the latter half of the 1990s.

The whirlwind of financial globalization has descended upon many economies in the world and thus bringing both benefits and problems upon the nations with rapid change. An important benefit of financial globalization is that it has had a “disciplining effect” upon the central banks and the way they operate in this continually changing environment. Thereby we can bring into discussion the way in which central banks implement their monetary policy, resulting that “monetary policy over recent years has placed more emphasis on stabilizing inflation, resulting reduced inflation and greater output stability” [29].

According to Das [4], a functional definition of financial globalization is the “integration of the domestic financial system of an economy with the global financial markets and institutions. He suggests that the enabling framework of financial globalization essentially includes both liberalization and deregulation of the domestic financial sector as well as liberalization of the capital account. Trans-border capital flows tend to integrate the domestic and global financial markets and systems [3, pp. 12–26].

Both economists and policy makers alike have speculated on the implications of the process and phenomenon of financial globalization for the design of monetary policy [7], [8] & [26]. Many of the central banks around the world now follow a policy of inflation targeting, either explicitly or implicitly. Under this policy regime, price stability, appropriately defined, is the principal goal of monetary policy. But many economists nowadays doubt this form of monetary policy, given the fact that there is a presence of large cross country gross holdings of financial assets, where movements in asset prices and exchange rates may have significant wealth redistribution effects. In addition, they [5] raise ideas regarding the possibility of
policy-makers to focus about asset prices directly, rather than focusing on inflation in goods prices.

3. The main monetary policy strategies of central banks around the world

Since the beginning of the 60’s, very significant changes in the economy have increased the globalization of financial markets. Among them we distinguish: the shift from fixed to floating exchange rates in many economies, the deregulation of financial markets by lifting of restrictions on cross-border capital flows, the demise of the Breton Woods system in the early 1970s [17]. Given the global nature of financial markets, central banks are now interacting with much larger and broader participants in both domestic and foreign markets [24, pp. 3-13].

According to the European Central Bank [6, pp. 39-50], in order to build up reputation capital and credibility, elements which are necessary for implementing monetary policy effectively and successfully, a monetary policy strategy has to satisfy a number of additional criteria:

- a strategy must be understandable from the viewpoint of the public at large and financial market participants in particular.
- a strategy must be transparent, thus the public must be presented ex ante with information about how monetary policy decisions are being made by the central bank and the economic rationale on which they are based.
- a strategy is typically formulated with the view of providing the central bank with some discretion (escape clause). This is necessary because delivering low inflation can be achieved over the medium-term.
- a strategy must be consistent with the independent status granted to monetary policy and should support it as far as possible.
- a strategy must ensure that the central bank decision makers are accountable both for policy actions and the performance in achieving the policy goal.

There are four basic types of monetary policy strategies adopted by modern central banks and that comply with the above criteria, each of which uses a different nominal anchor: 1) exchange-rate targeting, 2) monetary targeting, 3) inflation targeting (IT) and 4) interest rate targeting.

3.1. Exchange-rate targeting

Targeting the exchange-rate is a monetary policy regime with a long history. It can take the form of fixing the value of the domestic currency to a commodity such as gold. More recently, fixed exchange-rate regimes have involved fixing the value of the domestic currency to that of a large, low-inflation country like the United States or Germany (called the anchor-country). Another alternative is to adopt a crawling target or peg, in which a currency is allowed to depreciate at a steady rate so that the inflation rate in the pegging country can be higher than that of the anchor country.

As a strategy for the conduct of monetary policy exchange-rate targeting has several advantages [20]: 1) directly ties down inflation of internationally traded goods; 2) automatic rule for conduct of monetary policy; 3) simplicity and clarity of target. However it does have some disadvantages too: 1) loss of independent monetary policy; 2) open to speculative attacks; 3) loss of exchange-rate signal.

3.2. Monetary targeting
In the 1970’s, monetary targeting was adopted by several countries, notably Switzerland, Germany, Canada, the United Kingdom, and Japan, as well as in the United States. This strategy involves using monetary aggregates as an intermediate target to achieve an ultimate goal such as price stability. Associated with an interpretation of inflation as a consequence of excess aggregate demand, monetary targeting theories developed within the monetarist tradition rely on the assumption that inflation is a demand phenomenon, with the demand pressures yielding from excessive money stock expansion.

Monetary targeting has two main advantages [20]: 1) it enables a central bank to adjust its monetary policy to cope with domestic considerations, and 2) information on whether the central bank is achieving its target is known almost immediately. On the other hand, this strategy suffers from the disadvantage that it works well only if there is a reliable relationship between the monetary aggregate and the goal variable, inflation, a relationship that has often not held in different countries.

3.3. Inflation targeting

In broad terms, according to Setterfield [27, pp. 653-710] the IT framework involves “the public announcement of inflation targets, coupled with a credible and accountable commitment on the part of government policy authorities to the achievement of these targets”. To other authors [1] IT normally involves delegation of responsibility for medium term control over inflation to an independent central bank using interest rates as its primary instrument to influence inflationary pressure.

As a strategy for the conduct of monetary policy IT has several advantages [20]: 1) enables monetary policy to focus on domestic considerations; 2) stability in the relationship between money and inflation is not critical to its success; 3) it is readily understood by the public and is highly transparent; 4) it increases accountability of the central bank; and 5) it appears to ameliorate the effects of inflationary shocks. However it does have some disadvantages too: 1) inflation is not easily controlled by the monetary authorities, so that an IT is unable to send immediate signals to both the public and markets; 2) it might impose a rigid rule on policymakers, although this has not been the case in practice; and 3) a sole focus on inflation may lead to larger output fluctuations, although this has also not been the case in practice.

3.4. Interest rate targeting

Under an interest rate targeting regime, a central bank would set the real (short-term) interest rate at the neutral level, at which inflation is low and stable, and output is equal to potential [16, pp. 3-22]. Over the medium- to long term, it can be assumed that a successful monetary policy sets the real interest rate close to the natural rate. In the short-term, however, a lack of knowledge on the part of policy makers about the exact level of the neutral interest rate may cause unfavourable policy results in terms of deviations of actual inflation and output from their desired levels [2].

Some disadvantages that this monetary policy framework present are: 1) the possibility of blockage of the transmission process; 2) the volatility of the interest rate and 3) the incompatibility of the objectives.

Much of the existing financial literature as well as the experience of policy makers lead towards the idea that IT is the new orthodoxy of mainstream macroeconomic thought. According to the Bank of England report from January 2010 [13], at this moment there is a number of 27 central banks considered fully fledged inflation targeters, and many others in the process of establishing a full IT. The spread of inflation targeting has often been spurred by exchange rate crises. Figure 2 and 3 shows exchange rate pegs of various kinds accounted
for two-thirds of monetary policy regimes in industrial countries in 1989. Among the crises the most important is considered to be the ERM crisis in 1992 which served as a major spur to the adoption of IT in Europe.

**Figure 2**

Evolution of Monetary Policy Regimes in Industrial Countries, 1989-2008

**Figure 3**

Evolution of Monetary Policy Regimes in Non-industrial Countries, 1989-2008

As we can see in Figure 2 and 3, after the failure of money targeting in the mid-1980’s and the collapse of fixed exchange-rate-pegs in the early 1990’s IT with floating exchange rates emerged as the new monetary regime of choice.

4. Historical review of Romania’ monetary policy strategies

In Romania, the monetary policy regime has changed throughout the transition period, from broad money targeting to high-powered money targeting, and then to IT. The various assessment of the shifts in macroeconomic policy stance in the transition period in Romania allows the identification of four distinct sub-periods [9]. Although the main focus has been inflation stabilisation, policy practice differed markedly throughout these four periods. The four distinct sub-periods are:

- **The period 1990-1993.** In this period the NBR adopted a policy of targeting the broad money stock taking into consideration that the high and variable inflation rates in Romania are due to excessive liquidity in the system. The strategy implied a tight monetary policy by means of setting contractionary targets for both broad money stock growth and domestic credit. Also, a floating exchange rate regime was adopted [15]. Despite all the efforts made by the NBR the anti-inflationary policies were by no means successful. The economy was characterised by: consumer and producer prices hovering around 150%-200%, GDP fell by an average annual of 6.45% while current account deficits expanded.

- **The period 1994-1996.** The NBR changed the policy stance to targeting the nominal exchange rate, kipping M2 as the official intermediate target. The macroeconomic situation of the economy improved patently, with an average annual GDP growth rate of 5% and inflation rates slowing down to 50%. Nevertheless, by the end of this sub-period, current account imbalances started pressuring again the NBR’s foreign reserves position.

- **The period 1997-2005.** The difficult situation in which the Romanian economy was in this period led to signing a new IMF shock therapy in early 1997. The new stabilisation programme included a shift in the monetary policy stance to targeting the cash base of the system, a strategy move complemented however with a strongly managed float. In the OECD report its stated that “Officially, the NBR targets money base growth, but continues to be seen by the market as having an implicit exchange rate target” [23]. Thereby targeting implies
smoothing short-term fluctuations with a view of the exchange rate as a nominal anchor in the anti-inflationary policy.

- **The period 2005 – present days.** In August 2005 the NBR officially adopted IT, with a short-term interest rate policy rule. According to the new policy strategy, monetary authorities abandoned direct interventions on the foreign exchange (forex) market starting with the last quarter of 2005. In spite of this fact, the official discourse attaches the word *flexible* to IT, by which the monetary authorities allow exchange rate considerations into the policy process [22].

### 5. Conclusions

Neither the concept nor the phenomenon of globalization, or financial globalization, can be considered novel. In spite of the fact that the contemporary era of globalization is proven to be around a quarter of a century old, the financial literature highlights that during the last decade the concept of globalization has acquired a great deal of currency, relevance, acceptance, and emotive force.

In this context, as the paper shows, over the last decades, in spite of the fact that there were various monetary policy strategies, many central banks moved towards IT and others are in the process of establishing a full IT or have moved towards regimes that have many of the attributes of IT. Thereby, both the existing financial literature as well as the experience of many policy makers alike lead towards the idea that IT is the new orthodoxy of mainstream macroeconomic thought.

Romania is not an exception. The policy framework has changed throughout the transition period, from broad money targeting (from 1990 till 1996) to high-powered money targeting (from 1997 till 2005), and then to IT (starting August 2005). Despite various adjustments in the policy framework, base money targeting failed to provide monetary authorities with a predictable control of either the intermediary target or prices.

Nevertheless, the new policy framework carries on the tension between theorising and practice of monetary policy. On the one hand, the monetary authorities fail to overcome the policy trade-offs of the monetary targeting years, whereas, on the other hand the same authorities are unable to alter the money markets’ structural features in order to consolidate the relevance of the policy rate for spending decisions, as the new regime requires.

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VIEWPOINTS REGARDING THE FUNCTIONALITY OF IMF PROGRAMS IN ECONOMY

Cristina Bălăceanu, PhD senior lecturer
Faculty of International Economic Relations
Dimitrie Cantemir Christian University

Abstract: The International Monetary Fund (IMF) works to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. IMF financing is available to give member countries the breathing room they need to correct balance of payments problems. A policy program supported by IMF financing is designed by the national authorities in close cooperation with the IMF, and continued financial support is conditional on effective implementation of this program. To help support countries during the global economic crisis, the IMF has strengthened its lending capacity and has approved a major overhaul of how it lends money. In low-income countries, the IMF provides financial support through its granting lending facilities.

Key words: IMF programs, IMF policy, lending programs, critics of IMF programs

The importance of the IMF's consists in their intention of correcting the deficiency of the external of the global balance of payments with a view to reducing the monetary desechilbrium, such as inflation or the depreciation of the monetary currency. This necessity relies on the intention of increasing and strengthening of a monetary cooperation at the level of the international economy and of facilitating the development of trade and exchange in general. The doctrinary elements of the IMF dominating the present activities are the market fundamentalism, whose origin is the economic liberalism. Although the liberal doctrine supports and encourages capitalism and especially competition as well as the entrepreneur spirit, the IMF activities lead to the deschilibrium of the development between the countries demanding the IMF resources, to be increasing towards debiting countries where, most of the times, competition and the free market can not development because of institutional reasons. That is why it is necessary to develop the doctrinar elements which supported the IMF institutional construction.

In the first years of operation there is a relatively small number of countries participating in the Fund on the one hand due to the applicants’ lack of technical skills to apply for loan forms [1], and, on the other hand, due to the business elitist class that group in two important doctrinaire movements: nationalistic and transnationalist[2].

The Nationalist Economic Group comprises of those businessmen who were engaged primarily in serving the local market. They would naturally avoid tangled economic situations at the international level and try to protect markets and national resources from international economic risks. In the beginning, the control of economic policy in most low-income countries was in the hands of economic nationalists.

Transnationalists were more responsive to movements that drew national economy into global orbit. They were divided into two groups. The first was composed of businessmen who had connections with banks and transnational corporations through joint ventures, licensing agreements, marketing arrangements and other relationships that support their interests through comprehensive international policies regarding the free movement of goods and capital. The second group consisted of highly educated bureaucrats and technicians who were highly specialized in economics, often abroad, and who systematically cooperated with foreign multilateral institutions.
The debates on development focused on a key issue: where would the new industrialized countries find such a market demand to propel their economic growth, especially in the industrial sectors? The protagonists participating in the debates admitted only two possibilities, either the strict orientation of industrialization on providing the substituted products on the local level for those goods that country would import (strategies to replace imports), either the edification of some domestic industries meant to support firstly the export markets from abroad (export-oriented strategies). The first strategy for which the Argentinean economist Raul Prebisch and ONU Economic Commission in Latin America (ECLA) pleaded, was autonomy-oriented and opposed to mandates from World Bank and IMF to open domestic economies to investment expansion and foreign trade.[3]. Raul Prebisch theory proposes the theory of "peripheral economy" to demonstrate that the development and accumulation "in the center" - the developed countries, are unconceivable without the exploitation of "periphery" - underdeveloped countries; subordination of Third World to the West is done on account of unequal exchange (S. Amin), or on account of non-equivalent exchange resulted in wage inequality in the two worlds (A. Emmanuel) or, finally, by destroying social and production structures in these countries by "predatory equity" of the twentieth century [4]. The economist W.W. Rostow in his paper „W.W. Rostow about the phases of economic growth” identifies five steps of millenary humankind development (the traditional society, the phase of transition to the start, the phase of start or of landing on, phase of maturity, mass consumption phase). The author identifies underdevelopment with the first two stages mentioned above, which shows that “underdevelopment” should be identical to 'undevelopment’, that it would be reduced to a simple lag, that all countries in different historical moments would have faced up this phase and that it would be overcome by the natural course of things [5]. According to this theory, the actual size of the economic disparities and structural causes of these differences are ignored, which is economically unnatural.

The replacement of imports has reduced import requirements and thus the need of foreign currency. The strategy represents an anathema for a bank whose raison d'être was to grant credits to increase hard currency to purchase goods and services from the industrialized nations. Economic nationalists were inclined to favor import substitution strategy, while transnationalists rather favored export-oriented strategy. The fund impact on policies and practices of member countries and its role in promoting financial support was limited to the mid 50s. The fund has intensified its activity since 1958 up to 1961, when nine Western European countries members of the IMF have undertaken obligations in accordance with Art. VIII and made their currencies freely usable. During this period, within IMF, new trends toward universality, which were reflected first in receiving new members and on the other hand, in negotiations about IMF reform, moving towards monetary speculation.

IMF is mainly focused on crediting member countries with balance of payments deficits, regulated by the implementation of economic reforms and structural adjustment. The financial resources granted to the member countries are given in the form of financial assistance programs (financial incentives) for: stand-by agreements, structural adjustment facilities, extensive facilities, grant compensatory financing facilities, credit lines, facilities to reduce poverty support growth and decrease external debt. IMF also provides technical assistance and financial advice, promote measures of macroeconomic policy (fiscal, monetary, social, foreign exchange liberalization), structural policies to stimulate the economies of member countries and develop social climate, financial and market labor reforms. IMF adjustment programs have their own costs. They cause suffering and hardship to both poor population (no price subsidies, no welfare support or wage increase) and non-producing industries (no budgetary subsidies).

State debt problem, which affected the ’80s, appeared as a result of excessive indebtedness of developing countries but also the bankers’ tendency to over credit or to sell
credit with too much enthusiasm to the amateurs of great risks[6]. Debt leverage trend began when OPEC quadrupled oil prices in 1973. Since many developing nations relied on imported oil, their trade balance showed severe deficits. At the same time, OPEC has recorded massive trade surpluses of which some were converted into loans to developing countries being poorly managed. The increase of energy prices in 1979 led to a further debt increase of the developing countries. The severe global crisis that began in 1981 decreased the demand for oil of many of these countries. The creditor banks chose to reschedule payments, causing developing countries to pay interest added to the already existing debts. IMF has played a central role in arranging such rescheduling, new loans and licenses for adjustment policies. These policies are meant to limit the damage and government consumption expenditure and thus increase the probability that loans should be ultimately paid. The critics who contested the role of IMF argued that some of the restrictions imposed by the IMF led to a decrease in investments and concluded therefore that the conditions were unproductive [7]. Therefore, the IMF and World Bank imposed economic programme packages to the indebted states that required radical reforms carried out in order to create financial discipline designed to cancel external debts and to (re) open national economies to the global economy.

Some representatives of industrialized countries take a very harsh attitude towards criticism regarding granting loans policies, in 1984, the General Assembly of IMF and World Bank Governors that was held in Washington, M. Keating (Australia) also found critics as "displaced" adding that "the IMF's role is not simply to help countries deal with temporary balance of payments difficulties, but to provide funds "[8].

In the '80s, loans policies were criticized by the developing countries, that accused "programmes of austerity" of blocking their development and worsening their local situation. Janez Stanovnik, ex-executive secretary Economic Commission of ONU for Europe, asserts in an analysis published „Mejdunarodna Politika” magazine, with the motto of the famous sentence of Shakespeare "a pound of body meat for the borrowed money": „As the debt account payments could not be offset by increased export earnings due to rising protectionism from the very creditor countries, only a "pound of flesh" in the body economy of debtor nations has left to be taken, their development being sacrificed by force majeure of financial capital. International loans set in the '70s as a key lever of economic growth have become the largest brake of this growth, by blocking any point even in the economic development process” [9].

IMF has often been regarded as the "main culprit" by the governments that have appealed to it, in order to exculpate in front of their people who had to endure some hardship and deprivation. Thus, serious incidents have followed the installation of stabilization programs in Latin America countries (Brazil, Argentina and Venezuela) and in Africa. In 1997, Argentina warned the international creditors that it will not pay interest on foreign debt if the latter ones, continuing to restrict access to loans, will not grant a loan of $ 2 billion necessary to ensure a growth rate of 4% in 1987. Brazil adopted the temporary suspension of interest payments on external debt. [10]. Governments stated that they were "forced" to implement stabilization programs to obtain loans from the IMF and World Bank, and thus to have access to bilateral loans and dead lines for their debt payments. The programmes recommended by IMF were seen as accused "to be negative for growth and development, to always resort to" a course of austerity "and" increasing poverty and to force " debt payments incurred within the commercial banks”[11].

These critics have disappeared in the early '90s as a result of the Brady plan, which calls on public support for debt liquidation process. Thus, the IMF and World Bank provides financial incentives to encourage debt reduction and it is IMF that decides to keep as a reserve 25% of withdrawals made under an agreement of confirmation or an extended facility to fund redemptions or exchanges of debts. Another facility is to extend the limit of withdrawals up to 40% of its share to ensure payment of interest on securities issued in
exchange of old debts. The creditor banks offered three alternatives for payment of external debt: 1 - to replace credits with bonds for a total amount equivalent to 65% of these loans, 2 - to change credits with the bonds of the same denomination, but with a reduced interest rate, 3 - to grant new loans. The agreement stipulates that the new bonds called "Brady" be guaranteed by U.S. Treasury bills and restructured loans, by IMF loans from the World Bank and Japan. As a result of signing this agreement, the Mexican debt increased immediately on the secondary market. Costa Rica and the Philippines signed similar agreements in 1989, Morocco, Venezuela and Uruguay in 1990, Nigeria, Argentina, Mozambique and Niger in 1992.[12]

The debt reduction and eradication process that takes place in developing countries has been long and difficult due, in particular, to increased poverty in these countries and the discrepancies between their pace of development and that required by international lending agencies to guarantee debt repayment. Another factor is the political one that has a negative influence on the economic process. According to IMF assessments, only in the decade 1975-1985, the developing countries had found shelter in Western banks for about 250 billion dollars stolen, of which 150 billion in personal account of a few dictators,[13], which made the process of resources allocation and implementation of economic structures on the market difficult. Meanwhile, IMF has changed its attitude and extended programme adjustment to three or four years with possibility of renewal and acknowledged the need of granting loans for poor countries.

According to Patrick Lenain, the critics on IMF requirements are political and academic. The academic ones are grouped in many categories: "Structuralist" critics, made up by the "development" economists (G. Myrdal, J. Robinson, J. Tinbergen, W. Brandt, W. Leontief, Dudley Seers, Gerald Helleiner, Arthur Lewis, W. Rostow, Hans Singer, Raul Prebisch) [14], who sustain that the priorities concern the measures taken by the underdeveloped countries at the national level, doubled by substantial changes on the basis of which international relations function.; it is also them who disagree the fact that IMF always apply the same model of reference to all countries, no matter with what situation they may be confronted and that it does not take into consideration the specific situation of the developing countries. They argue that IMF adjustment programs are wrong on the objectives of at which the developing countries may aim, focusing on macroeconomic reforms, while real problems are generated by microeconomic management.

It takes into account also the establishment and development of functioning markets to establish the cost-price-productivity-wage. IMF is also criticized as it forecasts devaluation in order to restore the balance of foreign trades, while the devaluation leads to a glut of raw material global markets and to lower exchange rates.

These critics complain that the IMF always recommend measures of public expenditure contraction, while these measures will inevitably lead to a drastic reduction in domestic demand and, especially, the cancellation of public investment projects, such as major infrastructure. IMF is also criticized for encouraging systematically growth rates. (thesis sustained by some economists, such as Polak, Mundell, Fleming, Dornbusch), so that to encourage population savings and discourage capital flows while the developing countries are less flexible unlike the retribution level as the financial system is not enough sophisticated to offer attractive investments. [15].

Critics of "laissez-faire"

Another category of academic criticism (Hayter, 1971) criticizes the IMF and Worl Bank that strongly praise the role of liberalism and systematically reduce the role of the state, while the experience of dynamic Asian economies (especially Korea and Taiwan) shows, conversely, that the state should play an important role in its industrial policy and in profitable sectors. As for the four dragons, Hong Kong, Taiwan, South Korea and Singapore, political will has played a leading role in economic success, varied from case to case,
according to an original formula, which is called non-guiding interventionism. [16]. Moreover, these countries experience shows that their development took place under the shelter of the border closed to imports, while the IMF and World Bank recommended full free trade. Recent research has questioned this view of dynamic economies from Asia [17], showing that it is not an obvious relation between the rapid economic growth and an industrial policy. Therefore, Hong Kong has recorded a very rapid economic growth in an environment of total liberalism and in the absence of industrial policy, which shows that stable macroeconomic environment combined with entrepreneurial spirit fostered by the authorities would rather ground their successes.

The "right" criticism to the two Bretton Woods institutions, stresses that these are two huge bureaucracies whose main purpose is to auto perpetuate. [18]. It is considered, moreover, that the IMF does not incite enough liberalism that is often recommended to increase taxes to reduce budget deficit and credit privileges as an indicator for monetary policy rather than an M1 aggregate (the monetary base and money scripts), appreciated by monetarists. [19].

Besides the assistance offered to the poor or developing countries of the world, the IMF was also concerned with the implementation of reform in the transition countries to market economies, as a result of the change in the communist regime in Eastern Europe, countries that remained outside the IMF site until 1989, with minor exceptions: Yugoslavia, a member of IMF since 1945 and Romania since 1972. In the 80s, Hungary (1982) and Poland (1986) began to challenge the central planning ahead of the rest. Active participation of Eastern Europe countries to IMF did not take place properly until 1990, after the democratization of their political life. The number of IMF members increases by 23 members, the biggest increase after the 50s.

Most of these countries will implement transitional programs on a huge scale and complexity thus offering to the two Bretton Woods institutions a central responsibility in this historical transformation, especially that of engaging a massive financial assistance to help them transform.

Since 1991, all governments have been concerned to call on the IMF to restore their financial situation and to adopt structural reforms in their transition programs. All countries ask IMF, World Bank and EBRD's for technical and financial support to enable them to support their efforts of economic stabilization and transition to a market economy. IMF is faced with the delicate financial situations that require a complex mix of monetary and fiscal rules. There are included more structural reforms that are to boost offer and encourage world trades.

Transition programs designed primarily to measures for price and trade liberalization, currency convertibility and official reserves consolidation, as well as measures for abandonment of central planning through privatization and strengthening of private property.

IMF programs measures are mandatory to provide financial assistance necessary for the implementation of rules of market economy, improving domestic and international business climate and achieving economic growth. These programmes are accompanied by substantial social costs which often weakens social cohesion, encourage compromise between the schedule agreed with the IMF and the government program of that country. But completing successfully an agreement with the IMF fosters the country's financial position on international financial markets, reduces country risk and creates substantial business opportunities translated into positive economic growth.

Throughout its existence, the IMF has attracted many critics, particularly for the allocation of funds to the applicant countries, such as IMF austerity programs as a prevention of financial crises and recovery of government revenue.

Countries applying for IMF funds are facing serious financial difficulties, being unable to contract loans on the capital financial market due to the to interest rate higher than
that charged by IMF. In some cases these funds can not mitigate the financial imbalances without certain medium-term structural measures.

For example, capital flows from the IMF during the Asian crisis have not managed to stem the sharp devaluation of the exchange rate, which influenced import price increases and borrowing.

IMF recommends countries budgetary flexibility or tightness in accordance with the specific circumstances: during the 1998 Asian crisis the IMF recommended expansionary fiscal policy and in 2003, it endorses the same policies. IMF also recommends industrial countries to maintain a moderate monetary policy and to avoid fiscal contraction measures.

IMF programs aimed at eliminating unproductive expenditures and re-purpose them for health and education budget.

**IMF programmes support certain structures of financial and banking sector**

Any IMF program adopts the package of economic and financial policies to balance the balance of payments, strengthen the private sector, facilitate access to private capital markets and attract investments generating economic growth.

IMF programs include, on the one hand, monitoring of appropriate financial and economic policies, and secondly the financial resources necessary to remedy the economic and financial difficulties. Once adopted the necessary economic policy measures, one should expect the manifestation of a growing interest from foreign investors, capital inflows contributing to restructuring the banking sector and private sector with obvious consequences, such as sustainable economic growth.

The existence of IMF funds in countries with balance of payments difficulties will not protect investors' risky investments, in such cases the IMF does not provide additional financial resources to prevent an impending crisis, but only in terms of implementing an economic reform program.

**FMI obstructions the decrease of the debts of the poor countries**

IMF reduced external debt of poor countries by two thirds, which ended with the annual increase in social spending from 6% of GDP in 1999 to 9% of GDP in 2002. This attitude of the IMF was meant to be a signal to foreign investors, a way of attracting long-term financial resources needed to reduce poverty and promote growth. Industrial countries earmarked for development of poor countries, especially promoting the development of agriculture and light industrial products export.

**FMI dominated by G-7 group**

Although most of the IMF's financial resources come from the G-7, decisions are taken by consensus by the 184 shareholders (member countries). Each member's voting power is based on IMF quota subscription in the Fund (U.S. owns 17% of votes). Most decisions do not reflect a formal vote but a consensus, as represented by the Executive Council, composed of executives from each member country. As parts of the executive directors are representatives of creditor countries (the industrialized countries) and other debtor countries, a healthy balance supporting both parties is aimed at.

There is a current of opinion that would require a change in voting structure instead of financial assistance to introduce the population size as a way of fixing the amount of quota. This way of fixing quotas could jeopardize the IMF's ability to collect financial resources, the creditor countries being unwilling to allocate resources for IMF in order to lend those countries facing up financial difficulties.

**FMI’s irresponsibility**

IMF is responsible for the interests of 187 members, members of the institution.. IMF does not mix social and political life of the member countries, maintain an active dialogue with civil society organizations, working groups, parliamentary or otherwise. Also, the IMF encourages countries to invest in the economies of member countries with financial and
IMF believes that all countries benefit from globalization, trade liberalization, economic growth, high living standards, here there are some of its benefits, although globalization is often followed by social costs, such as: employment increase, subsidies cancellation for certain social categories, especially in agriculture, financial crises increase especially in areas where capital flows were made suddenly, with negative influences on exchange rate, as well as on stocks rate.

IMF encourages developing countries to reduce or eliminate trade barriers. IMF and World Bank studies show that the elimination of tariffs and quantitative restrictions on goods provided by developed countries and industrial brought about a benefit of from $ 250bil to $ 680bil annually.

The current critics of IMF are tightly connected to the economic period with which humankind is confronting: the current economic crises. Under these conditions, IMF places again on the position of a creditor, just like in the period of preceding crises, only that IMF interventions, at that time were punctual and less significant, the crediting necessities being limited to a group of countries to save creditor investments on certain markets that were to be free. Currently, IMF’s intention concerns the support for the institution of financial-monetary market within the world market through convergent and congruent interventions with other financial institutions of the European Union, World Bank and other leader international financial creditors.

Under these circumstances, IMF programs optics is the same, loans under certain conditions complying with the policy undertaken by national governments. IMF gets recovered once with the onset of economic crisis, more and more countries applying for IMF resources or expertise regarding macroeconomic policies or saving and investment guidance. Also, given that IMF administrates an impressive amount of gold reserves, the safest standard in terms of macro and world-economic imbalances makes voice IMF weigh as heavy as gold… The current and future economic stability is inextricably linked to the identification of a restrictive framework of monetary and financial policies able to regulate world finance, economic and social stability of the planet.

Although IMF complained of the problems associated with governing and the lack of transparency of the developing countries, it seems that IMF is under the pressure of the same problems. Some of the essential rules of the democratic institutions were missing, that is transparency so that the citizens can see what are the aspects discussed and have the time to react. Besides, settlements where imposed fact which did not allow the official persons to migrate rapidly to private companies, as soon as they gave up public services in favor of the IMF; such restrictions are standard measures in the modern democracies, in order to reduce appearance -or reality- of some interest conflicts, not to stimulate the employees to favor its would be employers through decisions and settlements favorable to them. There is a wide spread consensus related to the fact that the international public institutions, IMF, modeling globalization, are facing a government problem, as well as the fact that the failures of these institutions are generated by these problems. At least, democratic deficiencies related to the leadership of institutions contributed to their lack of legitimacy, which underestimated their efficiency, especially discussed the aspects of democratic governing [20].

IMF reformation is extremely necessary. The mistakes made by IMF are originating in their fundamental conception on market. They ignore that there is no free market. There are financial settlements, consumers’ protection, standards etc., so there are many limits. Except such rules and laws, the market system cannot operate.

On the other hand, the primary objective of international institutions is not the financial global stability, but the assurance of the creditors’ income, even at the price of disequilibrium in other parts of the world. The private interests, excessive registrar office...
work covering adopting decisions and lack of democracy are what these institutions are characterized by [21]. Within IMF, the system one person equal to one vote does not operate, but one vote equal to one dollar, not of any kind, but the value of the dollar in 1944. Under these circumstances, it is impossible to control the IMF policies and those of other institutions as well.

Bibliography:

THE NECESSITY OF CONVERGING ROMANIA TO AN EFFICIENT ECONOMIC MODEL

PhD Reader Cristina Bălăceanu, Tutor Andreea – Monica Predonu
Faculty of International Economic Relations
“Dimitrie Cantemir” Christian University
movitea@yahoo.com
monica_preodonu@yahoo.com

Abstract: Romania faces three main challenges over the medium- and long-term to assure sustainable economic growth: First, policies must be put in place to assure the resolution of the macroeconomic imbalances generated in the run-up to the crisis. Second, as with other new member states of the EU, Romania has the medium-term objective of accession to the euro area which requires nominal convergence to the Maastricht criteria. Third, nominal convergence should be coupled with real convergence—that is to say sustainable growth to bring Romanian living standards more into line with EU averages. For both nominal and real convergence, Romania must improve the flexibility of the economy and increase its potential growth rate through structural reforms in labor, product, and investment markets, and increase investment—particularly in infrastructure.

Key words: Romanian economy, European social model, welfare state, workfare state.

Currently, the state's role in the economy is seen piecemeal, being reported on the types of businesses that it assists or with which it develops partnerships. Also, the state influences the economic and social conditions through the legal system, through measures that promote attitudes and systemic behaviors throughout the local society. The state is directly involved in carrying out welfare society, looking at this issue in light of factors welfare advocates, namely endowment with production factors, access to education, legal system that promotes the right to work, investment in infrastructure to accelerate the compatibility of economies, aiming at creating alternative jobs but moving to a higher stage of development in line with sustainable development.

Nation state has to create a holistic framework by which to address the following needs:
- sovereignty in relation to other states to ensure that: territorial security of citizens, food security, defense;
- welfare of citizens through sound economic management and political resources to drive economic process as a whole;
- efficient use of conventional economic resources and increase of the economic process attracting unconventional economic resources;
- support and protection of the economic system to avoid any threat to the economic and social development of the country.

From this perspective, Romania is on a European path littered with many failures in social and especially economic, located at the confluence of business practices (they call it practice because they can not be treated as mere economic models that were not defined or completed a paradigm) which has the advantage of a unified vision on market. Thus, influences that are felt in the Romanian economic area take priority over the pursuit of some strategic or not interests, coming on Russian succession (such as the perpetuation of a monopoly position on energy resources), American (different positions considering the national security policy)
Western Europe (focusing on real estate investments in strategic areas and due to lower unit costs times or to obtain tax breaks), or the development of some communities well-rooted in the public and Romanian business, of various nationalities (Arabic, Chinese) contributing to the crystallization characteristics specific to the Romanian market (economy): distinguishing between business environments in accordance with specific and particular interests by creating well organized business castes, relatively independent, low interest for community from the social and popular point of view, low interest for nation and nationality expressed by the lack of actions regarding infrastructure, modernization of the countries and rural environment, increase of the level of comfort of the population, concern for Romanian values, culture and culture personalities.

The economic model needs to capture the specificity of the Romanian space and its citizens. Cultural, social and economic faults existing in Romania lead to finding a common denominator that does not gauge, but on the contrary, highlight elements of specificity. Nevertheless, there is a need for a common event in terms of national interests, combined with the interests of the great European family which our country joined.

The socio-economic model of development which would be applicable in Romania is the European social model, in general. The latter promotes an integrated growth that is based on research and innovation, the effective use of resources and their preservation, the stimulation level of labor employment.

The European social model represent more than a model of social policy, making references to certain characteristics of the state, economy and society. The term of "European Social Model" (ESM) was coined by Jacques Delors in the mid of the 90s, to define an alternative for the American form of market capitalism. The fundamental idea of ESM is that the economic and social progress must synchronize together, respectively; the economic growth should mix with social cohesion. The European social model – characterized particularly by a system that offer an increased level of social protection, such as the importance of social dialogue and general services covering the vital activities for social cohesion - is based in spite of the diversity of social systems of the Member States - on a shared value framework.

A new approach of MSE promotes the idea of social productive policy applied to different social models of Europe, that promote flexicurity, partnership, labour force attraction etc. Such a concept involves the orientation of social policies rather than encouraging the individual’s capacity of survival within an economy more and more dynamic, than using this capacity to correct market forces.

Rather than a market correction, the social policy in this new discourse becomes European optimization tool for adapting the social protection system to market forces. This new approach to ESM starts from the idea of a European political project aimed at building a European identity, not through both institutions and shared values, but more precisely through the very common social policy solutions.

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2 Conclusions of the European Council Presidency from Nisa, December 2000, Anex 1, European Social Agenda, §11
3 Hay, Watson, Wincot, 1999
4 notion of flexicurity is meant to mediate between employer’s requirements and employee’s needs, flexibility and security. It would thus ensure safe adaptation of workers to the labour market, achieved while maintaining and improving enterprises competitiveness, but also for maintaining the European social model. Measures taken in the European strategy for employment, including encouraging lifelong learning, improving support for those who seek employment, promoting equal opportunities for all and equality between women and men are measures that contribute to the development of flexicurity. Commission defined, both at the level of the Member States and in cooperation with academic environment, with social partners and international organizations, several pathways and common principles for flexicurity insurance.
Once the economic constraints become more obvious, adaptation to a new model of capitalism is required—favourable to business and innovation. The main idea is that solidarity has been institutionalized so much desire that reduces people’s desire to adapt their behaviour to economic requirements. In this respect it must shift from passive support to the active involvement of people in the modernizing process of society. The role of institutions in this context is to provide tools (ability to attract workforce to the labour market, flexicurity), allowing individuals to find ways to adapt to changing economic and social conditions.

More and more professionals agree with replacing the exact rules with various post-regulatory instruments, in order to cope with the variety and complexity of the dynamics of post-modern society. An example—that is popular—is a new approach to the problems of European Society, by the means of the Open Method of Coordination. This is the "soft" regulatory model to coordinate policies on labour, pension and health by the EU institutions which make use of a flexible framework rather than by "a rigid mandatory system", as a manifestation of industrial relations Europeanization.⁵

In this context, it is necessary to emphasize that ESM has achieved a new phase of development, namely, from „welfare” to „workfare”. To make the distinction between the two concepts, one should mention that „welfare” means protection against risk, in this system following to assure the resources that guarantee security and stability. As for „workfare”, the focus is on providing instruments to individuals to be able to face up risks.⁶

Among all these approaches of ESM model, there is another one in accordance with which, the European discourse is based on a Model of the European Society or, in other words, expressed, as a socio-economic model, as long as both models and reforms concern not only social but also regulating aspects, incentives and innovation system. The authors of such an approach understand by socio-economic model—society responsibility for individual’s welfare. The three characteristics—responsibility, adjustment and retribution—reflect the fact that the European Model is more than a strictly social model. At the economic scale, Europe tries to combine the dynamics of market economy increase by coordinating the social dialogue between collective partners. State-wide, European countries are not only free democrats but also redistribution states, ie welfare states, which tries to help disadvantaged people - who have lost the ability to work, for various reasons: illness, unemployment, etc.. Society-wide, besides offering individual opportunities to accomplish (happiness), the European societies promote solidarity between individuals that thus, foster social cohesion. The core of European goals (according to many experts demonstrating the superiority of European society itself) was emphased by Anthony Giddens (2005), when he stated that "European social model combining social justice with economic dynamics."⁸

With globalization, one can not but speak of the absolute virtues of the European social model. Thus, there are a number of specialists even question the reality contests or European social model (Marzinotto, 2006). But despite these, the European social model exists in various forms, and seeks new ways of expression. Although considering what is understood today by the European social model, social systems differ rather widely in terms of structure and volume of social expenditure but also transfers of income target groups, however we can talk about coexistence of four distinct groups of countries with relatively similar social practices (Ferrera, 1998, Bertoli et al., 2001) presentation justifying the economic literature following European Society Models.⁹

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⁵ Keith Sisson şi Paul Marginson 'Soft Regulation' - Travesty of the Real Thing or New Dimension? (2001)
⁶ Maria Jepsen, A.S. Pascual, „The European Social Model: an exercise in deconstruction”, p. 15, 2005
⁷ Karl Aiginger, Alois Guger, „The Ability to Adapt: Why It Differs between the Scandinavian and Continental European Models”, Intereconomics, January/February 2006, p. 14
⁸ Jens Alber, „The European Social Model and the USA”, Working Paper, pag. 2
⁹ classification done in 1990 by Esping-Andersen in „Three Worlds of Welfare Capitalism” (Princeton University Press), according to the three types of welfare capitalism. This classification acquired new interpretations. For
- Scandinavian model, often also called the Nordic model defined by the experiences of Denmark, Finland, Sweden, countries that carry the highest relative costs and granted social benefits according to the citizenship principle. They also practice public charges relatively high and use a wide variety of tools and active social policies;

- Anglo-Saxon model or Liberal Model, found in Great Britain and Ireland, that chose Beveridge, according to which social transfers are employee-oriented (active age), who earn relatively small incomes; this system is completed by a ultimate social resort web, under the form of a scheme of relatively developed social assistance; it is about a liberal approach of welfare, a minimum social model practiced by Great Britain and Ireland, an partially by Italy (that traditionally is part of the Mediterranean model), Slovakia and Estonia;

- Continental model – also known as Corporatist Model or Renan Model, practiced by Austria, Belgium, France, Germany, that adopted Bismarck model, based extensively on social assurances schemes, financed through the contributions of those who are employed and who performed a strong social protection; among the new members of EU, embracing the new and «strong European Social Model », there are Hungary, Czech Republic or Poland;

- Mediterranean Model, practiced by South-European - Greece, Italy, Spain, Portugal, that a model based extensively on social assurance systems, in accordance to which the benefits are largely segmented following the contributor’s status. In these countries, there are applied decreased social expenditures with support networks obtained through family. Experts consider that this thing is possible as a result of embracing agricultural characteristics in this part of Europe.

- Holland and Luxembourg do not belong to any of the groups mentioned above. Thus, as for Holland, there is no unanimous opinion in the comparative literature on the welfare regarding the placement of the country into a certain group; there are a series of authors that consider that Holland— as a representative of Social- democracy – would rather situate in the Scandinavian state type of welfare. (for example: Goodin, Heady, Muffels, Dirven 1999, Sapir 2005) while the others consider that Holland is a representative of Christian democracy, thus, corresponding to the model of the continental welfare state (van Kersbergen 1995 ; Hay 2006), which is quite similar for Slovenia, too.

Luxembourg was not affiliated, by most analysts, to the family continental welfare states, because of its role as European Centre of adopting policies and financial transactions, which gave the country a particularly dynamic growth that could be loaned to any other nation and which does not provide conclusive comparative data even with a European average due to reduced territorial scale.

- The model « catching-up » refers to the characteristic of the new EU member states that acceded after 2004. In these countries, the social institutions were set up after the period of transition. The efforts of these countries to achieve social welfare stumble over financial difficulties which does not prevent them from aspiring to a new standard of living of EU members (catching up ), through different methods (for example, foreign investments). It is these efforts that generated the « catching-up »model.

Additional to the European Social Model, The European Union initiated a so called strategy Europe 2020\textsuperscript{10} to highlight the need of cooperation and coordination between the member states under the circumstances of an increased interdependence and some conflicts between the EU members. The Commission set up five reference indicators that the EU states must implement.

The stake of Europe 2020 Strategy is concerned with what should be done to reinvent the EU economy on the upward slope of the economic cycle. The current economic crisis has identified basic problems of market-state relationship implying the lack of coordination between the economic policies to promote sustainable economic growth and development. 2020 Strategy enforces the Lisbon strategy and aims to recover Europe from the crisis and to prepare the EU economy for the next decade in order to cope with global competition and “be a stakeholder”.

The European Commission document underlines the need for coordination and cooperation between Member States, while the EU economies are highly interdependent. Thus, Commission identified three main domains as the pillars of the European policies:

- Intelligent economic growth – the development of an economy based on knowledge and innovation
- Durable economic growth – promotion of a competitive economy, with low carbon and efficient use of resources
- Inclusive economic growth – promotion of an economy with high rate of employment, generating social and territorial cohesion.

To measure these large objectives, the Commission set up five indicators of reference at the EU level, that should be follow by the member states:

1. 75% of population between 20-64 must be employed.
2. 3% of the EU GDP must be invested in research and development.
3. The climate and energetic objectives „20/20/20“ should be accomplished - reducing carbon dioxide emissions by 20% unlike 1990, 20% lower energetic consumption and 20% energy should be produced by regenerative resources.
4. The share of early school leavers should be less than 10%, and at least 40% of young generation should be graduates.
5. The number of individuals in prone of poverty should be reduced by 20 de millions.

The commission suggests pilot initiatives\(^{11}\) that become a priority for the EU organizations, for the member states, local and regional authorities. Thus:

- A union of innovation – reorientation of research and development and the policy of innovation towards major challenges, reducing at the same time the distance between science and market launch so that the inventions may be turned into products. For example, communitarian patent could allow enterprises to save 289 millions euro every year.
- Youth in action – high quality and attraction of the European system of higher education, by promoting students’ and young professionals’ mobility. As concrete action, vacant job positions should be more accessible at the level of Europe, and professional activities and experience should be properly recognized.
- A digital agenda for Europe – assuring some durable economic and social advantages through an unique digital market based on ultra-fast internet; all Europeans should have access to high speed internet up to 2013.
- An Europe using efficiently its resources – supporting transition towards an economy that uses efficiently the resources, with reduced carbon emissions. Europe should maintain its objectives 2020 regarding energy production and consumption and energetic efficiency. This thing would reduce by 60 billions euro the petrol and gas imports till 2020.
- An industrial policy for green growth - supporting the competitiveness of EU industrial base in the world after the crisis, by promoting entrepreneurship and developing new skills. This would create millions of new jobs.
- An agenda for new skills and jobs - creating conditions for the modernization of labor markets in order to increase employment rate and ensure the sustainability of our social models, under the circumstances of baby-boom generation's retirement.

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The European Platform against poverty - to ensure economic, social and territorial cohesion, helping the poor and socially excluded individuals and allowing them to play an active role in society.

The European Union through its economic policies and strategies seeks to create opportunities for long-term development, ignoring the current economic and social constraints, manifested in a wide range of countries with a tradition on market economy. Besides the common efforts of preventing the socio-economic difficulties in these countries (Greece, Spain, Portugal where the unemployment rate reached alarming rates and the depreciation of purchasing power warns producers, financial markets) it is also of great importance to focus on increase concentration and development by initiating economic activities that are meant to regulate the consumption of resources, the exploitation of the energetic potential of regenerative resources, both to create new jobs and to decrease energy imports, respectively reducing energetic dependency on external resources.

The European Union is facing up some manifestations of forces considering the following ones:

- weakening of overall economic strength, caused by severe economic recession that followed the global financial crisis, characterized by large protests, strikes and street demonstrations as a result of massive layoffs;
- absence of a convergent will to support those economies severely affected by the recession as a result of intensifying the effect of preserving the crisis-affected economies but, through concerted efforts and effective measures and consistent economic policy, managed to stabilize the economically;
- high incidence of political factor in support of priority sectors of the European economy amid falling demand;
- intensifying global economic competition between poles, which increased interest in shaping the growth and development strategies on medium and long term to reduce the gaps, particularly regarding areas such as education, research and innovation;
- shaping a new balance of power between state and market, in terms of etatism efforts to support growth and development, due to increasing public investment.

Amid these realities, the European Union is focused, as indicated Europe 2020 Strategy, the establishment or the recalibration of some action directions considered as necessary and appropriate.

In this context, Romania needs of the force and intelligence to attract the European entrepreneur through development opportunities in fields with an emphases relative advantage for Romania: agriculture, handicrafts and cottage industries, domestic industries with powerful, natural and ethnographic echoes, tourism, services. To implement a development strategy in Romania meant to foster the inclination to invest the business community, the state must focus on the economic system as a whole through legislative, social and economic measures that should contribute to delivering positive results based on cooperation, competition, innovation and ultimately, prosperity.

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ROMANIAN CAPITAL MARKET DYNAMICS AND FOREIGN INVESTMENT

Flavia Barna, Conf. Dr., Universitatea de Vest din Timișoara, e-mail: flavia.barna@feaa.uvt.ro
Dănulețiu Dan, Conf. Dr., Universitatea „I Decembrie 1918” Alba Iulia, e-mail: danuletiu.dan@gmail.com
Petru-Ovidiu Mura, Prep. Drd., Universitatea de Vest din Timișoara, e-mail: ovidiu.mura@feaa.uvt.ro

ABSTRACT: The purpose of this paper is to identify and quantify the impact that the financial crisis is exercised over the flow of foreign portfolio investment inside the Romanian capital market. Foreign portfolio investment may influence capital market development, both positively, by capital inflows, and negatively, by shifting cash to other markets or other financial instruments. Emerging markets are more sensitive to volatility in foreign capital flows due to its specific characteristics (small number of issuers, reduced market capitalization). Volatility of capital flows can create an unstable investment environment, due to the interference of various factors which may influence the risk and return of a portfolio. In Romania, the percentage of foreign portfolio investment isn’t a big one compared to the one existing in other European countries, but the financial strength of non-resident investors has influenced the stock courses dynamics, especially blue-chip stocks, both by supporting trends upward and by supplying downward ones.

KEY WORDS: foreign investment of portfolio, volatility, coefficient of correlation, BET index.

J.E.L. Classification: G01, G11, G12

1. LITERATURE REVIEW

Financial globalization has made possible the rapid transmission of financial instruments prices volatility through the effect of markets’ contagion due to the close connections between the various financial centres through real-time information transfer. Emerging markets are more sensitive to volatility in foreign capital flows due to its specific characteristics (small number of issuers, reduced market capitalization).

Volatility of capital flows can create an unstable investment environment, due to the interference of various factors which may influence the risk and return of a portfolio, such as: exchange rates volatility, liquidity of international capital market, investment cycles, the effect of "contagion" of capital markets, asymmetric information propagated into the local and international environment and, not least, portfolio investor’s strategies and behavior.

According to Bakaert and Harney (1995), foreign portfolio investment (FPI) can cause structural-functional changes of the capital market: (1) FPI outflows, in addition to the disruption on the financial system it creates by reducing the market’s liquidity, lead to negative changes in the price of the market’s assets; (2) FPI inflows generates an increase in the securities price fluctuations in most emerging markets which have received significant flows of foreign investment.

The literature review shows a series of studies that compare the intensity between capital markets during “normal” periods to those marked by financial crisis. Bennett and
Kelleher (1988) showed that the transmission of shares rates volatility between markets was well above average during the financial crisis in October 1987, and that in periods of high volatility were recorded higher values of the correlations between markets. Neumark, Tinsley and Tosini (1991) show that the value of correlation between capital markets increase in times of high volatility and reduces, peaking virtually at zero values during normal periods; They suggest that the possible explanation for the asymmetric evolution of the correlation is the FPI volatility.

Evolutions on international financial markets and the dynamics of domestic macroeconomic equilibriums/disequilibrium have led to a reassessment of the risks that have influenced the capital market in Romania.

The growth of risk aversion on international markets and limited liquidity on financial markets have influenced the behaviour of non-resident and local investors and determined the contraction in nominal terms of the amounts placed by investors on capital market, but also the contraction of the share which foreign investors had on the market.

Table 1 - The evolution of investors in the Bucharest Stock Exchange

<table>
<thead>
<tr>
<th>The investors’ structure</th>
<th>Purchases % of total</th>
<th>Sales % of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggregate Accounts</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Residents</td>
<td>72.03</td>
<td>78.02</td>
</tr>
<tr>
<td>Non-residents</td>
<td>27.97</td>
<td>21.98</td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggregate Accounts</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Residents</td>
<td>69.83</td>
<td>75.9</td>
</tr>
<tr>
<td>Non-residents</td>
<td>30.17</td>
<td>24.1</td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggregate Accounts</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Residents</td>
<td>59.9</td>
<td>65.3</td>
</tr>
<tr>
<td>Non-residents</td>
<td>40.1</td>
<td>34.67</td>
</tr>
<tr>
<td>2008</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggregate Accounts</td>
<td>1.48</td>
<td>2</td>
</tr>
<tr>
<td>Residents</td>
<td>69.85</td>
<td>67.2</td>
</tr>
<tr>
<td>Non-residents</td>
<td>28.67</td>
<td>30.81</td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggregate Accounts</td>
<td>1.68</td>
<td>2.48</td>
</tr>
<tr>
<td>Residents</td>
<td>75.12</td>
<td>78.02</td>
</tr>
<tr>
<td>Non-residents</td>
<td>23.2</td>
<td>19.5</td>
</tr>
</tbody>
</table>

Source: CNVM Annual Report, 2009

In this context, we can say that the Romanian capital market is facing a new long-term trend, a maturation trend. This trend is subject to a multitude of factors that may influence the market dynamics.

2. METHOD AND RESULTS

The period of study covers the period January 2000 - July 2009, monthly series, and the analytical method used is the econometric modeling, using the software Eviews 5.0. In practice, we aim to test if the data series are stationary, the identification of seasonal influences and deseasonalisation of the series, and quantification and the analysis of the relationship that exists between the stock exchange indicator BET and the inflows of FPI, the outflows of FPI. The source of the statistic data is the National Securities Commission.

a) Logarithm of the monthly series – the 3 series of data were logarithmised (L), order „2”; the resulting coefficients of the model are interpreted in this case as “elasticity”. As a result of this operation, new series were generated, renamed: l_bet, l_inflows, l_outflows.

b) testing the series’ seasonality - statistical series have been subject to verification of the existence of seasonal ingredients, in which case no significant differences were identified in
the monthly averages (the series aren’t “seasonal”). This can be seen with the help of „Seasonal stacked line” graphs, related to the series; to reinforce this claim, we have achieved the deseasonalisation of the series (SA – seasonal adjustment), by using the „Census X12” method (used by the U.S. Statistical Office), the additive alternative, which resulted in the construction of new three statistical series, renamed as follows: bet_sa, inflows_sa, outflows_sa.

**Graph 1. Monthly FPI inflows average**

![Graph 1. Monthly FPI inflows average](image)

**Graph 2. The compared evolution of FPI inflows and seasonal adjusted FPI inflows**

![Graph 2. The compared evolution of FPI inflows and seasonal adjusted FPI inflows](image)

**Graph 3. Monthly FPI outflows average**

![Graph 3. Monthly FPI outflows average](image)

**Graph 4. The compared evolution of FPI outflows and seasonal adjusted FPI outflows**

![Graph 4. The compared evolution of FPI outflows and seasonal adjusted FPI outflows](image)

**Graph 5. Monthly BET average**

![Graph 5. Monthly BET average](image)

**Graph 6. Compared evolution of BET and seasonal adjusted BET**

![Graph 6. Compared evolution of BET and seasonal adjusted BET](image)

Graphs 1, 3 and 6 present the monthly averages of the studied variables. Where significant differences were observed between monthly averages, it would consider that time series are seasonal. In reality, it is noted that there aren’t important differences between monthly averages; they converge to the same value. Also, graphs 2, 4 and 6 indicate the same
thing, namely that the seasonal adjusted series do not present significant fluctuations from the actual series.

c) The testing of the series \( \text{dl\_bet}, \text{dl\_inflows}, \text{dl\_outflows}, \text{dl\_purchases} \) and \( \text{dl\_sales} \) resides in using the „unit root‖ tests: Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP). The results of both tests for each of the five series are listed in next tabels.

**Table 2. „Unit root‖ test ADF for dl\_inflows**

<table>
<thead>
<tr>
<th>Null Hypothesis: ( D(DL_INTRARI) ) has a unit root</th>
<th>Exogenous: Constant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lag Length: 5 (Automatic based on SIC, MAXLAG=12)</td>
<td>Lag Length: 5 (Automatic based on SIC, MAXLAG=12)</td>
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<td>Augmented Dickey-Fuller test statistic -9.912958</td>
<td>Augmented Dickey-Fuller test statistic -9.912958</td>
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<tr>
<td>Test critical values: 1% level -3.492523</td>
<td>Test critical values: 1% level -3.492523</td>
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<tr>
<td>5% level -2.888669</td>
<td>5% level -2.888669</td>
</tr>
<tr>
<td>10% level -2.581313</td>
<td>10% level -2.581313</td>
</tr>
</tbody>
</table>

**Table 3. „Unit root‖ test PP for dl\_inflows**

<table>
<thead>
<tr>
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<th>Exogenous: Constant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phillips-Perron test statistic -115.9310</td>
<td>Phillips-Perron test statistic -115.9310</td>
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<tr>
<td>Test critical values: 1% level -3.489659</td>
<td>Test critical values: 1% level -3.489659</td>
</tr>
<tr>
<td>5% level -2.887425</td>
<td>5% level -2.887425</td>
</tr>
<tr>
<td>10% level -2.580651</td>
<td>10% level -2.580651</td>
</tr>
</tbody>
</table>

**Table 4. „Unit root‖ test ADF FOR dl\_outflows**

<table>
<thead>
<tr>
<th>Null Hypothesis: ( D(DL_IESIRI) ) has a unit root</th>
<th>Exogenous: Constant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lag Length: 12 (Automatic based on SIC, MAXLAG=12)</td>
<td>Lag Length: 12 (Automatic based on SIC, MAXLAG=12)</td>
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<tr>
<td>Augmented Dickey-Fuller test statistic -7.321543</td>
<td>Augmented Dickey-Fuller test statistic -7.321543</td>
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<tr>
<td>Test critical values: 1% level -3.497029</td>
<td>Test critical values: 1% level -3.497029</td>
</tr>
<tr>
<td>5% level -2.890623</td>
<td>5% level -2.890623</td>
</tr>
<tr>
<td>10% level -2.582353</td>
<td>10% level -2.582353</td>
</tr>
</tbody>
</table>

**Table 5. „Unit root‖ test PP FOR dl\_outflows**

<table>
<thead>
<tr>
<th>Null Hypothesis: ( D(DL_IESIRI) ) has a unit root</th>
<th>Exogenous: Constant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phillips-Perron test statistic -106.6516</td>
<td>Phillips-Perron test statistic -106.6516</td>
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<td>5% level -2.887425</td>
</tr>
<tr>
<td>10% level -2.580651</td>
<td>10% level -2.580651</td>
</tr>
</tbody>
</table>
Table 6. „Unit root‖ test ADF for dl_bet

| Null Hypothesis: D(DL_BET) has a unit root |  |
| Exogenous: Constant |  |
| Lag Length: 3 (Automatic based on SIC, MAXLAG=12) | t-Statistic | Prob.* |
| Augmented Dickey-Fuller test statistic | -11.32377 | 0.0000 |
| Test critical values: | 1% level | -3.491345 |
| | 5% level | -2.888157 |
| | 10% level | -2.581041 |

Table 7. „Unit root‖ test PP for dl_bet

| Null Hypothesis: D(DL_BET) has a unit root |  |
| Exogenous: Constant |  |
| Phillips-Perron test statistic | -61.74931 | 0.0001 |
| Test critical values: | 1% level | -3.489659 |
| | 5% level | -2.887425 |
| | 10% level | -2.580651 |

Eligibility conditions for a time series to be stationary are:

• The average of the time series is constant or, in other words, the observations should fluctuate around the average.
• The series’ variance is constant.

In economic terms, a series is stationary if a shock over the series is temporary (is absorbed in time), not permanent. If a series is not stationary, through differentiation is achieved a stationary series. The order of integration of the series is the number of successive differentiations required to obtain a stationary series.

Regarding the studied variables, we first tested the level stationarity of the log-series and the result is that the series aren’t stationary. Therefore, we proceeded to the first differentiation of the series and the results contained in the previous tables indicate that these first order integrated series are stationary (there’s no unit root). The two tests provide information about outcomes, critical values for each level of relevance (1%, 5% or 10%) and the probability “p‖ associated to the test’s result.

For both tests, ADF and PP, if the test value is greater than the critic values, the null hypothesis is accepted, then the series has a unit root (is nonstationary). In the previous tables, it can be seen that the value of tests is lower than the critical one, regardless of the relevance level; by choosing the most restrictive level of relevance, 1%, you can say that at 1% level of relevance, the null hypothesis (the series is nonstationary) is rejected. This result can be observed also from the associated probability value "p". So, it is smaller than the most restrictive level of relevance, 1%, and, therefore, the null hypothesis – a nonstationary series – is rejected. So, the series’ order of integration is 1 or the series is I(1)

d) To demonstrate that there is an influence of the BET index on the previously mentioned variables, we opted for the method of econometric analysis, building a regressive model with the following form:

\[ Y_{it} = \alpha + \beta x_{X_{it}} + \epsilon_{it}, \]  

where
Yit – dependent variable – the inflows of FPI, the outflows of FPI, the purchases and sales of securities by non-residents;

\[ \alpha \] – free term’s coefficient;

\[ \beta \] – the coefficient of the independent variable;

\[ X_{it} \] – the independent variable – BET index;

\[ \varepsilon_{it} \] – the random variable;

i – number of sectors implied by the regression (115 months);

t – time period (years 2000-2009).

Following the logarithm of the monthly series and by solving the simple unifactorial linear regression, we obtained these results:

**Table 8 BET index impact over FPI inflows**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>9.005626</td>
<td>0.621502</td>
<td>14.49011</td>
<td>0.0000</td>
</tr>
<tr>
<td>L_BET</td>
<td>1.133607</td>
<td>0.078555</td>
<td>14.43074</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

R-squared 0.648245  Mean dependent var 17.90303

Adjusted R-squared 0.645132  S.D. dependent var 1.408146

S.E. of regression 0.838844  Akaike info criterion 2.503654

Sum squared resid 79.51350  Schwarz criterion 2.551392

Log likelihood -141.9601  F-statistic 208.2462

Durbin-Watson stat 1.678180  Prob(F-statistic) 0.000000

The data shown in Table 8, come off the following conclusions:

1) Standard error values of the regression function coefficients are below – in module – the coefficients’ value. This means that these coefficients are correctly estimated.

2) The probabilities attached to the t-Statistic test are 0, so they are below the relevance level of 5%; therefore, coefficients are considered statistically significant.

3) Correlation coefficient with a value of 64.82%, shows that the statistical link between the dependent variable – FPI inflows – and the independent one – BET index – is significant, changes in volume of FPI inflows is being found in a significant proportion in the changes of BET index.

4) The Durbin-Watson test, with a value below the critical 2, indicates that the residual variables are not autocorrelated.

5) The probability associated to the F-Statistic test is lower than the level of relevance, which shows that at least one of the regression coefficients is statistically significant.

Therefore, we can state that the built model can be considered representative to describe the link between FPI inflows and the evolution of BET index. The regression equation can be rewritten as:

\[ L_{\text{Inflows}}=9.005626464 + 1.13360709\times L_{\text{BET}} \]  \hspace{1cm} (2)

Next, we graphically represented the actual value of the dependent variable, the estimated value and the regression errors.
Graph 7. Actual, fitted, residual graph

![Graph generated with Eviews 5.0](image)

Table 9 BET index impact over FPI outflows

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>5.150632</td>
<td>0.735077</td>
<td>7.006924</td>
<td>0.0000</td>
</tr>
<tr>
<td>L_BET</td>
<td>1.550185</td>
<td>0.092911</td>
<td>16.68471</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

The data shown in Table 9, come off similar conclusions with the previous case; the most important one is:

3) Correlation coefficient with a value of 71.12%, shows that the statistical link between the dependent variable – FPI outflows – and the independent one – BET index – is significant, changes in volume of FPI outflows is being found in a significant proportion in the changes of BET index.

Therefore, we can state that the built model can be considered representative to describe the link between FPI outflows and the evolution of BET index. The regression equation can be rewritten as:

\[
L_{Outflows} = 5.150631 + 1.550185 \times L_{BET}
\] (3)

Next we graphically represented the actual value of the dependent variable, the estimated value and the regression errors.
Therefore, we can state that the models built can be considered representative to describe the link between the BET index and the considered variables.

3. CONCLUSIONS

The volatility of capital flows can create an unstable investment environment, because of the interference of various factors that may influence the risks and returns of a portfolio, such as: the volatility of exchange rates, the liquidity of international capital market, investment cycles, the “contagion” effect of capital markets, asymmetric information propagated into the domestic and international environment and, not least, the strategies and behaviour of portfolio investors.

The results show the different impact that BET index, considered representative for Bucharest Stock Exchange, they exercise on the dynamics of the variables taken into account, the inflows of FPI, the outflows of FPI, the purchases and sales of securities by non-residents. The amplitude of the “disturbing” effects registered by the FPI outflows under the impact of BET changes is superior to that generated by BET over the volume of FPI inflows.

This can be explained by the attitude of non-resident portfolio investors, but also of resident investors towards the equity secondary market. The interest of investors from financial instruments traded at BSE influence, obviously, its dynamics. Therefore, the determinants of selection of investment alternatives can be considered also factors that influence the capital market development.

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FINANCIAL CRISIS IMPACT ON THE INSURANCE MARKET

Flavia Barna, Assoc. Prof. Ph. D, West University from Timișoara, e-mail: flavia.barna@feaa.uvt.ro
Victoria Şeulean, Prof.dr, Universitatea de Vest din Timișoara, e-mail: victoria.seulean@feaa.uvt.ro
Petru-Ovidiu Mura, Assist. Ph. D Student, West University from Timișoara, e-mail: ovidiu.mura@feaa.uvt.ro

ABSTRACT: The purpose of the present paper is to discuss vulnerabilities in selected segments of the insurance sector as well as to identify specific issues related to the role of the insurance sector in the current financial crisis. The financial crisis may be a banking crisis, as insurance industry representatives have regularly emphasised, and the solvency of the insurance sector as a whole does not appear to be threatened. For many insurers, direct exposure to the epicentre of the crisis, the US mortgage market, and to related securities appears to have been limited. The exposure of most insurance companies to the significant deterioration in global financial markets has been primarily through their investment portfolios, as the crisis spread and financial market valuations and the outlook for real activity deteriorated significantly. Financial instruments that were at the core of difficulties served an insurance function and, thus, it is not so surprising that some institutions from that sector have been affected by the crisis on one or the other side of their balance sheets. The drop in investments in the last years is for the most part explained by the economic turmoil that has affected the whole financial industry and thus the value of assets.

KEY-WORDS: insurance, financial crisis, density, penetration.

1. Introduction

The key role of insurance companies is to help other sectors manage risk. By transferring risks from the corporate and household sectors, insurance markets facilitate economic activity that could otherwise expose parties to unacceptable risk of loss (Das, Davies and Podpiera (2003)). Insurance contracts generally reference an event of loss to the insured party itself—and differ in this regard from derivatives that reference an underlying market price. But insurance companies also contribute to financial sector risk management, through reinsurance and credit protection products.

Contractual savings can positively affect economic growth. They do so directly by raising capital accumulation and productivity (Demirguc-Kunt and Levine (1996), Levine and Zervos (1996), Neusser and Kugler (1998)) and when their impact is not offset by government dissaving (Samwick (1998) and Bailliu and Reisen (2000)). They can also affect growth indirectly by reducing firms’ and banks’ vulnerability which, in turn, can foster investments and growth by reducing the country risk premium and interest rates.

A number of studies have investigated the issue of risk transfer between the banking and the insurance sector. Monks and Stringa (2005) consider individual events and find that there is no clear evidence of spill-overs from UK life insurance sector to the UK banking sector as a whole.

Another aspect of systemic risk is financial contagion as discussed, for example, by Pesaran and Pick (2007). Financial contagion is the direct effects of a crisis of one company or in one market on the performance of other companies or markets.
The evidence available so far suggests that the role of the insurance function in this financial crisis has had a stabilizing rather than a destabilizing influence on the system as a whole (notwithstanding that it may be too early to write a proper post mortem). Insurance companies are large investors and they (especially life insurers) typically have longer-term investment horizons than several other financial institutions such as banks. They thus have the capacity to hold a relatively large part of their investments to maturity, which helps the system withstand short-term shocks.

In this paper we propose to identify the impact of financial crisis on the EU insurance sector and, in particular, in Romania.

2. Analysis of financial crisis on the European insurance market

In the EU, insurance market has been affected by economic and financial turbulence, as evidenced by analysis of indicators such as: total insurance premiums, insurance penetration and insurance density. In the 33 European CEA member countries, in 2008 there has been a total volume of premiums in the amount of EUR 1,059,319 million, decreasing by 7% compared to 2007 (EUR 1,182,198 million); this is mainly due to the life insurance industry, which represents more than 60% of total premiums in Europe.

![Graph 1 - Total European premiums — 2000–2008](Source: CEA Statistics N°37, European Insurance in Figures, October 2009)

If we analyze the structure, the impact of the financial crisis over life insurance market was important, life insurance premium volume decreasing by 11% in nominal terms, reaching in 2008 the volume of EUR 644 million, compared with EUR 766 million in 2007.

In the non-life insurance market, motor as well as accident & health have the largest market shares with 12% each of overall insurance premiums. The property insurance market is the third largest business line of non-life insurance with 8% of total business. General liability lies fourth, accounting for 3% of total premiums.

Insurance penetration decreased on average from 8.8% in 2007 to 7.7% in 2008 following the drop in overall European premiums as well as the slowdown in economic growth. Life insurance penetration fell from 6% to 4.9% in 2008 whereas non-life penetration remained more or less stable at around 3%.
Average premium per capita, 1996 - 2007 (€)

Source: CEA Statistics N°37, European Insurance in Figures, October 2009

Graph 2 – The european average premium per capita, 1996-2007

In terms of insurance density, there is a downward trend in 2008, compared with 2007. According to the CEA, in 2008 were spent on insurance, an average of 1805 euros per capita. Of this amount, Euro 1098 was spent on life insurance, and the rest of 707 euros on non-life insurance, with 221 euros less than in 2007.

Source: CEA Statistics, European Insurance in Figures, September 2010

Graph 3 - European insurers Investments - 1997-2009

The drop expected in investments starting with 2008 is for the most part explained by the economic turmoil that has affected the whole financial industry and thus the value of assets, although the strong depreciation of the pound sterling against the euro has also played a role.

The development of the total investment portfolio is mainly driven by life business, since the investment holdings of the life insurance industry account for more than 80% of the total. The UK and France are the most significant market players as they jointly account for over 50% of all European life insurers’ investments.

The largest components of European insurers’ investment portfolios are debt securities and other fixed income assets (34,3%), followed closely by shares and other variable-yield securities (33,8%). Loans represent 15,4% of the total.
Graph 4 - European insurers’ investment portfolio — 2007

(a) Land and buildings
(b) Investments in affiliated undertakings and participating interests
(c) Shares and other variable-yield securities and units in unit trusts
(d) Debt securities and other fixed-income securities
(e) Loans, including loans guaranteed by mortgages
(f) Deposits with credit institutions
(g) Other investments

The presented issues certify the significant impact of financial crisis, both on the sales process, by reducing the volume of insurance premiums, and on the level of investments made by insurance companies from Europe.

3. Developments during financial crisis in the insurance sector of Romania

As a result of the economic downturn, that started to impact the Romanian economy in the fourth quarter of 2008, insurance companies will be confronted with serious risks on both their sales and cost side. The Romanian insurance market, with its comparatively low density and penetration rate, exhibits one of the highest development potentials in the European market.

In 2009 gross written premiums decreased by 14%, compared to an average growth pace of 26% between 2002 and 2008. The insurance segment penetration rate remained constant at 1.8%, with an increase of the non-life share in total GWP.

Source: Roland Berger, Insurance Supervisory Commission; National Statistics Institute
Graph 5 - Evolution of insurance premiums volume and penetration rate, 2002-2009

Gross written premiums reached EUR 2.1 bn at the end of 2009, a decrease of EUR 341 mn compared to 2008. The market is clearly dominated by the non-life segment, which in 2009 accounted for over 81% of total premiums (EUR 1.7 bn). Both the non-life and the life segment registered abrupt declines in 2009, compared to the accelerated growth rates recorded in the past (32% and 33% respectively in 2007 compared to 2006).

The insurance market had started to cool down in the third and forth quarters of 2008, as the global economic downturn began to affect Romania. In 2009, the entire market decreased by more than 14%, with a drop in the life segment of over 24% and a downward adjustment of around 11% on the non-life segment.

![Graph 5](image)

Source: Roland Berger, National insurance supervisory authorities and statistics office

Graph 6 - Insurance penetration in Romania and selected CEE countries, 2009

Notes: 1) Bubble size represents insurance density (premiums per capita in EUR
2) DE-Germany; HU-Hungary; PL-Poland; SK-Slovakia; CZ- Czech Republic ; HR-Croatia; BG-Bulgaria; SL-Slovenia; RO-Romania.

The insurance penetration rate (share of gross written premiums in GDP) of 1.8% at the end of 2009 and the insurance density (premiums per capita) of EUR 97 in Romania are considerably below the level of other CEE countries. Insurance premiums per capita in Romania, for instance, are merely one third of the value in Hungary or Poland.

These discrepancies reveal a solid growth potential for the local insurance market, which will most probably resume its growth after the end of the economic turmoil, albeit at a toned-down pace.
The market is clearly dominated by non-life insurance, with life insurance generating only 18% of the total premium volume in 2009 (as compared to over 20% at the end of 2008). Overall, motor insurance represents around 63% of the market, while the health & accidents insurance segment only accounts for around 0.4% of the total market volume. The decreasing share of life insurance in 2009 is partly connected to the credit freeze – as term life insurance in Romania was for a long time driven by the bank lending market.

Total gross paid claims in 2009 reached EUR 1,383 mn, of which approximately 88% were associated with the non-life segment. The level of paid claims increased by 14% in 2009. Between 2002 and 2008, the volume of paid claims registered an average annual growth rate of 34%, superior to that of the gross written premiums (26%) for the same time span. In 2009, despite a decline of the gross written premiums compared to 2008, claims rose by 14% compared to the previous year. Thus, it is not surprising that claims ratio for the Romanian market has been on a steadily ascending trend, from under 40% in 2002 to 72% in 2008.
As a consequence of the significant increase in claims, companies in the non-life segment continued to report greater and greater losses every year, starting with EUR 30 mn in 2005, EUR 75 mn, 115 mn in 2006 and 2007, and around EUR 200 mn in 2008. For 2009, the figure is estimated at around EUR 200-250 mn. Four insurers - two companies of Groupama: Asiban and BT Asigurari, along with Uniqa (former Unita) and Ardaf - accounted for 99% of these losses.

In this context, insurance companies have recently begun to implement restructuring measures, in order to adjust their cost base and increase the efficiency of their processes. These measures target, among others, the organization of the sales force - including remuneration system and targets.

4. Conclusions

As a result of the economic downturn, insurance companies have been confronted with serious risks on both their sales and cost side. Under these circumstances, they have been forced to take efforts to reduce operating costs. On the sell side, increasing sales efficiency, rather than increasing the number of contracts sold, has become a key success factor.

On one hand the economic slowdown has affected the market volume through a stagnation or slight decrease of gross written premiums - in particular in the life segment. On the other hand the downturn might lead to the decrease of quality of the new contracts, resulting from the intensification of the adverse selection phenomenon in the non-life segment. On the sales side the slowdown of the banking sector will also affect the market volume of the life insurance segment negatively. The lack of liquidity on the capital markets will also raise the financing cost of the insurance companies significantly.

5. References

THE IMPLICATIONS OF FINANCIAL DECENTRALIZATION IN THE ADMINISTRATIVE REFORM

Irina Bosie, Phd student,
University “Alexandu Ioan Cuza” of Iași, Faculty of Economics and Business Administration, irina.bosie@uaic.ro

ABSTRACT
The need for administrative reform comes from the ongoing transformation of society, and financial decentralization is one of the key points of the streamlining and modernization of public services. Strengthen democratic system, creating an economic and social climate to give maximum benefits and efficiency of market economy structures and mechanisms, are some of the advantages of being a member of the European Union.

The paperwork, by the suggestive title, is designed by an interdisciplinary approach to public finance and administration areas, settlement and how to optimize financial resources which are distributed and managed. The issue of this paperwork is to highlight the efficiency of public services under the impact of fiscal decentralization, progress by the public sector under the impact of absorbing European funds, partnerships, decentralization of public services.

Key words: financial decentralization, public services, reform, administrative changes

1. A brief review about the decentralization
Decentralization is a conglomerate of administrative, fiscal, budget, involving numerous administrative entities. The research in this area has revealed that decentralization is viewed from several perspectives, so "in the minds of the French model, the demands of national unity leading to a restrictive interpretation of decentralization, is finally considered a mean of fighting against the central power. In English design, however, decentralization is understood in a broad sense, meaning self-administration (self government)." [Onofrei, 2007]

Financial decentralization is necessary to increase the autonomy of local authorities. It is truly effective only when a local authority may receive a larger share of its income.

If the transfer of responsibilities from the Government is not accompanied by the ability to fully fund local communities, there is a risk of creating a largely ineffective decentralization. Therefore, local authorities depend heavily on the Government, which sets the rules, for private reserves, taxes and territory administrations often didn’t have access to tax revenues and funding sources to provide freedom from central authorities. Without a sufficient source of income, under local control, it is impossible to achieve a satisfactory level of fiscal autonomy to increase the efficiency of public services.

We are still witnessing the strict dependence of local budgets from the state budget. To cover the financial needs faced by local authorities are calling for mostly European funds, accessed by projects aiming at serving citizens to raise their living quality.

Local authorities have more accurate information to the central authorities on issues facing communities, hence the need derives administrative decentralization is related to fiscal decentralization.

For the public administration reform should be done to take into account the continuing process of decentralization by transferring administrative and financial powers, continuing the process of devolution and public services adapt to the needs of the population characteristics. Strategy to accelerate the reform process is based on decentralization and deconcentration. Decentralization, strengthening and modernization of administrative
structures and public services is supported by the World Bank, International Monetary Fund and the European Union, supplement the financial resources to facilitate development.

Noteworthy is the development of European states, the approach of decentralization strategies. Decentralization was a concept that is rapidly assimilated, as William says Dillinger, a lot of European countries as "developed in 75 countries with more than 5 million inhabitants, 63 countries (representing 85%) adopt a certain type of decentralization on the mid-nineteenth century."

Increasing efficiency of public services must be seen from the nearest citizen for just being able to identify the needs of society and in terms of fiscal decentralization. Therefore, decentralization is a key element of public administration reform in Romania, an action that strengthens the power and role of local authorities in managing public services.

Therefore, the Romanian administrative system and decentralization is a priority in the reform process. The process involving decentralization of powers will be correlated with providing the responsibilities of the necessary resources in an efficient exercise of powers and meet citizens' needs for efficient public services.

Research on this pathway will shed light on the direction of the implications of fiscal decentralization on the efficiency of public services and responding to numerous questions arising from what the above we will highlight the course of this article.

2. Taxonomy of decentralization. The Importance of financial decentralization

When we refer to decentralization we make a complete listing of the administrative decentralization to the fiscal decentralization. Based on administrative decentralization, the fundamental principle of organization and functioning of public administration, continue with political decentralization, territorial decentralization, technical (service) with emphasis on fiscal decentralization.

The literature reveals that administrative decentralization is the transfer of responsibilities regarding the management, financing of public functions from central level to the subordinate units, namely the local authorities or regional authorities. The government transfers part of its powers and responsibilities of other central government bodies to local authorities.

Territorial decentralization manifests itself by giving legal status to representative bodies are elected by regional administrative units. In order to function properly decentralization of administrative territorial units allows them to create their principles of organization its management. It is necessary to emphasize that the principle of territorial decentralization is interwoven with the principle of local autonomy.

By decentralizing, technical (service) services are removed from the central or local jurisdiction and are organized automatically. According to the framework law on decentralization, public service becomes a legal personality, its own bodies and their own assets.

These three types of administrative decentralization, territorial and services are designed to reduce the concentration of activity in the central organs through the transfer of power locally.

Political decentralization is determined by the sequence of components such as constitutional reforms and political pluralism. Local elites are responsible for the policy of political decentralization is done on the development of many administrative tasks in the public sector.

This move was accompanied by encouraging citizens and groups to participate in public decision-making and development of community organizations in urban and rural areas. [Profiroiu, 2006]
It amplifies the degree of financial decentralization of local authority control over financial resources. This level of control is amplified either in terms of allocation of costs or when we refer to generating revenue.

We believe that a primary issue, the analysis made in the calculation of fiscal decentralization, is represented by proper balancing of the local authority and the resources required to carry out this authority. Specialized studies on financial decentralization reveals that research focuses on inter-governmental transfers and the differences in the ability to generate revenues between different types of authorities.

3. The Efficiency Process of Public Services Determined by Decentralization

The degree of administrative decentralization of public services depends on the number given in the local jurisdiction. The degree of financial decentralization reflects the efficiency of public services. If the number of decentralized services is large, the services require that to be effective. For their effective operation should be resolved such issues, decentralization of public administration to make progress, depends on how the organization of local governments is achieved and the relationship between them and the central authorities. The analysis of centralized and decentralized public service efficiency is no doubt a number of elements who are highlighted. Comparative method used in the centralized public administration services in Romania before 1989 and decentralized public services to a first analysis of this issue from the perspective reveals that centralized systems can not meet the needs of local communities versus decentralized systems.

Development of administrative capacity is also an important determinant of efficiency of public services. We emphasize the importance of efforts to develop efficient public-private partnership to increase administrative capacity.

Administrative capacity is determined also by the absorption of European funds accessed by projects and inclusions of EU funds are meant to complement the local government's financial deficit. To develop local community groups focus on local action, which is another way of developing and implementing strategies for joint development, a new element, the association implemented in Romania since 2009, focusing on the nature of associations of local government non-governmental organizations and private sector partners.

EU states argued in favor of decentralization policies. This topic more intertwined by the first fifteen Member States of the European Union and a large-scale acquired after joining last twelve countries that have begun to join the European Union in 2004 and 2007, here including Romania. Criteria for membership of the Member States have included administrative duties. To join the Community and take part in the unification process, states has come a long and complicated process of adjustment to all areas including administration.

In order to guide the candidate on the reforms, EU accession has established several criteria such as political criteria, economic criteria, ability to fully adopt the acquis communautaire and the candidate to meet these criteria had to develop administrative and judicial structures.

In Romania, was founded the basis of decentralization. Even if the fundamental premises were established with the adoption of a legislative perspective the fundamental document, Constitution, they must be strengthened and supported by the state. Effects of decentralization are not really visible, the decentralization process in Romania takes place at low speed. The concept of decentralization is met by local authorities and it will apply changes to public services.

Decentralization of public services is more than the transfer of responsibility and powers from central to local level. Decentralization of public services involves the transfer of financial resources, increase local budgets and resources to support their local governments to increase public services.
Local communities make efforts in ways that signify development through decentralization and local autonomy, local communities and progress aspects of innovative and experimental procedures based on industry experience and success of other community partners from abroad and from my own experience.

During the 1990s, fiscal decentralization and local government reform have become among the most widespread trends in development. Efforts have been extensive and costly, however, have made only modest progress towards goals. Given this poor performance, there was extensive debate on fiscal decentralization strategies and arrangements.

Origins, conceptual foundations and practical examples of fiscal decentralization in developing countries are analyzed. Firstly, why fiscal centralization was considered so important and historically prevailed in developing countries, and why this trend has brought fruitful results, progress is slow. Fiscal decentralization is considered to be relevant for developing countries. We analyzed some comments made in favor and against fiscal decentralization, and is considered worthy of consideration available empirical evidence. The key elements of fiscal decentralization are highlighted and these are promoted in various countries in Europe, but mentioned the problems arising from the implementation of fiscal decentralization.

Although many developing countries have remained fairly centralized in the short term, few have generated a collective interest in growth, development or revival of local government under the World Bank report in 2000. Economic planning by central governments has not been successful in promoting the appropriate development of local government. Although there were periods of strong economic performance in developing world in recent decades, particularly in Asia, many countries have faced a variety of economic problems that central governments have been unable to cope. Transformations that have occurred and international economic conditions and the introduction of new elements in the administrative structure of public sector performance has improved and created serious fiscal difficulties in developing countries. Increase services in the context of a bad economy led to large budget deficits, which were mainly financed by foreign loans. Interest payments have consumed an increasing share of public resources, have maintained a vicious circle of borrowing and overspending. In response, central governments trying to reduce their role in managing local and rely more on local governments, which are often not sufficiently empowered and can not have significant potential revenue to be exploited.

The new emphasis on a greater role for local tax has been supported by international development agencies. The publication of the year 1988/1989 World Development devotes an entire chapter to local government, and cites reports from the World Bank said that an efficient public sector in a developing modern country depends on its ability to harness the resources of the central government levels lower power. Entry into XXI century puts considerable emphasis on decentralization and local development.

The volume capacity of the decentralization of the former communist countries and the ways in which reform was achieved, examines the theoretical and empirical relationship between decentralization and capacity development, how much has been accomplished since decentralization occurred in post-communist countries and that proved to be an institutional advantage for the transition process.

Although the story is almost defined post-communist countries as a success story, decentralization act to achieve economic growth states and a democratic political system and aims to accelerate modernization. Decentralization was becoming increasingly supported by the World Bank and International Monetary Fund and the European Union for future members. As a result, in 75 developed countries with a higher proportion of 5 million inhabitants, 63 (representing 85%) have adopted “a kind of program of decentralization in the mid-nineteenth century”.

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Decentralization has similar advanced in all its dimensions, thus implying that the use of an indicator is as good as any other indicator.

Institute of Fiscal Decentralization World Bank is involved in a program for managing and expanding the knowledge base on top of fiscal problems and offer training opportunities to a wide audience, including academics, officials at the national level and sub-national public and employees of private institutions, among other groups. It also provides specific services to policy makers, realizing both financial and intellectual support "donor partners." They have the necessary experience and activity of "training partners" that receive the knowledge of those who already have experience and training than their responsibilities throughout the preparation.

Fiscal decentralization encompasses many elements of governance. Particular interests are drawn from various forms of organization of state administrative institutions. The framework deals with the issue of revenue allocation and tasks and sub-national governments. Fiscal decentralization also involves the question how to reduce economic disparities between regions. This involves issues of transparency and accountability by improving their service delivery. These institutional arrangements have an effect on the balance citizens' taxes paid and services received. "The focus is kept on the impact that decentralization has on the quality of public services.

Conclusions

A good financial decentralization supplemented by a contribution from EU funds accessed through project financing, complemented by partnerships with private sector associations and public administrative institutions, provides a variety of financial benefits, which translate into a light favorable government institutions to meet the public interest.

The purpose of this paper is to highlight awareness of the benefits derived by the effects of decentralization of public financial system that have the effect of improving public services.

Financial decentralization is the reference point of our work can’t be done without examining research on the subject of legislative landmarks in question. To deepen the concept of decentralization will review the theoretical and then we combined them. After switching to the democratic regime have created the premises for a new Constitution, and in 2003 approved a draft revision of the Constitution adopted in Parliament and a referendum. This is stipulated in the Constitution the principles of decentralization, local autonomy, and deconcentration of public services, fundamental principles of administrative-territorial operation.

The Awareness of general issues and specific benefits of fiscal decentralization lead to a broader psychosocial collecting and positively engage in this process, stimulating interest and involvement of local communities to address gaps in the administrative system.

When we refer to decentralization, we cannot separate the qualitative aspect of quantity. The number of organs and specialized agencies of public institutions determine the quantitative side, the number of divisions and subdivisions of state government. When we refer to the qualitative aspect attributed to highlight the power they have public service departments.

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EFFECTS OF TRANSITION FROM TRADITIONAL GOVERNMENT TO GOVERNMENT QUALITY-ORIENTED

Irina Bosie, Phd student, University “Alexandu Ioan Cuza” of Iaşi
Faculty of Economics and Business Administration, irina.bosie@uaic.ro

ABSTRACT

The transition from traditional government to quality oriented administration designed to serve as the common good of citizens, involves the adoption of strategies, policies and local development programs, technical assistance and appropriate training, effective coordination, control, monitoring and promotion strategies work.

Studies have shown that working strategies promoting it is a fundamental criterion in the development of efficient public services. Each local authority will have to initiate a dialogue with citizens, local organizations and private companies and to approve a particular project or partnership. By conducting consultations and promote projects, local authorities will receive support from citizens and civic organizations, local authorities will obtain the information needed to formulate the best strategy. Strategies to shift from traditional government administration to efficient administration are supported and effective and it have in common to obtain funding for local, national, regional and international to achieve the opportunity of constructing them.

KEY-WORDS: traditional government, new government, local authorities, strategy, changes

1. Brief introduction to the sphere of knowledge

The process of transition from a traditional administration to administration is a process based on quality rather long-winded. The need arises from the desire of its efficient public services to the citizens. Changes are occurring within certain standard but also with the passing of time. The move to computerized public services is the main step towards change.

Contemporary literature considers the transition from specialized traditional public administration to public administration based on quality. So the quality management in public administration research various opinions have emerged about the emphasis placed on quality of the new administration. [Oprean, 2000].

School subject matter of Collective or Public Choice options is represented by the state, electoral regimes, political parties, bureaucracy. As followers of this school of thought we can enumerate James Buchanan, Gordon Tulock, Duncan Black, who they felt that the state should be within the bureaucratic and market mechanisms. This idea is supported by attempts to reduce bureaucracy by introducing concepts by setting up e-government, e-governance, e-taxes, etc.. designed to facilitate the bureaucratic process. Lawyers argue that current public sector orientation to a policy of simplifying the bureaucratic process. Bureaucratization is minimized by introducing the concepts of e-administration and it is supported the administrative, financial, technical decentralization. As you know, the principle of subsidiary is intended to provide decision-making closer to citizens and permanent verification of the need to take action at Community level in light of the possibilities existing at national, regional or local. Decentralization of public services means the transferring of some powers from the competence of the specialized central public administration authorities; a body led by a public service resulted from the administrative-territorial units.
This source noted that governments must become more efficient drawing on the models of private management companies; the state should not limit their involvement in the economy but must seek to manage properly which implies an obligation to balance the budget. The Public Choice School give shape to strong fundamentals and analyze the theoretical and administrative process through concrete examples.

Taking into account the opinion research that the late Professor Paul Negulescu that said the public service is publicly available to meet regularly and continuously in need of a general nature, that private enterprise would not be able to give only incomplete and satisfaction intermittent, draw a series of counter arguments, with the advantage of society development and the shift from centralized to the decentralized system, moving within the public private partnership.

The literature also draws attention to quality management in public administration, which will allow implementation to achieve optimal conditions in all its forms including decentralization and fiscal decentralization.

Differences between administrative organizations that provide quality public services and old organizations are highlighted by simple comparison of orientation towards quality and orientation to the needs.

On this pathway we can refer the differences between traditional public administration and the quality-oriented in terms of introducing concepts of public private partnership.

Same orientation as the administration determines fundraising to supplement the financial needs. Administrations to determine the financial needs call causing association partnerships with private partners. Such public-private partnerships should be seen in the general context of public sector reform movement known as "New Public Management" to encourage decentralization of public services by separating the responsibilities for the procurement of public services with the provision. Also, through public private partnerships is encourage to contract public services to the private sector and privatization of public services.

[Yescombe, 2007]

2. What is the path chosen by quality-oriented governments?

Based on traditional citizen oriented organizations can add value to the organization to meet the needs of citizens administrations. Although at first glance difference is not noticeable, requiring citizens outweigh the welfare of the citizens.

Organizations put their attention on quality and efficiency the public administrations in terms of thinking about the problem in the maximum possible coverage to achieve needs under the budgetary and legal restrictions.

Although governments are faced with the detection of classical administrative problems have not managed to cover the entire range of needs, governments now focus their attention on preventing all problems.

Administrations have changed their strategy and work from the perspective of the phenomenon of computerization needs in order to attract investment in training people. Professional training is required and in terms of attracting and using public funds and in terms of the takeover in terms of informing the public private partnership.

So were a number of strategies developed and the quality of public services and administration comments that the traditional antithesis does not have a development strategy to quality. Perhaps if we were to mention a defensive strategy would not appeal to not be swamped by problems that arise in the process. This strategy might be at risk and survival, not prosperity or development activities without any problem.

As a strategy, we can mention the Romanian public administration reform strategy that includes the Romanian public administration and human resources management strategy and the strategy of decentralization.
Reform strategy has not only came with computerization was but was a prerequisite of harmonization in terms imposed by the European Union in order to have a system accessible to the European state and comprehensive. It tends towards harmonization but also wants to keep a feature that keeps the state identity.

Being in the process of administrative reform, as integrated in the accession wave the state in 2007, we still face problems that seem to specialists in the public domain or have found solutions have not yet adopted the models compatible with situations that we face, namely, administrative decentralization and public private partnership concept.

A legislative base was put on the Constitution and reinforced by Local Public Administration Law 215/2001 fallowed eventually to be approved the Public-Private Partnership Law. This accumulation of laws is a small part of what should mean a strong legislation that supports the process of administrative reform. The transition from traditional administration to administration is facing as a result of administrative reform.

Unlike traditional administrative organization regarding the quality as a cost cutting measure in the future, the quality of the new administration as a means of satisfying citizens. Quality is part of a new organizational culture of public administration.

Returning to the good ways to improve administrative and fundraising strategies and cost reduction can not omit the Public Private Partnerships. They have become a problem in Romania while the authorities try to solve the environmental benefit of local communities to develop public offering development opportunity and private sector partners. Public Private Partnerships aim is to maintain and purchase including social infrastructure, public utilities and specialized services. The author also refers to the negative impact of political factors in decision making especially on Public Private Partnership beneficial impact on public services, development and structure: many approaches to financing private provision of public services.

The author Yescombe, in "Public - Private Partnerships: Principles of Policy and Finance" discusses how the Public Private Partnership was effective in France, Turkey, China and England taking an example with a partnership to provide potable water.

Public Private Partnership models are varied, depending on the characteristics of each State which has taken the public and private cooperation. Budgetary benefits are highlighted, as a Public Private Partnership allows capital costs spread throughout the public sector partnership in place as it is received immediately as the public budget prepared. This cost is paid by users, not by taxpayers. As a Public Private Partnership has budgeted for the public sector to give up short payment terms of public investment on infrastructure are insufficient receipts taxes imposed and limitations of public sector loans.

One attribute of Public Private Partnership in the UK is that the name of "Private Finance Initiative" or "Innovative Finance" confirms that Public Private Partnerships are first and foremost about private sector or the public sector investment.

The author reveals that the privatization of our public sector initiative began in Britain in 1980. Later beneficial effects for the public sector, it has spread to other countries. The main factors were the privatization of the new public management, with the belief that there will be a breakthrough if the private sector to provide services and those issues will drive the efficiency of public services especially in the coverage of utilities.

Future provisions of this law will assist the development of public services and entrepreneurs. As an example adopted in Romania, the law gives the Public Private Partnership in addition to regulating the initiation and implementation of public-private partnership projects and general binding rules on the division of responsibilities, amount of financing and risk of correlative rights and obligations partners with the performance of all elements that form the framework stipulated in the final.

It seeks through Public Private Partnerships sharing obligations by transferring them from the public entity to the investor. These obligations consist of design, construction, rehabilitation, modernization, operation, maintenance and financing. Upon completion of the
contract, the private partner is obliged to transfer public good, free, public partner, "in good condition and free of any charge or obligation. [Yescomb, 2000]

3. The value of effective public administration transition from traditional to the administration based on quality?

The researchers, analyzing the shift from administration to administration based on quality traditional are increasingly aware over the concept of public value. But what actually is public value?

Public value refers to the value created by the state through public service legislation. At these values of a democratic system of state are determined by the preferences of citizens through a variety of ways that are reflected by the decisions officials [Kelly and Muers 2003]. This is easy to deduce that public administrations have more value when they can guarantee the services of increasingly higher quality that enhance the lives of citizens. Considering this is easy to determine that public value is based on human factors. The human factor is one that benefits from efficient and quality services. From here we can draw the conclusion that some states differentiate public sector by value, so some are more advanced if we can address this issue and others in this way are not brought afloat. It should be stressed that this value is determined by public support and legislative strategies that meet public sector development.

Public value is the guarantee of citizens' quality of life when the value was determined. The concept of public value in terms of researchers originally founded as the concept will be embraced by organizations in the UK and was launched in 2006 by the Institute for Public Service Value, which highlighted how it was created in public administration and public value how this phenomenon will increase and subsequently will become a milestone.

We can say that the transition from traditional administration to administration based on quality, determined the development of the concept of public value. But who can fix the current crisis conditions and the precarious situation in which governments of countries still pass, which is the value of each post, or if it exists? What are the limits that can achieve public value? What is the purpose of establishing these values?

Setting public can view several researchers have considered switching to another level once the reform process is completed.

Public value can be defined as the result of a public system developed to effectively present features that are designed to reduce inequalities, the poverty, the strengthening of democratic states and the added value of national identity.

Government should encourage public sector development and to ensure cost efficiency of public services. Public managers are not able to find solutions for creating public value, are not able to fulfill the desires of citizens. The optimal solution would be to determine a way to implement financial decentralization, a new approach to managing the funds come from the state budget and financial autonomy. All this needs to be supplemented by European funds designated for implementation of administrative development projects.

Conclusions

Traditional administration was criticized and feel reminiscent of the era still exist in its unspoiled state of the times change. After moving from centralized administration of modern decentralized administration widened the traditional shortcomings of the administration no longer consistent with modern times. The main shortcoming of traditional public administration was the high degree of concentration of elements within the administration was also determined by the environment in which it was part.

Proximity to citizens needs and desire to provide quality services to satisfy the public interest are the strategies of governments. This unit of citizens satisfying these goals long-term strategy addressing conceive a way to prevent incidents before. All this is possible only by implementing a model that folds on national needs, a successful model designed to
modernize the public sector. The decentralization process is the decisive step towards modernization and decentralization is the key financial.

The transition from the traditional administrative system based on quality is more than obvious, the shift is not completed but unfortunately a long period from the collapse of the centralized system have made progress with small steps.

In the administrative mainframe systems going through administrative reform processes and whose transition from centralization to decentralization has been much accelerated, disclosing the existence of the notion of public value that represents the next step after completing the reform process.

Moving from the traditional administrative overheads quality oriented administration determines the effect of appearance quality public services that have the main effect of stages in the notion of quantifying these public values. A complete analysis of the public administration reveals that there still will exist for a long time organization's problems. The transition from traditional government to the new government based on efficiency has been achieved with slow steps even semi invisible ones. Still there are some visible changes by introducing new information systems and more efficient informational equipment. Notable changes exist by observing the degree of staff training in public administration. These are small steps for entering the new government based on quality-oriented world, if we can call in that. Human resources changes are placed with an emphasis on continuous professional training. Heavier emphasis is on public private partnerships and accessing to government quality-oriented European funds. In this case the situation is rather uncertain but we hope Romania will accept as a successful model an European good practice model and we will give more attention to the matter. The passing from traditional government is an upward trend.

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Acknowledgements

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THE LINK BETWEEN THE LISBON STRATEGY AND THE COHESION POLICY OF THE EUROPEAN UNION

Lavinia Florentina CHIRILĂ, prep. univ. drd
Universitatea din Oradea, Facultatea de Științe Economice

ABSTRACT

According to the official Gateway to the European Union, the Lisbon Strategy “has proved its worth”. Since its relaunch in 2005, more than 6.5 million jobs have been created in Europe and unemployment has fallen to the lowest level recorded in the last 25 years. All these great achievements have been purchased through the four priority areas sustained by the Lisbon Strategy, which are investing in people and modernising labour markets; energy and climate change; strengthening economic competitiveness; promoting knowledge and innovation. But which is the link between the Lisbon strategy and the regional policy as the KOK report emphasized? Which are the perspectives after 2013? are some of the question that the present paper examines, taking into account the results that have been registered in Romania and its regions so far.

Key words: Lisbon Strategy, European Union, Cohesion Policy, National Reform Programmes, objectives

1. Introduction

The European Union is a unique construction, the result of almost sixty years of integration, which brought both economic and social progress for its member states, extending its borders of integration from 6 to 27 Member States, from a common market and a custom union to a politic union as it is today. The important role that European Union plays on the world scene along with the ambition to preserve prosperity for its Member States obliges it to have a prompt reaction to the global changes. The response given by European Union to the global changes was the introduction of the Lisbon Strategy in March 2000, at the Lisbon summit, whose agenda was to make Europe the most competitive, dynamic and knowledge-based economy in the world.

According to the official Gateway to the European Union, the Lisbon Strategy “has proved its worth”. Since its relaunch in 2005, more than 6.5 million jobs have been created in Europe and unemployment has fallen to the lowest level recorded in the last 25 years. From its introduction in 2000 until today, the Lisbon strategy has suffered several changes in order to improve its efficiency and to obtain the results that it assumed. The European Union reconsidered the main objectives and priorities of the Lisbon strategy during the year 2005, due to the unsatisfactory progress and the big difference between Europe’s growth potential and other economies’ growth rates. The biggest change brought, as the KOK Report suggested, was the integration of the Cohesion policy into the implementation of the strategy. Achieving long-term economic growth and creating new jobs for the Europeans were the main objectives of the renewed strategy. However, at the moment Europe is facing a worldwide economic crisis and must cope with long-term issues (ageing of the population, globalisation, climate change, dependence on energy imports, etc.); this is why a proper implementation of the Community Lisbon Programme (CLP) is vital for its future.
2. The link between the Lisbon Strategy and the Cohesion Policy

As the Aho Report entitled “Creating an innovative Europe” recommended, the Structural Funds (the ERDF, the ESF and the Cohesion Fund) represent the most important instrument used for the implementation of growing research and innovation policy, based on the several innovation drivers identified by the strategy itself. These are the instruments used in the implementation of the cohesion policy, and represent the link between the Lisbon Strategy and the Cohesion Policy.

The ESF (European Social Fund), in particular, refers to the area of education, considered by the European strategy to be one of the most important innovation drivers, by supporting professional training and continuous education and reforms to innovation and education systems, especially in the least-developed regions covered by the Convergence Objective.

The ERDF (European Regional Development Fund), support the creation of effective regional innovation systems through, among other things, the reinforcement of regional capacity with respect to R & D innovation; support to R & D, particularly in SMEs, and to technology transfer; the creation of business clusters and networks; promotion of entrepreneurship and the financing of innovation by SMEs through new financial engineering instruments.

In order to enable technology transfer between universities or research centers and economic agents, the EU instruments promote cooperation, trying to lose the great gap that divides the business and research spheres. The real actors of the cohesion policy and its structural funds are the local and regional authorities, as they are the only able to ensure a proper cooperation between different levels of governance and to seek that through the implementation of structural funds the foreseen objectives of the policy are accomplished. To purchase this, a new Communication has been published: “the Community Strategic Guidelines on Cohesion 2007-2013”. These guidelines consist of the priorities and principles of the European regional development policy and highlight the lines that the European regions should follow to benefit from the 308 billion Euros that have been allocated through the national and regional aid programmes, up to 2013. Their purpose is to help national authorities to put together their national development priorities and objectives for the period 2007-2013, in other words the “National Strategic Reference Frameworks” (NSRFs). The main priority that Member States should keep in mind when stating their priorities is achieving the goals of the new Lisbon Strategy: improving the attractiveness of the member states; improving accessibility to regions and cities; improving the adaptability of workers and enterprises, etc.

3. Lisbon’s last cycle: 2008-2010

In March 2008, the Presidency Conclusions revealed that the European “economic growth has reached 2,9% in 2007, but is likely to be lower this year. 6,5 million jobs were created in the period 2007-2008, and this number should increase with another 5 million work places in 2009. Although cyclical factors have played a role, these developments have been aided by the structural reforms undertaken over the last few years within the framework of the Lisbon Strategy and the beneficial effects of the euro and the single market”. In the same

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2. The Lisbon Strategy and the neighbourhood policy for the internationalisation of the innovation systems in the Mediterranean, Battistina Cugusi, 2007, p.7;
3. Ibidem;
4. Ibidem, p.8;
report it was stated that the main priority of the European Union must be avoiding complacency and supporting reform efforts through the full implementation of the National Reform Programmes and the Integrated Guidelines for Growth and Jobs. Another priority should be to complete and deepen the internal market. This communication sets a multitude of ambitious actions to be taken at community and national level by 2010, through “launching the new cycle of the renewed Lisbon Strategy for growth and jobs (2008-2010)”7.

The guidelines launched for growth and jobs 2008-2010 split into three areas: macroeconomic policies, microeconomic reforms and guidelines for employment policies - reconfirming the guidelines defined in 2005 for the next three years of the Lisbon strategy8. In a speech hold on 4 March 2008, the President of the European Commission Jose Manuel Barroso, highlighted the fact that the Lisbon Strategy will continue even after 2010, and so, the programming period 2008-2010 is not the last one. In fact, the positive results achieved in the last three years reveal that the measures taken are efficient and this path should be carried on, with some improvements where they are considered to be needed, as results have been registered and will be now on too9. He foresaw that the unemployment should decrease and have a lower rate than 7%, unemployment being the lowest in the last 25 years. He also revealed other positive results regarding to economic growth, public debt, policies supporting enterprises and investments in research and innovation. He stated that “all Member States have now set national R&D investment targets. If these are met, the EU will be spending 2.6% of its GDP on R&D by 2010 – up from 1.9% in 2005”10.

All these aspects determine us to be optimistic regarding the effect of the Lisbon Strategy implemented through the instruments of the cohesion policy. Even so, all member states must keep their commitments to implement the Lisbon strategy priorities, which are: investment in human capital and modernization of labour markets; ensuring a friendly environment for enterprises (European law on SMEs); knowhow - investment in education, R&S and innovation; attention to the energy sector and climate change11.

In the conclusions of the Presidency from March 2008, an important it has been emphasized the important role of the European regions and of the local and regional level in delivering sustainable growth and jobs.

4. Romania and the Lisbon strategy in 2010

According to the National Reform Programme 2008-2010, Romania will become a country with stronger economy, a more attractive business environment which will create the welfare every citizen awaits. The targets set for the Romanian economy are great; we have set impressive objectives, which should make every Romanian happy that he is a citizen of this country. These objectives have been set in total accordance to the Lisbon strategies, but in fact, the situation is different by far.

The results obtained in 2009 show that the Romanian economy experienced one of the sharpest contractions in its recent history. GDP fell by 7.1% after going up by the same magnitude a year before12. Because of the world economic crisis who made itself felt in Romania in the last quarter of 2008, at the beginning of the year 2009 the authorities asked to the IMF for a financial aid. The Romanian government obtained an amount of 19.5 billion EUR agreement with a group of international institutions led by the IMF. Through this loan, the government covered the needs of financing its external and internal deficits. On the other

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7 Idem, p.3;
10 Idem, p.4;
hand, the IMF programme imposed the necessary changes that had to be adopted by fiscal authorities to obtain a transparent fiscal policy.

At the beginning of the year 2009 the European Commission made an evaluation of the implementation of the National Reform Programme\(^\text{13}\) of Romania, and formulated a couple of recommendations for Romania in order to achieve the Lisbon targets. These were to strengthen the public administration, to tighten the fiscal policy and improve the macroeconomic mix, to simplify certain administrative procedures, and to rethink the education and training systems in order to meet the demand on the labor market. More exactly, Romania failed to achieve its country specific targets. The latest employment rate was 60\(^\%\)\(^\text{14}\), compared to the national target of 63\(^\%\) and the Lisbon target of 70\(^\%\), while investment in R&D was 0.58\(^\%\) of GDP in 2007, compared with a national target of 1.8\(^\%\) of GDP, and a target of 3\(^\%\) of GDP set through the Lisbon Strategy.

As the last cycle of the Lisbon strategy emphasized, creating workplaces for every European citizen through implementing life-long learning in the Member States, investing in human capital and modernizing labor markets, increasing workforce flexibility are the main priorities for the European Union at the moment. It is obvious that human capital is the most sensible resource and it has been directly affected by the economic crisis. Unfortunately, Romania is placed on the back of the European countries as regards the flexibility of the workforce. We are also at the end of the queue considering life-long learning, as it is revealed in the following figure.

\[\text{Figure 1. Lifelong learning in the EU. Percentage of the population 25-64 participating in education and training over the four weeks prior to the survey}\]

\[\text{Source: Eurostat 2008}\]

Another problem that Romania faces speaking about the most important subject of the Lisbon strategy, labour force, is the fact that the Romanian schemes for sustaining labour force are old and do not present a long-term approach, even if the term is very often used in the political speeches. The Romanian governments have proved unable to implement long-term policies, as the political instability which is a major factor in adopting long-term policies prevent their implementation.

5. Conclusions

The link between the Lisbon strategy is obviously given by the means of implementing the Lisbon strategy. This commitment called the Lisbon strategy, through which the European Union defined for itself a series of indicators to assure high living

\(^{13}\) \url{http://ec.europa.eu/growthandjobs/pdf/european-dimension-200812-annual-progress-report/annual_en.pdf};

\(^{14}\) INSSE, Ocuparea şi şomajul în trimestrul III 2009;
standards for its citizens is financed through the cohesion policy, and uses its instruments. The structural funds are the tools used by the European Union to achieve its goals regarding the social welfare with all the aspects that it involves.

The last period of implementation of the Lisbon strategy focused mainly on workforce and the means of supporting its development. The labor force is considered the best investment. As the president of the European Commission said, “we need to develop skills today that we need tomorrow”\textsuperscript{15}. The generations who come after us must be highly skilled, only in this way we can obtain a knowledge-based society.

As it regards Romania, our country formed an ambitious National Strategic Plan, in accordance to the Lisbon strategy and with the expectancies of the European Commission, but did not manage to put them into practice. The workforce in our country is one of the least educated in European Union. In our country less than 2% of the workforce participates at life-long learning programmes, and in this way the workforce cannot get the grade of specialization needed on the marked.

Another problem regarding the Romanian workforce up to this moment, in implementing the Lisbon strategy is the lack of long-time politics in the area. Romanians urgently needs a politic stability in order to assure continuity of the measures taken to respond to the needs of the labour market. The lack of part-time and temporary work contracts have a negative impact on the youth, elder and female workers. All these aspects must be coped with very seriously if we want a real progress and accurate results.

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ANALYSIS OF TAX AND EXTRA TAXES PRESSURE IN ROMANIA AND EUROPEAN UNION

DOBROTĂ GABRIELA – Professor PhD.
CHIRCULESCU MARIA FELICIA – Assistant PhD. candidate
UNIVERSITY „CONSTANTIN BRÂNCUŞI‖ Târgu Jiu

ABSTRACT
The fiscal pressure requires certain limits of affordability for taxpayers. These limits are imposed by the reactions of taxpayers who can resist to compulsory levies increase, reacting with evasion, fraud, reduce productive activity or even riots. If by a certain time, the tax pay is made voluntarily by the honest taxpayer, at a time when taxes exceed certain limits of endurance events occur that bring serious damages to state's desire to collect these revenues. Taxpayer behavior becomes abnormal in any way always trying to avoid paying tax, hoping for a reduction in tax burden. In this work paper we propose to approach a distinction between the concept of actual tax burden and the extra fiscal pressure, also a comparative analysis of the taxation level in member states of the European Union based on indicators that allow knowledge of the tax burden of the structure.

Key words: tax and duties, social contribution, tax burden

1. Tax burden meanings

In the literature there are various viewpoints on the definition of fiscal pressure and how to approach it. In a first approach the tax burden is seen as "relative expression of tax burden borne by the taxpayer". Tulai Constantin in his work appreciates that the tax burden "means as heavy are the taxes, in other words, how big is the tax burden on the shoulders of taxpayers."

Another author considers that the tax burden is "a measure of income derived from production, passing the budget by a process of public involvement and mandatory, rather than being left free to the private initiative."

The definition of tax burden can be removed and the appreciation of Professor Nicholas Hoanţă, which in his work entitled Tax Evasion appreciates that "tax burden is generally given by tax rate, calculated as the ratio of tax revenue (central level and the communities local), including state social security contributions in a given period, usually a year, and the value of gross domestic product, made in the same period, by the national economy."

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3 Manolescu Gheorghe, Budget. Economic and financial approach, Bucharest, 1997, page 69
Regardless of the way to approach, in order to fulfill the purpose of tax policy, tax burden imposed by public authorities must reconcile two diametrically opposite trends, namely that the State wants it to be increased to cover public expenditure continuously growing and the taxpayer who wants a tax burden as low as possible.

2. Actual tax burden vs extra tax pressure: measurement indicators

A distinction between two concepts (the actual tax burden and extra tax pressure) actually respond to the question: Are tax levy contributions compulsory?

The tax levy tax practice is identified primarily with taxes, which is the oldest and most traditional means of funding the state has in order to carry out functions and tasks, being at the same time, in constant evolution.

In addition, the public authority appeals to levy a special character, called contributions, in order to ensure adequate social protection for people in distress.

The social contributions is "a transfer of value to the state required, no equivalent, and definitively stated purpose is strictly due under the law by individuals and legal entities to cover public expenditure of community or social nature". According to another point of view, the contributions are "proceeds of certain public institutions, by individuals or legal entities for real or perceived benefits that they receive".

Public finance theorists consider social security contributions as tax deductions based on the inclusion into the state general government budgets mandatory public perception fueled by such contributions, ie the state social security budget, the budget single national fund for social insurance health budget for unemployment fund and other special purpose budget.

Although social contributions are pressing for social subjects, they bear as are required by law.

Taking into account the above issues, we consider it necessary to use two concepts, namely:

1. the comprehensive concept of all compulsory levy taxes that includes contributions levied on public budgets in general government components;
2. the concept of tax levies, which relate only to income taxes which determines the state budget and local budgets incomes.

Based on these considerations also the tax burden can be properly defined as follows:

1. The tax burden of taxes and duties \( (Pr_{imp}) \). Tax burden of taxation can be calculated at the microeconomic level, for each supported by taxes and macro level, the national tax burden. The report presents the calculation of tax burden in the numerator is the sum of direct and indirect taxes, and to the denominator is the size of gross domestic product.

\[
Pr_{imp} = \frac{Direct \ taxes + Indirect \ taxes}{GDP} \times 100
\]

2. Pressure of social security contributions \( (Ppcb) \) evidencing the employers level, to individuals level bear the contributions of social and national pressure due to the aggregate of the total social security contributions owed. The formula is as follows:

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3. Compulsory levies pressure (Prpo) calculated as the ratio between mandatory levels (taxes, fees, contributions) and gross domestic product (GDP):

\[ Prpo = \frac{Compulsory\ levy}{GDP} \times 100 \]

3. Tax pressure in member states of European Union

As a sample analysis of fiscal pressure and their effects we applied to the group of countries that are present in the member states of the European Union (EU27) and the period of analysis was incorporated in 2009, the latest year for which statistics are available.

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<th>Tax and extra tax pressure level, in the member states in 2009</th>
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Graphical representation of indicators: tax burden related to direct taxes, indirect taxes related to fiscal pressure and the pressure caused by social contributions emphasize the suggestive structure of compulsory levies on the countries level examined:
If we consider the composition of the tax burden, we find that the share of mandatory contributions to GDP in most countries exceeds 10% threshold, reaching a peak of 16.7% in Belgium. The opposite is Denmark, where the level is 1.92%, but where the tax burden of taxes is 46.89%. And yet, Denmark occupies a leading position in the ranking of countries with a favorable business climate, unlike our country, which, although having a much lower level of taxation, is situated only 44 in the same top position. If we try to find answers to this situation, maybe we should shift to multiple legislative changes (reported on contributions to health in our country only in 2008 changes were made 3 times, they continued in 2009, not only in terms of rates but also in terms of tax base, changes in mandatory contributions will be recorded in 2011 when they will likely be governed by the Tax Code and special laws not), errors in law, excessive bureaucracy, the large number of tax and extra tax obligations.

According to the table. 1 in the EU27 level, in 2009, the share of compulsory levies higher GDP were recorded in Belgium, Denmark, Germany, France, Italy, Austria, Finland, Sweden share them with over 40%. The lower weights more than 30% were registered in Ireland, Latvia, Lithuania, Romania, Slovakia.

In Romania, in 2009, the pressure has been compulsory levies a 28% level, ie by 12.6 percentage points less than the average in the EU27 and 1.58 percentage points more than the minimum recorded by Latvia.

The level of this indicator positioned Romania ranks second among EU countries as Latvia, with a low share in GDP mandatory levies (but, as I noted in other studies, the tax burden is determined by comparing the amount collected samples of the GDP and not due). Despite this reality, the Romanian taxpayers feel aggressive taxation, because taxation in Romania, although comparable with other member states can not be assessed without taking into account the fact that GDP per capita in Romania is in a ratio much lower than that made in other EU countries. Also, in our country there are a large number of taxes, mandatory contributions, special tax, which emphasizes the perception of a high tax burden.
For a more accurate positioning Romania in the EU27, in terms of GDP share of compulsory levies, consider the need for a dynamic analysis of this indicator, as shown by the data presented in the table 2.

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Data in the table, 2 shows that during 2000-2009 the majority of EU member states have recorded a pressure drop in GDP compulsory levies, except, however, a number of nine states where the tax burden grew: Czech Republic, Estonia, Italy, Cyprus, Hungary, Malta, Austria, Portugal, Slovak.

In the year 2009 compared to the level recorded in 2000, Malta and Cyprus have seen a sharp increase in the tax burden, ie by 7,5% in Malta and 5,5% in Cyprus. In contrast to Slovakia and Finland found that significant declines. In Romania there is a reduction in the level of tax burden by 2,4 percent over 2000, but this should be read in conjunction with a number of issues: economic and financial crisis, and the revenue collected reducereaa size of the GDP (with 7,1% lower in 2009), maintaining the trend of direct tax revenue exceeded the revenue from taxes on consumption.
4. Conclusions

From a conceptual standpoint, the overall tax burden of taxes due to difficulties quantifying indirect taxes, an effort by the research done to find ways to quantify the tax burden for both categories of taxes (direct and indirect). If the level of taxation for direct taxes affect the behavior of voluntary compliance or tax evasion behavior, in the case of indirect taxes can not speak proper, the manifestations of fiscal behavior, but the general behavior of economic events, such as the reaction in the economic subject form of consumption or the consumption structure. Derived from consumer behavior also the behavior of saving or investment, etc.

We also appreciate that the distinction between the components of the tax burden is important for the following respects:

1. The taxpayer has a different perception for tax and social contributions. If the tax is seen as an irreplaceable loss (not affected because of the principle of budget revenue), social contributions are perceived as a guarantee or insurance (for pension, health). Contributions to the unemployment fund, not to direct the future of nature is seen as a manifestation of social solidarity.

2. The administrative capacity of the state is different for the two categories of samples.

Finally, we consider that the information provided by an analysis of fiscal pressure level or its components is not sufficient unless it is filled with features and characteristics of each country for different periods. A mismatch in the tax system to the economic environment may have negative consequences on the future of that country. Legislative stability, eliminate corruption and red tape, reduce the liabilities in the form of taxes, contributions, bridging the legal system, improving tax collection obligations, efficient spending of resources collected are only a few aspects to be taken into account when is adopted measures affecting tax system.

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CONCEPTUAL DELIMITATIONS OF FIRMS IN DIFFICULTY

Drd. Diana Dădălău

ABSTRACT

Starting with a difficult financial situation and to bankruptcy, the term ,, firms in difficulty ” is vast. This concept is, above all, of economic nature, but should not be overlooked the legal nature, which can not be defined without a reference to the law governing the situation of firms in difficulty.

The term of ,, firms in difficulty ” is very large and, therefore, is very important to be presented the characteristics of firms in difficulty.

KEY WORDS
Firm in difficulty; Economic failure; Failure of the company; Technical insolvency; Insolvency.

A firm life is a succession of a business situation more or less difficult. Difficult situation translates as "by serious absence, important and progressive mastery of obstacles and difficulties", which is caused, on the one hand, by the inability of managers to effectively lead the company and on the other hand, by the development in its context economically. It is important to note that not the nature of the difficulties, but the frequency and intensity that occurs is critical in characterizing such a situation.

The difficult situation appears, therefore, to upset further exploitation. This is consistent with a "normal" reality of the enterprise, while difficult situation characterizing a "abnormal" reality of the same entity. The moment at which a problem or set of difficulties seem likely to lead to a difficult situation it is difficult to determine. Depending on the intensity and progression of acting, one can distinguish two types of difficulties: potential difficulties and actual or real difficulties.

Potential difficulty can be defined as an uncertain situation regarding the possibility of continuing exploitation. In other words, if occurring, this difficulty would be likely to depart the firm to continue exploitation.

Actual difficulty is the difficulty that once installed, becomes real in a way that, in the normal conduct of exploitation, the firm can not overcome. The firm will be effectively and irreversibly in a difficult situation.

But not always appearance of difficulties condemn inevitably a firm. Certain difficulties may disappear by itself or to mitigate. However taking early into account the difficulties, could be minimized the recovery efforts and reintegration in a position to continue exploitation. Clues that allow deceleration of difficulties are numerous. They are more or less perceptible, everything is relative to the situation of each firm.

A company's financial status is often considered difficult situation and even treated them. This is because, in truth, when financial problems start to occur, the company's

1 Conan J., Holder, M., Variables explicatives de performances et control de gestion dans les PMI, These D’Etat, Universite Dauphine, 1979, p. 136.
financial situation is one in which the recovery expectations are already very low. The combination of simultaneous action of these difficulties could lead to the final stage of the difficult situation, bankruptcy.

In his book, "Gestion de crise et stratégie de redressement"², Jean Brilman held firm in difficulty following definition: “firm in difficulty is not only the company that has financial problems, but also one that, meeting or predicting difficulties, take immediate action in order not to have financial problems”. These firms are characterized by low returns, a declining workload, a social climate degradation, until the beginning of strikes. For some of them, the situation may be compounded by the existence of a difficult external environment.

A relatively clear formula gives European Community law on state aid. Thus, for the purposes of this legislation, a firm is in difficulty when it is unable, either through their own financial resources or the resources that they can obtain from the owners / shareholders or creditors, to stem losses which, in the absence of intervention of public authorities, will lead short-term almost certainly out of its economic cycle.

Specifically, a firm (which under the laws of Romania has the name "company"³) is regarded as being in difficulty, in principle regardless of its size in the following circumstances:

(a) limited liability company - where more than half of the capital has disappeared and more than a quarter of that capital has been lost in the last 12 months;
(b) company in which at least some members have unlimited liability for its debts - where more than half of the capital (as disclosed in company accounts) disappeared more than a quarter of that capital has been lost last 12 months;
(c) regardless of the type of company concerned - if it meets the criteria under domestic law for being the subject of collective insolvency proceedings.

Even when none of the above conditions is not met, a firm may still be considered in difficulty, especially if they present the usual signs of a difficult firm, such as: increasing losses, diminishing turnover, growing stock inventories, over-capacity, declining cash flow, mounting debt, rising interest charges and falling or nil net asset value. In extreme cases, a firm may already have become insolvent or subject to collective insolvency proceedings under national law.

Composition law defines firm in difficulty as "firm which management potential viability and economic is in a dynamic decreasing, but whose owner is able to implement or enforce obligations outstanding.

The firm in difficulty definition from the initial project of the composition law: "firm in difficulty is the firm in financial crisis, characterized by the fact that the debtor has debts that exceed the current 50% of total assets”.

The exact moment difficulties arise in a firm is difficult to delimit. Difficulties may be based on internal or external causes, both objective and subjective, which act independently or together.

It is wrong to say that a firm with difficulties, economic or financial, is bankrupt. Bankruptcy is the last possible stage of a long process of economic deterioration - a financial company, having, in essence, a legal component.

Depending on the issues involved or the situation facing the company, the difficulties can be interpreted in several ways. The literature presents several problems for a company in difficulty⁴, given the gravity of the situation facing:
- **economic failure**, which is not covering the total cost of business income;
- **failure of the company**, which refers to any firm that has ceased, resulting in a loss to

³ Law no. 31/1990 regarding companies
creditors;
- **technical insolvency**, which means the current failure, as they reach maturity. A firm which hasn’t sufficient liquidity to pay debts will give creditors an alarm signal being considered technical termination payment;
- **insolvency of the bankrupt**, when total debt exceeds the fair value of assets, a situation that occurs often in the firm liquidation.

Regarding the last two conceptual limitations, the legal regulations in force in Romania regarding the difficult condition of a company defining insolvency like debtor's assets condition, characterized by the manifest inability to pay outstanding debts with the money available.

- **difficult financial situation**, which excludes termination payments and concerns the enterprises that have mainly cash difficulties and which do not comply balances relating to financial and economic situations. They are, economically, viable but made management mistakes, are healthy businesses, but vulnerable. They are very vulnerable by taking the risk of cessation of payments if the measure fails to redress the situation, a reorganization. The reorganization should not be an end in itself, representing an error trying to pick a company with state grants or loans, although this is a common practice in the Romanian business environment, for example.
- **bankruptcy**, a legal term with meanings, representing more precise procedure by which an entity declared insolvent, it will liquidate, terminate business. Bankruptcy is declared a failure according to criteria established by legislation and in financial terms can mean:

  - A negative net assets;
  - Termination payments to creditors;
  - Inability to pay dividends to preferred shares.

  Bankruptcy may be voluntary, if the company submits a claim bankruptcy judge or involuntary bankruptcy, if the court is notified of insolvency of the company by creditors. But if you do not want bankruptcy and business recovery is possible, the law provides alternatives.

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3. Law no. 31/1990 regarding companies.
5. Law no. 64/1995, on the judicial reorganization and bankruptcy, as amended and republished, art. 2.
THE SITUATION OF THE INSOLVENCIES
FROM ROMANIA DURING THE FIRST SEMESTER OF 2010

Drd. Diana Dădălău

ABSTRACT

The effects of the economic crisis are still increasingly noticed by most of the companies, by the decrease of sale, the rendering more difficult of the access to financing and thus by the considerable reduction of the liquidities, also reflected in the increase of the number of bankruptcies during the past months.

We notice a constant increase of the suppliers’ delayed payments, the average payment terms being between 90 and 120 days, in certain sectors being even longer, so that the prolongation of this financial blocking leads inevitably to the insolvency of an increasing number of companies. A domino effect starts on the delivery chain in the situation when several companies were incapacitated to pay due to the outstanding debts from their own clients (in some cases, the state being one of the clients).

In the situation of major economic imbalance we witness, on the background of a faulty crisis management, it is expected that an increasing number of the players on the market will not be able to adapt their cost policy to the necessary level and thus, a growing number of insolvency cases may be reached.

Key words:
Insolvency
Bankruptcy

Although we expect the first half of 2010 to record a positive development compared to the same period last year, statistics showed that the beginning of the year was particularly difficult, the economy still lies in a downtrend.

Increase taxes, reduce income, fears of further redundancies (especially public sector) and the population led to restricted lending to be more reluctant in spending and become more willing to save.

Distribution continues to be a very affected by the economic crisis so significant due to weaker demand and given the very low trading margins, small distributors barely manage to survive.

As regards the retail market, it will continue to shrink again this year because of wage cuts and announced layoffs in the public and private, therefore retailers try to counteract the effects of the recession by offering even more numerous promotions than in 2009.

The generic name of "bankruptcies" has taken into account all recorded cases of insolvency, i.e. companies for which a bankruptcy procedure has been initiated (general or simplified), or in business reorganization, and companies for which the procedure bankruptcy has been closed.

The table below presents the total number of insolvency cases, including both open cases in 2010, and records on the balance on January 1, 2010, from previous years and still unresolved.
The analysis, conducted based on the data provided by the National Trade Register Office, indicates that in the first half of 2010 a total of 11,221 companies were in various stages of insolvency proceedings. Out of these, 6,255 companies were undergoing the general insolvency procedure, 2,235 were in the simplified insolvency procedure, 2,717 were in bankruptcy and 14 were in business reorganization.

According to the data provided by the Trade Register, it can be seen that the number of bankruptcies recorded in the first quarter of 2010 increased by ~ 7.5% compared to the same period of last year, when there were 10,435 files of insolvency.

One must note that in the first quarter of 2010, economic deterioration, broad terms (sometimes 6 months) pronounced by the courts, and 2009 delays caused by the strike of magistrates, have contributed to the increase of the number of insolvencies, almost twofold compared to the same period of last year, when there were 5,173 companies located in one of the phases of the insolvency procedure. However, in the second quarter of 2010, this evolution was mildly moderated, and the number of insolvencies dropped sharply compared to the same period of last year (1,455 compared to 5,262).
According to data issued by the National Institute of Statistics, considering the first estimates, the gross domestic product in the second quarter of 2010 was, in real terms, 0.3% higher compared to the first quarter of 2010, and compared to the same quarter of 2009, the gross domestic product declined by 0.5%. In the first half of 2010, the gross domestic product decreased by 1.5% compared to the first quarter of 2009.

The extension of the economic recession determined the first four positions of the top to remain unchanged also in the first half of 2010, and trade (wholesale, distribution and retail), building and transportation remained the most affected by the financial crisis; these areas were also the most accessible to those who wanted to start a business in the recent years, due to low initial investments and high yields. Under these conditions, we notice a strong concentration of the number of insolvencies in the first three sectors (retail, distribution and building), as these represent over 50% of the total number of bankruptcies recorded in early 2010.

The distribution market maintained its momentum also in 2010, when major distribution companies continued their policies to improve the efficiency of activities, initiated in 2009. Therefore, besides looking for new partnerships and reorientation towards products that offer higher trade margins and volumes, most major players have reorganized their storage areas, have renegotiated their lease contracts, have reorganized their sales departments, have redefined their collection policies, and have tried to keep the level of liquidity under control. Distribution continues to be very affected by the economic crisis;
therefore, on the background of the considerable decrease of demand and considering the very
low trade margins, small distributors barely survive. We believe that amid the austerity
measures passed by the government, the following months of 2010 will be characterized by a
decrease in sales. Thus, it is expected that the inability of these companies to resist on the
market will continue to determine the increase of the number of insolvencies.

Retail is in the second position of the top by number of insolvencies recorded in early
2010. According to data published by the National Institute of Statistics, the turnover volume
of retail trade (except for the trade in motor vehicles and motorcycles) decreased in the first
quarter of 2010, compared to the same period of 2009, by 4.1%, on the background of the
decrease of sales in food products, beverages and tobacco by 6.1%, and in the sales of non-
food products by 4.9%. In contrast, the retail trade in automotive fuel in specialized stores
increased by 0.9%. The retail market will continue to shrink this year also, because of wage
cuts and redundancies announced in the public and private system; consequently, retailers are
attempting to counteract the effects of the recession by offering even more promotions than in
2009.

Discounts vary, and are as high as 40% in certain hypermarkets, and on the markets
which are most affected by declining consumption - such as electric retail and retail trade of
furniture - a few retail chains have transferred in the price the VAT increase of July 1, thus
assuming the risk of aggravating the decrease of their sales even more. Short-term,
promotions generate increases in turnovers, but they may affect financial structure and
Corporate balance due to reduced profit.

The construction sector continues to be in the third position in the insolvency top, an
area that has been the engine of growth for the Romanian economy in recent years, registering
annual growth of over 30%. The financial blockage of the latest financial period of 2008 and
the first half of 2010 deeply affected the players in this sector, and the immediate result was
the continuous increase in the number of insolvency applications. The lack of new projects
and the postponement or cancellation of certain projects by investors delayed the recovery
of the building market.

In the first quarter of 2010, compared to the first half of last year, the volume of
building works dropped as gross series, by 15.7% and by 16.0% as adjusted series. By
analyzing the evolution of the structural elements, we conclude that in the first quarter,
compared to the same period of 2009, there have been decreases in new building works (-
22.5%) and capital repair works (-8.3%) . In maintenance and repair works, the volume of
building works increased by 5.8%. By building classes, the volume of building works
decreased in all components, as follows: residential buildings by 34.0%, non-residential
buildings by 22.4% and civil engineering by 0.8%.

In the first quarter of 2010 19,827 building permits were issued for residential
buildings, 16.9% fewer than in the corresponding period of last year. The most significant
decreases were registered in developing regions: South-Muntenia (-872 permits), Bucharest-
Ilfov (-805 permits), Northwest (- 784 authorization) and Southeast (-665 permits). An
increase of the number of permits issued for the building of residential buildings was recorded
in the Western region (+73 permits). Although the infrastructure works should support the
building sector and the economy in general, by propagating the horizontal effect,
unfortunately the lack of funds not only delays the start and continuation of works, but also
endangers the existence of a significant number of companies. Since early 2010 the majority
of construction companies in the building field which were in payment default indicated as
the main cause of that situation the failure of the local or state budget to cash in invoices for
works already performed. Each payment default generates a domino effect to the other
creditors of that company.

In the first half of 2010, 816 companies operating in the transportation sector were in
one of the insolvency stages, which places this field in the forth position in the top by
industry. The most important factors leading to this situation are price pressure, unfair competition, the decrease of transported volumes and the lack of an infrastructure that would allow the reduction of transportation costs. The high taxes and duties, as well as increasing financial costs related to performed leasing contracts, are also added.

 Ranked fifth in this top is the sector of services provided mainly to companies, with over 700 insolvent companies. Besides this area one should also note the negative trend of textile and metallurgic industries.

Still the safest areas, with the lowest share in the total insolvencies registered in early 2010, remain the activities in the extractive industry, health and welfare, the generation and provision of electricity and thermal energy, water and gas. However, the essential characteristic of these sectors of activity is that access is very restricted in terms of investments, and there is a limited number of players. A comparison with the other sectors, which are very dynamic and where market access is easy, and the number of companies and competitors is very high, is not relevant.

DISTRIBUTION BY GEOGRAPHICAL AREAS OF INSOLVENCY CASES IN THE FIRST HALF OF 2010

As is apparent from the analysis of insolvency cases by geographical areas, the most affected region in the first half of this year was S-E of the country, with a percentage of 17% (1,891 insolvent companies), followed by the N-W of the country, with 16% (1,825 cases), and Bucharest, with 13% (1,405 cases). The most protected area of the country seems to be the S-W, which recorded 9% (under 1,000 insolvency cases).

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THE SENSIBILITY OF EMERGING COUNTRIES IN CASE OF SUDDEN ECONOMIC CLIMATE CHANGES

PhD. Student Dobranschi Marian

The Doctoral School of Economics Faculty of Economics and Business Administration, “Al.I.Cuza” University of Iasi, Iasi, Romania

E-mail: dobrica_3@yahoo.com

ABSTRACT

This article analyze the effect of economical climate changes and their impact over emerging countries. In comparison with developed countries, the emerging economies are much more sensible in case of economic changes, like an financial crisis, the impact over this economies is one more profound and intense, and the process of recovery is longer and implies an important amount of resources used to reduce negative effects and restarting economic growth. In order to sustain this, we propose an analyze of public debt of our country, from 1990 to 2008, and the sudden changes of economic climate reflected into public debt evolution from 2008 to 2010, comparing this two periods and the main triggers, also analyzing the effects that major impact the emerging economies, taking in consideration the risks that the country are exposed once heavily indebted.

Keywords: emerging countries, public debt, economic growth, financial crisis, public deficit.

Introduction

Regarding the European Union Member States, with the signing and ratification of the Maastricht Treaty, they must obey the limits imposed on budget deficits of 3% of GDP and debt should not exceed a threshold of 60% of GDP country.

Thus management of public debt of EU Member States must be guided to develop their strategy and management in accordance with the regulations imposed by the Treaty. Neck and Holzmann therefore argue that in recent years, fiscal policy has become a major problem in the EU Member States, because most of them continued to exceed the limits imposed by the Maastricht Treaty (60% 3% deficit and public debt to GDP both ), the recommendation being made in developing a rigorous management of the budget deficit and public debt levels and increased efforts in achieving the objectives of the Treaty, despite the difficulties faced by Member States such as economic growth and declining unemployment.

According Dvořáková (2008) compliance with the deficit and debt by the Member States is the main argument that increasing the budget deficit leads to excessive growth of public debt or where the worst states in terms of insolvency coverage failure creditor liabilities by fiscal resources. Thus EU states have adopted new methods and tools for reducing budget deficits. A viable tool, important in reducing budget deficits and public debt management default method is given by the tax threshold usually targeting the medium and long term (three years), where it establishes a strict relation between the deficit / GDP ratio.

Regarding the new EU Member States, the evolving financial crisis are much more likely than developed countries due to the atypical structure of public debt and a debt management damaging. In most cases they resort to domestic debt by issuing excessive short-term
government securities and bonds that expose lenders to a high domestic liquidity and default risk, the solution given by Mehl and Reynaud (2009) being the long-term loans.

In the same case Velandia (2009) argues that inadequate public debt management has a negative effect on the economy, directly contributing to the widening financial crisis, financial or otherwise prejudice the stability of governments when economies entered recession. Poor management of public debt has a destabilizing effect on public budgets, leading to an unexpected increase in debt service, the solution proposed by the World Bank is building a model performing a financial analysis of the main features of the budgetary resources available to the government as a measure costs and risks to expose it if they choose to fall into debt.

Refferring to the public indebtedness Gong, Greiner and Semmler (2001) argue that a high level of public debt will lead to the use of budgetary resources raised by the government to pay debt service (interest, commissions), so will remain in the fewer and fewer resources for public investment. Where states have a less rigid budgetary policy can turn to refinancing, economic impact on GDP growth is negative or positive as appropriate, where the destination is given to finance budget deficit or to finance consumption expenditures, unproductive, or to finance public investment expenditures, the last one having a positive impact on the long-term growth.

The same opinion Heinemann (2006), which justifies lower public investment in countries not because of EU regulations in the Maastricht Treaty but because of objective reasons such as difficulty of forming public capital, public debt burden and the mobility of factors production. In time, with sustained debt that grows every year by default to service this growing debt and expenditure of public mobilization lead to increasingly more difficult access of new resources for public investment projects.

In addition Berben and Bronsen (2007) believe that excessive public debt lead to excessive taxation transposed to the future generations, in addition to governments in extreme cases they can turn to the issue of currency to cover the budget deficit would that will increase inflation.

Public debt evolution in Romania 1990 - 2009

Politics of Romania's budget deficit financing was based largely on contracting domestic and foreign government bonds. In early 1990, in terms of indebtedness, Romania was in a more favorable situation compared to other states. Despite the fact that in 1990-1991, public debt in GDP was 0.9% and 8.6% was represented by foreign debt, Romania faces many difficulties in securing external funding. According to the Romanian National Bank, the main causes of these problem was established at the time of: distrust as potential foreign creditors and sustainability of the reform program implemented in Romania, frequent fluctuations in foreign policy and particularly in ensuring the failure of current account convertibility national currency; modest degree of integration of Romania in the global market.

Romania's main creditors, at the beginning of the transition were represented by the International Monetary Fund (IMF) and the Group of 24 countries which have granted loans under the agreements with IMF Rumania. According to NBR, the fact that the debt was contracted in proportion with the institutional creditors have the advantage of more favorable credit conditions in terms of interest, maturity, timing of repayments and maturities of scaling, however, this situation shows and two major inconveniences: the ability to attract resources funding was limited, fewer private lenders was interpreted by investors as a negative signal about the prospects of state creditors.

During 1997-1998 the main tools used to attract financial resources to finance the budget deficit of Romania in this period were availability and government Treasury bonds to the banking system for the most part, what has put pressure on interest rates. During 1999 the
Ministry of Finance, in order to attract a more diversified range of financial instruments, turned on resources purchased through Treasury deposits on the interbank money market.

The 2000 budget deficit was covered from resources both internally and from external. Unlike previous years, issuance of government bonds were directed predominantly to the non-banking sector, population or economic. As regards local government debt since 2001, local governments began to fund public spending programs on the resources attracted as a result of the issuance of municipal bonds.

One of the most important characteristic of public borrowing in Romania since 1990 is given by the fact that public authorities have taken over government debt outstanding debts of banks and other companies (gas and electricity distribution). Based on estimates from Campeanu (2005), between 1991 to 2004, outstanding debts taken over Romania's public debt accounted for between 0% of GDP in 1991 and 5.8% of GDP in 1999. Since 2003 and continuing through 2004 the share of the debts represented 1.6% of GDP.

Such a policy has had a poor impact on the process of resource allocation and hence the supply of public utilities. Acquisition of outstanding debt of bankrupt companies, under pressure from some interest groups may lead to crowding out phenomena within the meaning of the diversion of funds to allocate their destinations publicede priority. Also do not forget that debt requires interest expense to be funded from current resources, according to economic classification. During 1990-2006, Romania's indebtedness had an upward trend, indicating that since 1999 public debt developments reveal a downward trend. Romania's public external debt increased almost 170 times between 1990-2006, its value is situated at the end of last year to 27.718 billion euros (35.61 billion U.S. dollars), according to figures from the Ministry of Public Finance (MFP). At the end of 1990 Romania's foreign debt stood at $209,000,000, representing an interest-free loan granted to the Romanian Government in 1970 and repayable by deliveries of equipment for power plants-China Pucheng.

According to statistics from the National Bank of Romania (BNR) at the end of 2006, external debt and long-term increased by 12.5% compared to the end of 2005. Public and publicly guaranteed external debt recorded at December 31, 2006, a balance of 10.694 billion euros and represented 38.6% of external debt on medium and long term (compared with 45.8% at December 31, 2005). Non-publicly guaranteed external debt amounted to 16.058 billion euros at December 31, 2006, being 29.5% higher than at December 31, 2005. External debt service ratio in the medium and long-ranged from 19.5% in 2006, compared with 20.1% in 2005.

Foreign loans were contracted by the state for funding in 1990-1995 mainly external imbalances (balance of payments and strengthening the country's foreign exchange reserves) and to a lesser extent the realization of objectives of infrastructure investment funding targets, performing critical imports and sectoral economic reform. Thus, in 1992, public external debt was used at a rate of 85.8% for the balance of payments and foreign exchange reserves and only a proportion of 14.2% for projects. In 1994, the situation was almost unchanged, the weights being 84.2%, respectively, 15.8%. In other words, Romania's debt was largely to consumer needs and to a lesser extent for various socio-economic projects, the Romanian society consumes more than it produces.

Analysis of actual external public debt by creditor indicates that 47.3% of outstanding debt to official creditors is, including loans from the International Monetary Fund. Private creditors, which include commercial banks, issuance of bonds and other sources reprezina 52.7% of the total. The largest share of loans have a term of ten years (59.6% of total), followed by loans between 5-10 years (34.3%) between 1-5 years (6.1%). In December 2006 there were foreign loans contracted by the state. Inflows of foreign loans contracted directly or guaranteed by the state in 2006 were worth 928 million euros. According to official data, short-term debt in total external debt has climbed dramatically to nearly 33% in 2006 from 20% in December 2005 and only 7% in 2000.
Romania’s indebtedness was between 0.9% at the beginning of the period, reaching a peak of 33.2% in 1999. Given Romania’s recent accession to the European Union, our country’s debt policy will be circumscribed by the convergence criteria of the Maastricht Treaty, under which the general government deficit must not exceed 3% of GDP and the degree of debt (public debt), calculated as the ratio between the percentage of total public debt to GDP must not exceed a threshold of 60%. Analyzing data on public debt can say that the total public debt to gross domestic product was in all these years below the specified maximum nominal convergence criteria. State borrowing requirements of the accession of Romania to the EU, respecting the maximum allowable Stability and Growth Pact, the 3% budget deficit and public debt 60%, both percentages reported in the Gross Domestic Product. Thus, in 2007, we observe the following indicators:

- the level of spending and interest on public debt changes;
  
  On November 30, 2007 the share of interest expenses and fees in total budget expenditure was 2.2% compared to 2.4% level recorded in late 2006.
  
- Romania’s public indebtedness (to be below the 60% set by the Maastricht Treaty);
  
  Compared with the end of 2006 when this indicator was 18.5%, on November 30, 2007 Romania’s public debt represented 19.1% of GDP, well below the recommended level of 60%.

- government guaranteed debt in total government debt;
  
  In late 2006 the share of foreign currency debt in total government debt was 59.1%. During 2007 there was a reduction in foreign debt contracted in total government debt, so that on 30 November 2007 it was 49.6%.

  Reducing the debt contracted in foreign currency and increase in domestic debt is contracted as the main impact is to reduce the risk that exchange rate fluctuations of currencies against the currency contract, which may cause an increase in government debt service and thus, the level of spending.

- the share of fixed rate debt/debt with floating interest rate in total government debt;
  
  Compared to the end of 2006, when government debt outstanding at variable interest rate was 32.8%, from 30 November 2007 this indicator was 31.8%. Reducing the level of this indicator has resulted in a greater degree of predictability in estimating the level of government debt service and thus the related expenditures.

- Marketable debt/non-marketable debt in total debt governmental public.
  
  On November 30, 2007 the share of tradable debt in total government debt at a level of 23.2%, against 18.4% recorded at December 31, 2006. At the same time the share of marketable debt in total government debt was 76.8% versus 81.6%, a level of 31 December 2006.

On October 31, 2009, indebtedness was below 28.0% of GDP, well below the 60% ceiling set by the Maastricht Treaty. The absolute increase in public debt to 31 October 2009 debt at end 2008 (28,052.5 million) was due to both volume of debt incurred to cover the financing needs of the budget deficit and public debt in foreign currency appreciation as a result of currency fluctuations against major currencies (EUR) in which debt is denominated in foreign currencies.

After the global financial crisis affected the majority of world developed countries, Romania with an emerging economy, was put in front of extremely destabilizing effects that affected the national economy. In order to prevent and decrease economic downturn, given the accumulation of increased refinancing risk by issuing large amounts of short-term securities, taking into account the comparative advantage of costs (loans from international financial institutions can be contracted very advantageous terms compared with the costs of the Romanian State related issues of government securities), in March 2009 to prevent deterioration of economic and financial situation in 2009, Romanian authorities have requested and negotiated a financial package with the IMF two years, the European
Commission and other international financial institutions (World Bank EIB, EBRD) worth of 19.95 billion.

Thus in July was held the first installment of loan from the European Commission of 1.5 billion euros to finance the budget deficit, and following the IMF assessment mission in July-August 2009, half of portion of 2 - of the IMF loan, amounting to SDR 1.7 billion, which was held on September 23, 2009, will be used to finance the budget deficit. Also on October 21, 2009 was fired first Development Policy Loan (DPL 1) of the World Bank amounting to 300 million euros.

Given the global financial crisis on access and loan terms and conditions for companies that implement key strategic projects in Romania, with a multiplier effect in the economy, the Ministry of Finance is considering providing state guarantees to attract financial resources for such projects. Starting July 7, 2009 the program became operational government, first home for granting state guarantees for banks that grant loans to individuals to purchase a home, the guarantees provided by the end of October being 1182.8 million.

Guarantee ceiling agreed with IMF for 2009 was expanded from 7.7 billion to 6 billion as agreed in the original program. The ceiling is intended to provide additional safeguards to ensure priority projects co-financed by the European Union and other multilateral institutions. For 2009 it is estimated that public debt service will be increased by approximately 10.0 billion for 2008 compared with the service due to high growth of refinancing bonds. We estimate that in 2009, refinancing the bonds will represent 82.4% of total government debt service to 43.1% as represented in 2008.

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<th>Table no. 1: Evolution of public debt service 2008-2009</th>
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<td>Public debt service (millions of Euro)</td>
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Romania experienced an economic boom over the past five years that led to overheating and unsustainable imbalances. GDP growth averaged over 6½ percent per year from 2003-08, as foreign direct investment and capital inflows (in part through subsidiaries of foreign banks in Romania) helped finance high consumption and investment growth. Robust export growth to EU countries reflected a process of increasing economic integration with western European economies. However, domestic demand growth was even faster, generating increasing current account deficits that reached 14 percent of GDP by 2007.

The overheating economy and rapid capital inflows complicated monetary policy, resulting in the National Bank of Romania’s (BNR’s) inability to achieve its inflation target notwithstanding increases in interest rates and reserve requirements.

The real effective exchange rate (REER) appreciated by about 50 percent between mid-2004 and mid-2007, driven by the strong capital inflows and expectations of economic convergence under EU membership. Fiscal policy played a strongly procyclical role, with the government deficit rising from under 1 percent of GDP in 2005 to near 5 percent of GDP by 2008.

The rapid increase in borrowing that fueled the boom left Romania highly exposed to global financial difficulties and to exchange rate volatility. The banking system’s external borrowing drove rapid domestic credit growth, averaging 50 percent per year over the past four years. Banks’ net foreign liabilities increased from -2 percent of GDP in 2003 to +19
percent in 2008. Corporate access to foreign credit also contributed to the boom, rising from a net of 4 percent of GDP in 2005 to nearly 11 percent in 2007. In addition, over half of the domestic private credit is in foreign currency, much of it is to unhedged households or corporates, creating substantial indirect foreign exchange risk exposure for banks even though banks’ balance sheets themselves have little currency mismatch. The maturity structure of external debt also deteriorated in recent years, with the coverage of gross international reserves to short-term external debt declining to about 75 percent in February 2009 from over 170 percent in 2003.

Conclusion

In many developing countries, structural fiscal deficits and growing unfunded social security commitments have raised concerns about the long-run consequences for intergenerational distribution and the political sustainability of the welfare state. A sizeable literature has adopted the overlapping generations modeling framework to examine intergenerational welfare effects of fiscal policy. This literature has examined two channels through which public debt and unfunded social security affect the intergenerational distribution. The first channel of intergenerational effects works through capital accumulation, and the second through price changes of assets traded among members of different generations. This suggests that the burden on future generations of increased public debt and the economic burden of high equilibrium unemployment could be interrelated and that the latter perhaps aggravates the negative welfare effects for future generations.

This paper has used cross-country empirical analysis to establish that fiscal deficits and the accumulated public debt affect interest rates. The effects are both statistically and economically significant, and they are robust to a variety of specifications. These effects are non-linear, becoming stronger as a country’s debt grows and its fiscal balance becomes weaker. The dynamic analysis presented also shows that the long-run effects of sustained deficits are much larger than the immediate impact of a one-time deficit. These results imply that the return to fiscal laxity that has taken place in several major industrial countries in recent years is potentially worrisome.

In case Romania, where the economy is not one fully developed and functional, recourse to public borrowing is a justified one, in order to revitalize and restart the economy, we estimate that the impact over economic development and growth is one positive, because the latent financial resources that are “standing” without being used for further investments, especially in private sector, reasoning lesser evil, the use of this latent and inactive financial resources by the state is one more efficient and positive for the economy instead not using it. Besides, if this borrowed resources are used in the adequate sectors, for example investments in infrastructure, where the incomes and the benefits are positive for both sides, first for the private sector, enhancing the development of new areas of business and improving the existent one and by the other side is and positive effect over the public sector because new jobs are created and by this path the recovery of the economy is possible. In other words matters the destinations given to the borrowed resources, in case of Romania, until now a unproductive and inadequate public spendings (public wages, public bills), that are extremely negative over economy, simply because it violates the principle of the loan, borrow to produce surplus value being able to repay the loan and the interests and also to help economic recovery, in public credit case. The main risk that Romania is exposed is the vicious spiral of borrowing, or a continuous process of borrowing to pay off previous debt and so on, leaving less public financial resources for other important areas.
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Agricultural Situation in Romania and the theoretical competitiveness of this economic sector

Mihail-Florin DINCA – Secretary research, Romanian American University
Lucia-Ioana CUCU – Master Student at Polytechnic University of Bucharest

ABSTRACT

Romania's accession to the European Union led to a number of measures in terms of improving the efficiency of the agricultural sector. Given that agricultural area is extremely broken and agricultural infrastructure is neglected, the roumanian authorities hope to improve conditions in this sector. Lack of information among farmers, low liquidity and bureaucracy in agencies are some of the reason that have contributed to the current situation of agriculture. In this context, the european funds for agriculture have a low contribution to competitiveness and goals that our country has undertaken upon accession in 2007.

KEY WORDS: the european funds, competitiveness, economic crisis

Romania, second country in importance in the agricultural sector in Eastern Europe after Poland, enjoys this title just in terms of arable held. Surface of Romania is 6% of total EU and 4% of its population. To compare the yields obtained with the Poland’s one has no place in this context, as we can not compare with other countries in the area or in the E.U. that share similar climatic conditions and relief.

Our country's accession at the E.U. induce a number of opportunities for Romanian farmers. The financing tool created for this purpose at EU’s level is the European Agricultural Fund for Rural Development (EAFRD), with the aim of implementing the Common Agricultural Policy (CAP). In the 2007 - 2013 Romanian rural area can receive the sum of 7.5 billion euros. This fund is based on the principle of co-financing private investment projects, like the pre-accession program SAPARD. Romania is not the only country in U.E. receiving funding from the EAFRD. The amount of grants varies between 50% and 70% of the eligible project, and provided funds representing public co-financing that needs to be complemented by private financing from farmers, covered from own sources or from bank loans.

Investments financed by this fund such as the modernization of farms, the establishment of young farmers, foundation of producer groups, creating and developing micro-enterprises, etc. fall within one of the four areas (axes):

- Axis I - Improving the competitiveness of agriculture and forestry - 45% of total EU funds, an amount of EUR 3.246.064.583;
- Axis II - improving the environment and rural areas - 25% of EU funds, an amount of EUR1.805.375.185;
- Axis III - Quality of life in rural areas and diversification of rural economy - 30% of European funds for agriculture, , an amount of EUR 2.046.598.320.
- Axis IV - LEADER - receives 2.5% of the amounts allocated to other areas, an amount of EUR 123.462.653.

The 21 article of Regulation C.E. on support for rural development by European Agricultural Fund for Rural Development (EAFRD) provides explicitly fields and financed goals by this fund: „The purpose of Community farm investment aid is to modernise agricultural holdings to improve their economic performance through better use of the production factors including the introduction of new technologies and innovation, targeting
quality, organic products and on/off-farm diversification, including non-food sectors and energy crops, as well as improving the environmental, occupational safety, hygiene and animal welfare status of agricultural holdings, while simplifying the conditions for investment aid as compared with those laid down in Council Regulation (EC) No 1257/1999 of 17 May 1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF)\(^1\)

Since 2007, subordinated to the Ministry of Agriculture and Rural Development (MARD) were established two structures involved in implementing the National Rural Development Programme - Payment Agency for Rural Development and Fishing (APDRP) and the Agency for Payments and Intervention in Agriculture (APIA). These two agencies are designed to support and verify the implementation of the measures undertaken by the Treaty of Romania.

1. The agricultural situation in Romania in the current economic crisis

When U.S. sneezes, Europe coughs and Romania can no longer recover. On this principle was also our country affected by the economic crisis. The agricultural sector, one of the most susceptible to the crisis’s effects, has not escaped the fluctuations euro / leu or the recent increase in VAT.

At the moment, investments in the agricultural sector have been reduced, as a result work with many investors suffered. An important part of investors support their agricultural sector's investments with cash from adjacent areas or other economic activities specific to other sectors. Always have benefit farmers who engaged in upstream and downstream activities, horizontally or vertically. Frequent loss of a branch can be covered by the cash from other agricultural activities carried out (processing, sales, distribution, etc.). In addition to the economic crisis, farmers had faced a series of climatic conditions. Despite adverse weather conditions they were subjected to, crop insurance is an area to which they are still reluctant. In this respect was issued Decision no. 756/21.07.2010. for the methodological norms on how the state aid in agriculture for the payment of insurance premiums is granted. Decision is addressed to producers who enter into insurance policies for agricultural crops and / or animals, poultry, bee colonies, aided by the State which is a percentage of the cost of insurance premiums paid by farmers, between 50% and 70%.

Outdated mentality, accompanied by lack of information leads producers to be reluctant to alternative solutions offered by authorities or consulting firms in the industry. This is one of the causes of poor absorption of the European funds or their use in the objectives stipulated by the contracts signed by producers with the contracting authorities. Studies and results released to publicity reveals significant use of funds in the agricultural sector but productivity and efficiency did not know further adjustments from one year to another. Another important aspect which may be a solution for Romanian farmers' problems is reduced absorption of European funds for this area. The situation of the amounts paid to beneficiaries for each measure, late last year, was:

- Measure 112 – EAFDR contribution is worth EUR 4.864.490,11;
- Measure 121 – EAFDR contribution is worth EUR 96.733.520,04;
- Measure 123 – EAFDR contribution is worth EUR 32.204.609,42;
- Measure 141 – EAFDR contribution is worth EUR 7.365.756,94;
- Measure 142 – EAFDR contribution is worth EUR 1.302,41;
- Measure 211 – EAFDR contribution is worth EUR 74.732.908,17;
- Measure 212 – EAFDR contribution is worth EUR 28.004.991,45;

1 COUNCIL REGULATION (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD)
• Measure 214 – EAFDR contribution is worth EUR 118.384.274,21;
• Measure 312 – EAFDR contribution is worth EUR 1.976.457,09;
• Measure 313 – EAFDR contribution is worth EUR 672.784,81;
• Measure 322 – EAFDR contribution is worth EUR 13.151.690,16;
• Measure 511 – EAFDR contribution is worth EUR 1.088.641,00;
• For CNDP (Complementary national direct payments) - EAFDR contribution is worth EUR 137.327.518,44.²

Political instability, lack of representation of farmers in their relationship with the authorities and the bureaucracy from the specialized institutions managing these funds, justifies poor absorption of the EU funds for agriculture. For 2010 the amount allocated for agricultural investments by the EAFRD is EUR 1,359,770,651.

The most important barrier for producers in the way of accessing funds is the lack of co-financing and low involvement of banks due to the low interest in this area.

2. Theoretical competitiveness of the agricultural sector in Romania

The legislation developed after 1990 had as a determining factor the ownership of land without supporting concrete measures to aid producers or producer groups. Sharp transition from a centralized agriculture to one carried out individually has as a result the current situation in this sector with significant share in GDP.

According to a study published by the National Statistics Institute (NSI), the agricultural sector consists of three branches. Agricultural production by branch is as follows: the sector of vegetable production is predominantly, holding in 2009 approximately 60% of total production, followed by animal production with 39% while the remaining 1% is agricultural services. According to data published, in 2009 estimated grain production was higher than 2007 but lower than 2006 and 2008(graphic1 and 2)³.

![Graphic 1 – evolution of cereal grain in Romania (thousand tons)](image)

2 ANNUAL REPORT PROGRESS ON IMPLEMENTATION OF NATIONAL RURAL DEVELOPMENT IN ROMANIA IN 2009 - published in June 2010
3 Breviar Statistic – Romania in figures 2010 - INS
Regarding data of animal production there were not recorded fluctuations, registering a decrease of livestock in recent years.

Forest area in late 2009 was 6.495 million hectares, an increase of 1.1% over 2006 (68,000 hectares), compared with 2008 a growth of 0.4% was recorded. Investments that have contributed to these increases have been supported from special funds provided by the European Union.

According to statistics by the Food and Agriculture organization of the United Nations area planted with cereals has registered a further decline, which led to lower grain production. Currently the cuts were caused by the orientation of farmers to other types of cultures called energy crops (rapeseed, soybean and sunflower). Another possible cause of these fluctuations and decreases in production is due to the dependence on weather conditions.

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Area harvested (1000 Ha.)</td>
<td>6.282</td>
<td>5.764</td>
<td>5.804</td>
<td>5.080</td>
<td>4.757</td>
</tr>
<tr>
<td>Production of cereals (1000 tonnes)</td>
<td>17.422</td>
<td>15.479</td>
<td>19.350</td>
<td>15.760</td>
<td>7.816</td>
</tr>
</tbody>
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Source: FAO Statistical Yearbook 2009

When we talk about competitiveness we must recall the market for agricultural products. Agricultural market has as main actors producers and consumers. In current conditions we talk about small consumers and industrial consumers who are very well represented, the former, though large in number, have a low representation in this market. The same is true among small producers and processors. Lack of efficiency and productivity places us among the last places in the EU Member States.

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4 FAO Statistical Yearbook 2009
The wheat acreage places Romania on the forth position among the EU countries, but in terms of productivity ranks the seventh one. In 2009, according to provisional data from EUROSTAT, Romania had an average wheat production of 2341 kg per hectare, compared with Bulgaria (3190 kg / ha), Poland (4173 kg / ha), France (7447 kg / ha) or the United Kingdom (8280 kg / ha). This position can be adjusted if the entire production is declared and not traded on the black market. In this way the state losses worth hundreds of millions of euros. Tax evasion is a phenomenon specific to this industry and, although it is known by authorities, it is not contained. Most transactions are made at the level of primary production.

About competitiveness of agriculture in Romania compared with other EU Member States can be discussed only theoretically. For example, funds allocated by the measure 112 - "Setting up young farmers", are not used in many cases for the fulfillment of youth obligations in relation to the contracting authority. Those who have opted for increasing the farm by purchasing land take the land owned by their parents, then money will be used for other purposes. The same phenomenon occurs also among those receiving funding allocated by measure 141 - money find use in other directions. This is due to legal loopholes that have allowed these funds to be offered to those who have become farmers without having their own land.

To access these measures have been declared eligible even those who had lease agreements under one year old. In this way it was intended to improve the degree of absorption of European funds for agriculture, but without taking into account the true objectives for which the money was allocated.

3. Conclusions

The economic crisis and the volatility of exogenous factors have a major influence on the current situation in agriculture. Given that thousands of people are specialized in this area, productivity of agriculture in Romania is very low, being below the EU average. Land use in our country is 30% - 40% of its capacity; the agricultural sector can meet the need for food for about 80 million people.

All these problems recorded in the agricultural sector are due to the lack of medium and long term vision of Romanian authorities and the legislation to combat tax evasion. You can also record the absence of dialogue with producers and the authorities responsible for agriculture in the EU and the lack of advanced production equipment and technologies to meet industry standards.

To overcome the deadlock from the agricultural sector is necessary for Romania to transform the comparative advantages it holds, into competitive ones like those which are found in most EU countries. In this respect there is a need for the optimization and improvement of production in terms of quantity, but also quality. Endogenous and exogenous factors are critical in revitalizing the industry with major economic implications.

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THE INSURANCE RISK TRANSFER AS A TOOL

Asistent University PhD. Maria Mirabela Florea Ianc
"Constantin Brancusi" University Faculty of Economics Science and Business Management
Targu-Jiu

ABSTRACT:
The essence of insurance is to spread on a particular community organized for this purpose. The process of indentifying quantifying, responding to risk research, reducing the probability of the risk occurs, the implementation of measures and decisions to limit the damage production is nay defined as a transfer of risk

KEY WORDS: risk, insurance, social instruments

Both individuals and legal entities, they provide multiple opportunities to transfer risk, one of the most important being the transfer of risk to insurance companies

The risk transfer can be done through and social instruments. (1)

Financial instruments are used on four markets:
- Cash market
- On the futures market
- Optional markets
- Futures markets.

The social transfer instruments are represented in the general insurance, however, that with all such tools are limited companies, investment clubs, and even state investment contracts.

The joins stock companies as well as with other types of businesses feel the risks its own funds. The risks are passed on to shareholders who ultimately bear them, and they may even lose the amount invested in shares.

Investment clubs are groups of investments that common investment decisions. When it adopted the decision to invest each member of the club shares with members of the financial consequences of the expected investment risks. Talk to you soon and to share risks, decâtde a transfer, but at the macroeconomic level clubs can be seen as instruments of risk transfer.

The state in its investment plan in the broader social and economic life, a whole array coordinates (a class of measure) sharing tools, or transfer of risk such as health insurance, unemployment insurance or indemnity payments from the budget for natural disasters.

Contracts are instruments of risk transfer because when parties to include a contract may have the motivation and desire to transfer the risk to someone else entirely or in part. For example, a firm provides media distribution contract with providers in return unsold newspapers, since one company would not cover this risk and has no alternative risk transfer instruments, such as for example an insurance policy.

Insurance contracts are instruments for risk transfer characteristic.

For companies that have a chiose between risk retention, self – financing, risk transfer instruments and insurance and benefits and providing financial risk transfer instruments have several advantages: (2)
1. is preferred by business managers under their aversion towards risk. They want to transfer risk to a company, which may affect the risk of financial indicators whose evolution accountable to shareholders.

2. avoids the risk of insufficient capitalization and liquidity crisis, self-insurance retention or risk of catastrophing risks in particular, can cause serious damage when there are strong and enduring effects on the level of own funds. Lack of coverage of such risks reduces the present value of cash flows available as weighted average cost of capital increases the possible insolvency of the firm's prospects.

On the financial theory of the firm, self-insurance increases the likelihood of major risks that the company six unfavorable finance the aftermath of a serious damage, thereby decreasing the value of the company in terms of shareholders.

3. provides services in insurance risk assessment, prevention and liquidation of claims. Because the specific activity of insurance companies are able to offer such services at a competitive cost. Risk identification and assessment are made more powerful by the insurance company than the firms themselves in this important factor is experience.

And in whose production involves risk of civil liability of the company responsible for the damages, insurance companies offer competitive services in the liquidation of damages in civil lawsuits.

For example, a firm has a contract rope washing windows in a building for offices, damage by climbers (inadvertently breaking windows, or exterior panels) are compensation by insurance companies if the company is climbing liability insurance.

4. can lead to a mediating effect on self-insurance tax risk if the company is calling it using firm dedicated reserves, which are not deductible as expenses on income tax, while insurance premiums are treated as deductible expenses, so decreasing taxable income.

Buying an insurance company receiving a tax benefit, which creates a tax mediating effect. These benefits possibility effects the demande for insurance.

Bay an insurance company that enjoys a tax advantage, which creates a tax mediating effect. These benefits positive effects the demand for insurance companies, but there are negative factors influencing the process of transferring risk to insurer, thus affecting the insurance market offer. Thus, competition in the insurance market falls by more risks to be insured is either very high or very specialized. In these cases, the insurer's own funds required size increases, thereby decreasing the number of insurance companies to get involved in providing such risks and thereby reducing competition. (3)

Lack of competition may increase insurance rates, which can cause a light cost og providing and retaining some of the economic agents. At the same time, the size of transferable risk, especially for large companies, the insurance market reaches capacity. For example, the risk of developing (liability of company for adverse effects arising from the use of its products) for very large sums assured, is absolutely impossible to obtain a greater coverage of $ 1 billion from the insurer. (4)

Insurance plays a well-established among the elements of risk transfer. His position is not inflexible in their assembly, it is subject to various influences. Evolution of insurance will be determined by present and future mutuality regarding:

- Guarantees required by policy limits (are growing)
- Insurance condition
- The emergence and development of new techniques to ensure

No matter how much care taken to avoid problems or protection of personal and family risk exists in our lives, bringing financial and material losses. The risk, the basic
element from which insurance is used to start a negative sense of the events we do not want.(5)

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THE ROLE AND IMPORTANCE OF THE NATIONAL CIVIL OF SOCIAL INSURANCE IN ROMANIA

Asistent University PhD. Maria Mirabela Florea Ianc
"Constantin Brancusi" University Faculty of Economics Science and Business Management
Targu-Jiu

ABSTRACT:
In the world exists only due to insurance benefits provided to policyholders. The simple fact is often overlooked. The discussion focuses on social and political problems often technical, such as risk sharing, solidarity, security system management. Although these issues are important to the operation on a fair social security system, the key issue remains the question of benefits to policyholders or the answer to the question: what consumers want and what needs are they? To address that problem in some countries, policy makers have tried to introduce market elements into social security, as in other public areas. However, benefits have been largely excluded from the consumer's right to

KEY WORDS: aicular insurance, risk, founds

The social security – is that part of the social –economic relations with that money in the gross national product form distribution, dispense, manage and use the funds necessary for the compulsory care of employees and retirees of the national companies, autonomous administrations, companies of consumer cooperatives and credit network, members of handicraft cooperatives and agricultural establishments, lawyers, agriculculturilor, craftsmen in their workshops, private entrepreneurs, the ministers of religion, the domestic staff employed individuals, persons blocks serve residents, temporarily or permanently incapable of work, in case of old age and in other cases provided by law. Also social security and family members caring for people above.[1]

In a democracy, social protection is a fundamental element of state policy, because by its implementation id done to prevent, reduce or eliminate the consequences of events considered as “social risks” on the living standards of population.

The specific conditions and needs to be covered are as modalities of implementation of social protection to be different. Such programs are based on differing assumptions for social-insurance coverage for personal needs due to temporary or permanent loss of working capacity or the protection of workers at work (environment, work conditions), needs to be transferred the costs of production and whose satisfaction is included in the price of the product.

Social security guarantees is one of the means for achieving the constitutional rights of the people, they represent only part of the complex of measures taken to achieve a decent and civilized life of the Romanian people.

Government social insurance system in Romania is of particular importance for the protection of people and their family members illness prevention, rehabilitation and strengthening of employment, temporary loss of working capacity in case of maternity, for the growth and the care of child until the age of two years (a handicapped child up to age 3). Also, be granted protection in the event of disability, to reach a certain age limit, when man can no longer work with the plenitude of its forces.
The role of government social security resulting from the new nature of its underlying principles and the way it is and use the funds in question. As the national economy, have expanded and perfected and social security. Along with this improvement, have increased their role and importance.

Social security involved in the distribution part of the gross national product, providing a means to control the formation, distribution and its use when supplies are distributed and use social insurance funds. It also stimulates the production of social insurance social progress of national economy and contribute to the development of socio-cultural. [2]

Social security includes a set of rules for carrying out an even better occupational safety and hygiene, disease prevention, health restoration and strengthening of citizen and their families, which results in maintaining the capacity of employees and using it wisely.

The social insurance system is comprised of care and protection to help active citizens, retired, referrals to rest, spa treatment and other gratuities, in the period in which they are temporarily or permanently unable to work or in other cases when help is needed.

The special role of social insurance is to safeguard citizens in all cases of loss of working capacity, also by granting allowances and restrictions apply, they act against simulants and busybodies joins.

Social Security is a State that uses leverage and strengthen labor discipline. By the way they are covered by income received and set restrictions, social security and contribute to the streng

By the way they are covered by income received and set restrictions, social security and contribute to the strengthening of labor discipline, with positive effects on labor productivity, the achievement of economic and social indicators. The benefits granted and the restrictions imposed, fosters social security staff qualification improvement, quality improvement work, the stability of employees in the same unit, making a bigger seniority at work, fighting justified absences from work, reducing the number of unused days of work.

Social security plays an important role in public education in civic development, promoting social equity, the grow attitudes responsible to work, to family, traits contributing to ethical and spiritual traits submitted inoculation of each citizen, to respect the rules of convention and the development attitude of public and private property protection [3]

Social security is called to play an important role in maintaining and raising the people’s welfare.

The supervision on the occasion of the performance of revenue collection and expenditure on the payment of pensions, allowances, aids, etc., contribute to the efficient organization of production and labor, the rational use of labor and money to strengthen economic and financial discipline, to respect and the strengthening of legality.

Practical implementation of social policy has contributed to the crystallization of the Romanian state and national level to improve the national social security system.

It includes all forms of organized social security shirts keep individuality, depend on each other, thus resulting in the appearance of totality and completeness that workers are protected from state units, mixed private mesteşugoşi members of cooperatives, farmers, lawyers, ministers cults, domestic staff and care residents blocks, retirees and their family members.[4]

In the current period in Romania, government social security system has as component: the state social insurance, social security system handicraft cooperatives and artisans with their own workshops, social insurance of agricultural enterprises, social insurance for farmers own household, social security lawyers, social security ministers of religion

The current structure of government in Romania social security system is the result of deep and revolutionary changes of a long process of economic and social development.
The establishment of national public insurance has created a unified framework for the implementation of legislation, human and material resources are saved, it creates flexibility in the redistribution of available resources, depending on the requirements for certain benefits, strengthens controls on formation and use resources and quality services.

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SPLINE LINEAR REGRESSION USED FOR EVALUATING FINANCIAL ASSETS

Liviu GEAMBAŞU
PhD student Academy of Economic Studies Bucharest
Ionel JIANU
PhD student Academy of Economic Studies Bucharest
Cristina GEAMBAŞU
university lecturer PhD. Academy of Economic Studies Bucharest

Abstract.
One of the most important preoccupations of financial markets participants was and still is the problem of determining more precise the trend of financial assets prices. For solving this problem there were written many scientific papers and were developed many mathematical and statistical models in order to better determine the financial assets price trend.

If until recently the simple linear models were largely used due to their facile utilization, the financial crises that affected the world economy starting with 2008 highlight the necessity of adapting the mathematical models to variation of economy. A simple to use model but adapted to economic life realities is the spline linear regression. This type of regression keeps the continuity of regression function, but split the studied data in intervals with homogenous characteristics. The characteristics of each interval are highlighted and also the evolution of market over all the intervals, resulting reduced standard errors.

The first objective of the article is the theoretical presentation of the spline linear regression, also referring to scientific national and international papers related to this subject. The second objective is applying the theoretical model to data from the Bucharest Stock Exchange.

Key-words: assets return, spline regression, asset evaluation model, subsets of data, standard deviation of errors.

JEL Classification: G120 - Asset Pricing; Trading volume; Bond Interest Rates

REL Classification: 11B – Financial markets

1. Introduction

Correct evaluation of capital market and financial assets prices evolution is an essential preoccupation for both theoretical and business finance people all around the world. The financial crisis that affects the world economy starting from 2008 had put the subject of assets evaluation through the main concerns of the economists.

The spline regressions are models easy to build and applied, offering good results in data approximation. The characteristic of the regression is the split of statistical population in homogeneous groups, researched through a single general function, that have characteristics proper to each sub-region. Another advantage of spline regression is its capacity of reveal historical evolution of prices, helping in a better understanding of the way the markets function and of investor manifestation.

1 This article is a result of the project POSDRU/61/1.5/S/11 „Doctoral Program and PhD Students in the education research and innovation triangle”. This project is co funded by European Social Fund through The Sectorial Operational Programme for Human Resources Development 2007-2013, coordinated by The Bucharest Academy of Economic Studies
The paper continuous with the following: chapter 2 presents usage of spline regression in the international specialty literature and some of the domain where it was used, chapter 3 is a theoretical description of the spline regression concept, including also some pros and cons of spline regression and modalities of establishing intervals. Chapter 4 presents utilized data, tested model and the results obtained after applying the model. The paper ends with chapter 5 that presents conclusion and future directions of research.

2. Spline regression in the international specialty literature

The issue studied is researched in several scientific domains such as: mathematics – multivariate forecast functions, statistics – non-parametric multiple regression, engineering and software development – neuronal networks.

Friedman (1991) expands the „recursive partitioning regression‖ model and obtains a prediction cumulative function that reduces the forecast standard errors based on empirical observed data for dependent variable and offers a better understanding of the evolution of dependent variable. The cumulative function reunites function adapted to each sub-region from the researched space, partitioning in sub-regions is realized throw splitting the initial space in two sub-regions, process repeated until the total number of obtained sub-regions is optimal. The function proper to each sub-region emphases the regional influence of some independent variables on dependent variable. There are included in a single function all the functions of the sub-regions and nullified the sub-regions functions depending on independent variables values. There can be ensured the continuity character of the general function, and also for the sub-regions limits.

Non-parametric functions are used in many other domains for determining the economic processes laws (non-parametric models adapts the evolution in time of data and do not have a dependency form established from beginning). Richard Blindell, Xiaohong Chen and Dennis Kristensen (2007) used a non-parametric model in order to study the relation between good demands and household budgets. The model created by them, adapted to their own research, follows the same research line – minimizing the forecast error of the model related to the empirical data using a continuous function on subsets of data resulted from adding the subsets functions in a single general function and highlighting the characteristics of each subset.

Priya Ranjan and Justin L. Tobias (2007) use the tobit model (developed by James Tobin in 1958) for estimation of commercial trades between two states counting the GDP of the two states and their neighborhood. The tobit model is similar, implying nullifying a function if there is not accomplished the condition that an independent variable to be in a set of values.

Robert F. Engle and Jose Gonzalo Rangel (2008) studied the volatility of the financial market in correlation with macoroconomic evolution for 50 states, using a GARCH-spline regression model for describing the trend with reduce frequency of the macoroeconomic variable volatility in time. The authors created a function continuous appropriate for description of independent variables influence over the dependent variable and to highlight the evolution of dependent variable in time (evolution of GDP, yield rate, inflation, number of companies listed on the stock exchange, volume of financial market compared with the GDP).

Usage of spline regression is largely spread in other domains of activity, being also used in analyses regarding public health, demographic research, so on; models developed being
adapted to the researched themes, intended to better approximate the empirical reality based on regressions easy to create, use and adaptive to evolution of data in time.

3. Theoretical presentation of spline regression

3.1. Theoretical form of the spline regression

The world economic crises impose the adjusting of the models created in the past to the new markets evolution parameters; the financial crises modified the evolution sense for assets prices and the investors’ behavior in trading assets, so that any regression using historical data cannot be used in evaluation of present time trends. There were evaluated trends and marginal rates for consume, economy, investments as well former regressions parameters – parameters established based on historical data.

The spline regression is used in description of trends with opposite evolution on successive time intervals, permitting the creation of a generalized equation, having one or more influencing factors and simple or complex deterministic forms. The main characteristic of this type of regression is the split of researched population in homogeneous groups, but keeping the unitary form of the regression function.

The spline regression uses homogenous intervals for independent variables and determines the regression slope for each interval, generating computed values for the dependent variable closer to the real empirical observations.

The spline regression has the following form: 

$$\hat{y} = \sum_{i=1}^{s} a_i F_i(x)$$

having a \(a_i\) a different constant specific to each interval and \(F_i(x)\) a function like:

$$F_i = \max(b_i, c_i) = \begin{cases} b_i, & \text{daca } b_i > c_i \\ c_i, & \text{daca } b_i < c_i \end{cases}$$

having \(b_i\) a constant and \(c_i\) a function that reflects the relation between the independent variable and the dependent variable – example: a linear relation, an exponential function, a logarithm function, and so on; having one or more independent variables. \(F_i = 1\) if \(a_i\) represents the intercept.

For a linear regression with a single independent variable, the \(F_i(x)\) function may have one of the following forms: \(\max(0, x_i - d_i)\) or \(\max(0, d_i - x_i)\), having \(x_i\) as independent variable and \(d_i\) as a constant specific to each interval. In this case the regression has the form:

$$\hat{y} = \sum_{i=1}^{s} a_i F_i(x) = \sum_{i=1}^{s} a_i \max(0, x_i - d_i)$$

The regression intervals will be determined by the values for which \(F_i(x) = \max(0, x_i - d_i)\) is null \((F_i(x) = 0)\), representing one of the tricky problems of this regression. Splitting in intervals is limited only by the number of intervals the user wants and by the relevance of each interval – splitting in too many intervals determine each interval to become irrelevant.
The researcher can create a function $F_i(x)$ continuous on the entire studied interval, formed of multiple intervals, each with its own regression slope.

3.2. Pros and cons issues

Although the spline regression is a useful approach in describing the economic events evolutions, there are pros and cons aspects, with general character; considering the researched theme and the expected results there can be others pro / con arguments or some are not applicable.

The main issue that sustains the usage of spline regression is its flexibility in describing phenomenon evolution on intervals with various trends. There can be obtained a better determination of values for the dependent variables, and also can be observed the manner in which the independent variables evaluate over time and modification of slopes between intervals.

For an empirical observed value there will be the value of dependent variable (noted $\hat{y}_j$ for interval $i$, $x_i$ being the independent variable):

$$\hat{y}_j = a_i + a_i \max(0, \ x_i - d_i)$$

(4)

For a specific interval $i$, the equations $\max(0, \ x_k - d_k) \text{ with } k \neq i$ are equal with zero – there are equations proper to other intervals.

The values of standard errors of the regressions are smaller for the spline regression then for a linear regression.

3.3. Determining the number of intervals

One of the important issue of spline regression is how to determine the adequate number of intervals for studying the observed population. In the specialty literature exists couple of methods of approaching this issue: establish a fix number of intervals, establish a number of intervals based on evolution trends (intervals with growth and intervals with decrease for trends), establish intervals based on the homogeneity of the population composing each interval, so on.

If determining intervals does not follow a precise criterion or if the number of intervals would grow exponentially, making difficult the process of obtaining valid results or the interpretation of data is impossible due to increase number of intervals, there are some statistical criterion for selecting the optimal number of intervals.

A criterion of selecting the optimal number of intervals is GCV (Generalized Cross Validation) that penalized the deviation of errors with the increase in number of intervals. The central figure of GCV is represented by minimization of variance of errors from computed values comparing with empirical observed values; this is the reason for all research – obtaining theoretical values closer to empirical observed ones. Deviation of errors decrease if number of intervals increase, but increase in number of intervals induce problems of
determining results and in interpreting the results in a reasonable time and with reasonable costs.

GCV penalizes the minimization criterion of error variation through including the increase in number of intervals, in order to ensure an equilibrium between exponential splitting of population researched and optimization of obtained solution.

\[
GCV = \frac{1}{N} \times \frac{\sum_{i=1}^{N} (y_i - \hat{y}_i)^2}{\left[ 1 - \frac{M + d + M + 1}{N} \right]^2}
\]  

having \( M \) as the number of parameters of the regression function, and \( d \) is a coefficient that insure the smoothness of the function. Usual values for \( d \) are 0 for some studies and 2 for papers that take into account also the smoothness criterion for GCV (sometimes 3 ensuring a better smoothness).

Using a right number of intervals ensure is consider to ensure the spline regression flexibility and give the strength of representing data related to researched population.

4. Researched regression model

4.1. Utilized data

We use daily closing price of shares listed on Bucharest Stock Exchange, between May 15, 2009 and November 11, 2009 – a total of 128 quotation days.

The capital market in Romania has a reduce liquidity, so we use only those shares that have a number of quotation days closer to the maxim of 128 possible quotation days; the titles are: SIF5, SIF2, TLV, BRD, SIF3, SNP, SIF4, SIF1, TGN.

For evolution of market we shall use the values of stock exchange index BET-XT – that represents the evolution of stock market including all shares listed.

We split the entire interval in 6 sub-regions arbitrary defined, from day 15 of month X to day 14 of month X+1.

4.2. Researched spline regression model

We shall test the spline regression for determining the influence of shares evolution over market return.

The linear regression has the following form:

\[
\hat{R}_{Mz} = a_0 + \sum_{t=1}^{9} b_t \times R_{tz}
\]  

where \( t \) represents the titles included in the study and \( z \) is the day for computed data.

The spline regression will have the following form:
\[ \hat{R}_{Mzj} = \sum_{j=1}^{6} \left( a_{0j} + \sum_{t=1}^{7} b_{tj} \times R_{tzj} \right) \times \left( 1 - \frac{1}{Z_{Mj} \times z_j} \max \left[ 0 \left( Z_{Mj} \cdot z_j \right) \times \left( Z_{mj} \cdot z_j \right) \right] \right) \]  

where \( \hat{R}_{Mzj} \) represents market return computed for day z in the sub-region j (the population is split in 6 sub-regions), \( a_{0j} \) are constants proper to each sub-region, \( b_{tj} \) represents the influence of title t for sub-region j, \( R_{tzj} \) represents the return of title t from day z in sub-region j, \( Z_{Mj} \) last day from sub-region j, \( Z_{mj} \) first day from sub-region j, \( z_j \) current day in sub-region j.

The error will be determined by comparing empirical value of \( R_{ij} \) with the computed value of daily return \( \hat{R}_{ij} \); \( \varepsilon_{ij} = R_{ij} - \hat{R}_{ij} \). For both regressions there will be calculated the variance of error:

\[
\sigma^2(\varepsilon_i) = \frac{(\varepsilon_i - \bar{\varepsilon}_i)^2}{T-I}
\]

4.3. Research results

For linear regression we obtained the following data:

<table>
<thead>
<tr>
<th></th>
<th>BET-C</th>
<th>BRD</th>
<th>SIF1</th>
<th>SIF2</th>
<th>SIF3</th>
<th>SIF4</th>
<th>SIF5</th>
<th>SNP</th>
<th>TGN</th>
<th>TLV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>0.31%</td>
<td>0.58%</td>
<td>0.31%</td>
<td>0.40%</td>
<td>0.43%</td>
<td>0.18%</td>
<td>0.31%</td>
<td>0.24%</td>
<td>0.01%</td>
<td>0.62%</td>
</tr>
<tr>
<td>( b_l )</td>
<td>1.25</td>
<td>1.33</td>
<td>1.53</td>
<td>1.38</td>
<td>1.20</td>
<td>1.48</td>
<td>1.30</td>
<td>0.65</td>
<td>1.04</td>
<td></td>
</tr>
</tbody>
</table>

Table 1. Linear regression results

coefficient \( a_0 = -3.68 \), and \( \sigma^2(\varepsilon_i) = 0.0853 \)

For the spline regression we obtained the following data, with \( \sigma^2(\varepsilon_i) = 0.07783 \):

<table>
<thead>
<tr>
<th>( b_{tj} )</th>
<th>BRD</th>
<th>SIF1</th>
<th>SIF2</th>
<th>SIF3</th>
<th>SIF4</th>
<th>SIF5</th>
<th>SNP</th>
<th>TGN</th>
<th>TLV</th>
</tr>
</thead>
<tbody>
<tr>
<td>SR1</td>
<td>1.34</td>
<td>1.63</td>
<td>1.66</td>
<td>1.54</td>
<td>1.43</td>
<td>1.64</td>
<td>1.34</td>
<td>0.79</td>
<td>0.96</td>
</tr>
<tr>
<td>SR2</td>
<td>0.86</td>
<td>1.82</td>
<td>1.59</td>
<td>1.73</td>
<td>1.63</td>
<td>1.71</td>
<td>1.55</td>
<td>0.59</td>
<td>1.15</td>
</tr>
<tr>
<td>SR3</td>
<td>1.16</td>
<td>1.10</td>
<td>1.47</td>
<td>1.12</td>
<td>0.97</td>
<td>1.28</td>
<td>1.32</td>
<td>0.51</td>
<td>1.87</td>
</tr>
<tr>
<td>SR4</td>
<td>1.44</td>
<td>1.04</td>
<td>1.41</td>
<td>1.28</td>
<td>1.03</td>
<td>1.28</td>
<td>1.20</td>
<td>0.75</td>
<td>1.01</td>
</tr>
<tr>
<td>SR5</td>
<td>1.25</td>
<td>1.23</td>
<td>1.59</td>
<td>1.22</td>
<td>1.10</td>
<td>1.58</td>
<td>1.38</td>
<td>0.63</td>
<td>0.75</td>
</tr>
<tr>
<td>SR6</td>
<td>1.35</td>
<td>1.26</td>
<td>1.60</td>
<td>1.38</td>
<td>1.30</td>
<td>1.52</td>
<td>1.08</td>
<td>0.64</td>
<td>0.63</td>
</tr>
</tbody>
</table>

Table 2. Spline regression coefficients for each share and for each sub-region (SR)

<table>
<thead>
<tr>
<th></th>
<th>BRD</th>
<th>SIF1</th>
<th>SIF2</th>
<th>SIF3</th>
<th>SIF4</th>
<th>SIF5</th>
<th>SNP</th>
<th>TGN</th>
<th>TLV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>1.27%</td>
<td>1.17%</td>
<td>1.04%</td>
<td>1.13%</td>
<td>0.67%</td>
<td>0.87%</td>
<td>1.42%</td>
<td>0.36%</td>
<td>1.17%</td>
</tr>
<tr>
<td>SR1</td>
<td>-0.29%</td>
<td>-0.72%</td>
<td>-0.58%</td>
<td>-0.63%</td>
<td>-0.31%</td>
<td>-0.78%</td>
<td>-0.67%</td>
<td>-0.36%</td>
<td>-0.61%</td>
</tr>
<tr>
<td>SR2</td>
<td>1.67%</td>
<td>1.24%</td>
<td>1.61%</td>
<td>1.65%</td>
<td>0.76%</td>
<td>1.66%</td>
<td>0.74%</td>
<td>0.38%</td>
<td>1.26%</td>
</tr>
<tr>
<td>SR3</td>
<td>0.29%</td>
<td>0.52%</td>
<td>0.59%</td>
<td>0.99%</td>
<td>0.37%</td>
<td>0.29%</td>
<td>-0.22%</td>
<td>-0.18%</td>
<td>0.62%</td>
</tr>
<tr>
<td>SR4</td>
<td>0.21%</td>
<td>0.17%</td>
<td>0.23%</td>
<td>0.07%</td>
<td>0.22%</td>
<td>0.09%</td>
<td>0.36%</td>
<td>-0.04%</td>
<td>0.41%</td>
</tr>
<tr>
<td>SR5</td>
<td>0.37%</td>
<td>-0.50%</td>
<td>-0.54%</td>
<td>-0.67%</td>
<td>-0.66%</td>
<td>-0.29%</td>
<td>-0.10%</td>
<td>-0.10%</td>
<td>0.98%</td>
</tr>
</tbody>
</table>

Table 3. Shares return for each sub-region (SR)
The spline regression ensure a smaller variance of error of values computed for the dependent variable, related to empirical observed values of dependent variable. Meanwhile, there can be observed the evolution over time of the influence of each share over market, of average return, and periods with larger variance of error – higher variation of prices on market.

<table>
<thead>
<tr>
<th>$a_0$</th>
<th>$R_M$</th>
<th>$\sigma^2(\varepsilon_i)$</th>
</tr>
</thead>
<tbody>
<tr>
<td>SR1</td>
<td>-11.86%</td>
<td>0.89%</td>
</tr>
<tr>
<td>SR2</td>
<td>6.94%</td>
<td>-0.44%</td>
</tr>
<tr>
<td>SR3</td>
<td>-12.99%</td>
<td>0.91%</td>
</tr>
<tr>
<td>SR4</td>
<td>-4.00%</td>
<td>0.03%</td>
</tr>
<tr>
<td>SR5</td>
<td>-1.61%</td>
<td>0.48%</td>
</tr>
<tr>
<td>SR6</td>
<td>2.74%</td>
<td>-0.01%</td>
</tr>
</tbody>
</table>

Table 4. Coefficient $a_0$, return of market and variance of error on each sub-region (SR)

5. Conclusions

Spline regressions prove to better follow the trends resulting from empirical data, highlighting also the evolution in time of phenomenon, presenting the way of evolution of shares, market returns, influence of shares evolution over market return and variance in time of errors.

Future research directions will focus on creating new spline regression models more complex, with error variance reduced, determining relevant sub-regions and testing created models on extended data.
Bibliography


THE INFLUENCE OF VAT INCREASE ON INSURANCE MARKET

Mădălin Hăinaru, economist

ABSTRACT:
General insurance market will be visibly, though not directly, affected by the increase in VAT, through the cost of damages and administrative costs. These issues will have an important contribution to a decrease of volume of gross premiums subscribed by insurance companies, continuing the downward trend in the insurance market results recorded since the beginning of this year.

KEY-WORDS: VAT, insurance market, fiscal regulation, economic crisis

The result of the first semester of 2010 for the Romanian insurance market

The insurance industry, like so many other business sectors, has undergone a historic transformation within the last 10 to 15 years. Even before the economic meltdown of 2008, the insurance industry was experiencing tectonic change in everything from market dynamics and regulations, business processes, to the technologies that insurers use to run their organizations, manage distribution channels and satisfy customer demand.

European insurance markets have reacted differently to the financial crisis, so differentiation was dictated by their specific features and degree of development and maturity of each local market.

For the Romanian market, 2009 and 2010 are the most difficult years after 1989. According to data presented by the President of the Insurance Supervisory Commission, last year an accumulated value of over 8.8 billion lei was registered in gross premiums subscribed by insurers, which represented a 5.23% real decrease compared to the volume recorded in 2008. On 31 December 2009, the volume of subscriptions can be classified as it follows: general insurance - over 7 billion lei, life insurance - over 1.5 billion lei. The top 10 insurers, whose volume of gross premiums subscribed for general and life insurance segment exceed 6.8 billion lei, representing a total share of almost 77% of the market.

With respect to compensation paid by insurers in 2009, their level knew a real increase of 18.92% compared to 2008. In particular, insurers have paid gross indemnities exceeding 5.4 billion lei, of which about 5.2 billion lei represents compensation paid for general insurances, up to 19.51% compared to 2008.

Continuing the downward trend that ended the last year, the Romanian insurance market remains influenced by the global economic crisis in the first half of 2010, too. General insurance sector recorded during the first half of 2010 a decrease of 4.58% compared to same period of the last year, except for security guarantees, which recorded a higher growth rate. In the first six months of 2010 both general and life insurances amounted a 4.34 billion lei for gross premiums subscribed.

Although the aggregate rate represents 80.93% of total subscriptions, general insurances totalized 3.51 billion lei, out of 4.34 billion lei in the first semester of the current year, the difference of 0.83 billion lei representing life insurances which rose by 6.13% compared to the first six months of 2009.

A decrease in general insurance sector was determined mainly by a downward trend of 25.42% of land transport means insurances, other than railway, compared to the same period.
of the last year. This class, together with mandatory liability insurance of motor vehicles, held a 74.76% share in total subscriptions of insurance companies existing on the local market (see the chart below).

Auto liability insurance continued its upward trend, registering in the first six months of 2010 an increase of 17.6%. Guarantees insurance class had a growth rate of 83.26% and liability insurance of shipping means increased by 67.89%. The two insurance classes have had a spectacular growth rate, unusual to other classes of insurance.

Trend of gross compensation insurance paid for both classes during the first half of 2010, is also a descendant (2.67 million lei), decreasing by 9.90% compared to 30 June 2009.

With an overwhelming majority, compensation generated by general insurance represents 67.97% of total compensation paid by insurance companies during the first half year of 2010 (see the chart below).

The costs of general insurance class, were worth 2.35 billion lei in total gross claims paid by insurers, decreasing by 9.5% from the same period of the precedent year.
Similar to previous years, with a majority of over 90%, the leader of the indemnities paid for general insurance remains auto insurance. Allowances related to land transport insurance, other than railway had the largest share, of 55.08% and auto liability insurances represented 35.30%.

The results for the first quarter of 2010 clearly shows that the pace of the insurance market was followed the trend of the economy. Given the difficult economic conditions and indicators such as unemployment, inflation, exchange rate we expect 2010 to be a real
milestone for the insurance market in Romania, and for the end of this year it is possible to see a stagnation of gross premiums underwritten. The measures announced in economy will hit consumption and investment.

**VAT increase and its influence on the insurance market**

New regulations came into effect regarding the value added tax through Emergency Ordinance no. 58/2010 for amending and supplementing Law no. 571/2003 regarding the Fiscal Code and other financial and fiscal measures, which was published in the Official Gazette of Romania, Part I, No. 431 of 28 June 2010, applicable from 1 July 2010. As a result, all products and services of the Romanian market will increase prices as a direct effect of this measure. The insurance market is also - indirectly - affected by these increases by raising prices of replacement of auto insured property (car segment is the main affected).

Legislative and fiscal stability, tax incentives for entrepreneurs, are decisive elements in determining domestic consumption. We can say that the VAT and flat site are the vital factors for the economy.

Increasing VAT by 5 percentage points will have a notable influence on the insurance market in Romania. To offset losses caused by the VAT increase, insurers on non-life segment will be forced to raise rates, and local industry will decrease by 10% compared to last year.

Not all business lines will be affected equally, making it very difficult to accurately assess the impact of VAT on enlarging the general insurance market. For example, we have an impact on the total damage of the facultative car insurance, because there exists an insured amount, that is the limit of compensation. Since insurance premiums are exempt from VAT, insurance market will not be directly affected. The effect of the VAT hike will be felt indirectly.

Costs of insurance companies that practice general insurance will suffer due to higher VAT increase, due to both claims and administrative expenses. Repair invoices of the insured property for both current and future policies will bring higher damage costs, insurance companies not being able to recover VAT. This will be reflected in the future in insurance premiums growth.

Also, another component of the impact of VAT increase is the consumption habits of Romanians, whose budgets have been restructured. Thus, insurance investment is dwarfed by the increasing need for saving, focusing on basic needs.

Although the consequences of the recent measures taken by the Government were not still felt to their full potential, we certainly expect them to be felt on the insurance market too in the period ahead, a market affected, on the one hand by lower investment and purchasing power, and, on the other hand, by the increasing costs. Eventually they will be forced to raise prices, which will affect the Romanian market, already under the sign of the crisis, and rates will not increase just for car insurance, but there will also be increases in home insurance, since the insured property value will generally be higher.

However, in an extremely competitive market where price is becoming day by day the main argument to buy, it is very difficult for a company to raise rates, especially since the population passes through this crisis period and the purchasing power is very low and declining.

If insurance rates will remain unchanged, the costs of claims files, the first affected in the context of VAT increase, will have a negative impact on damage rate. Domestic market is already offering insurance premium rates for extremely low prices, compared with the risks assumed by insurance segment, and changes applied to VAT will not have a great impact on it.
immediately. Typically, insurers will be forced to resort to different ways to compensate these additional charges.

The main and most visible threat of austerity measures is a possible reduction in demand for insurance products, both for retail and corporate clients as a result of pressure on population income, especially since the insurance market is constantly depending on economic general development, especially in some industries such as automotive or real estate.

Given that the importance of security on the priority lists of the Romanian consumer was not too far, in most cases these products will find short or long lists of public spending cuts.

In a market less familiar with the idea of insurance, such as the Romanian market, the habit of saving money leads to falls in demand and ransom for insurance policy. In more developed countries of Western Europe, we witnessed a total opposite phenomenon: the insurance market grows in times of crisis, people are becoming aware of the level of security such a policy can offer. It is difficult for companies to bring the Romanian population at a similar level of responsibility.

Estimated losses for the entire insurance market, resulting from the VAT increase exceed 30-35 million euro. The real threat to the industry will be bills from auto services, which will put significant pressure on the industry segment, namely automotive insurance. Thus, most probably prices will increase not only for these products but for others, too.

In this context of economic crisis and new tax measures that result in lower income for individuals and legal persons, protection of property, goods, and business is very important, their replacement is very difficult in case of damage, especially in the absence of an insurance.

Therefore, the VAT increase will not help either people or companies and will not result in the economic recovery, hitting both businesses, including insurance industry, and consumption. Alternative solutions to support business would have been easier to accept.

Patience and investment, especially in the field of consumer education and specialization of people working in insurance companies, are required to counter the negative effects caused by the restrictive conditions imposed by the new tax legislation.

We may conclude that 2010 will not bring an increase in the insurance market either, given the existing gap between the signs of recovery in the economy and industry. Influenced by rising unemployment, the rest of the credit, a reduction in disposable income, but also by psychological factors such as declining public confidence in the stability of their financial revenue and future, financial market situation is far from being optimistic.

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CORPORATE GOVERNANCE IN THE 2009-2010 FINANCIAL CRISIS

Lorena Popescu Duduială,
lect. univ. dr., Universitatea “Constantin Brâncuși”

ABSTRACT: The paper “Corporate governance in the 2009-2010 financial crisis: evidence from financial institutions worldwide” examines the role of corporate governance in the financial crisis. A large number of financial institutions have collapsed or were bailed out by governments worldwide since the beginning of the global financial crisis in 2009. While governance reforms are being considered to reinstate the stability of global financial systems, there is little evidence on the role that corporate governance played in the financial crisis.

The authors investigate the role of corporate governance in the financial crisis using a dataset comprised of 296 of the world’s largest financial companies across 30 countries, for which they collect data on board characteristics, ownership structure, CEOs, firm performance, and risk-taking.

Key words financial crisis, corporate governance, BoardEx, writedowns

The analysis begins at the start of 2009 because this is generally considered as the period when the markets first become conscious of the importance of the losses related to subprime mortgages. The investigation period ends in the third quarter of 2010 for three main reasons:

1. The substantial government bailouts were initiated from October 2010 onwards, and therefore the authors examine CEO turnover over the prior period in which it is driven mostly by internal corporate governance mechanisms.

2. In October 2010, changes in the International Financial Reporting Standards (IFRS) allowed financial institutions to avoid recognizing asset writedowns.

3. At the end of the third quarter of 2010, regulators in several countries required short-selling bans on the stocks of many financial institutions.

The sample consists of 296 publicly-listed financial firms (banks, brokerage firms, and insurance companies) that were publicly listed at the end of December 2008 across 30 countries. The following criteria were used to compile the sample. First, firms needed to be covered in the

Compustat North America or Compustat Global databases and have data on total assets, total shareholder’s equity, earnings, and stock returns. Second, the sample was limited to firms that are covered by the BoardEx and FactSet/Lionshares databases. Third, the sample is restricted to industries for which Bloomberg collected data on writedowns during the crisis period. Fourth, the firms must have total assets greater than US $10 billion because most of the debate focuses on large global financial institutions.

Measuring CEO turnover

The authors employ biographic information on individual executives from BoardEx to determine the identity of the CEO for each firm. BoardEx contains detailed biographic information on individual executives and board members of approximately 12,000 publicly listed firms in nearly 50 countries and its coverage for international firms is unparalleled by any other data provider.

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1 “Corporate Governance in the 2009-2010 Financial Crisis: Evidence from Financial Institutions Worldwide” - David Erkens, Mingyi Hung, Pedro Matos; The European Corporate Governance Institute, Ian. 2010
Measuring shareholder losses

A unique characteristic is that shareholder losses of financial firms are well publicized during the crisis period. They employ two variables to capture losses:

1. Cumulative stock returns
2. Cumulative writedowns scaled by total assets. Writedowns were measured as negative figures so that the regression coefficients on writedowns can be compared to those on stock returns.

Measuring corporate governance

The analysis is focused on firms’ corporate boards and ownership structures, the two key firm specific governance mechanisms. These corporate governance mechanisms are calculated as of December 2008. For boards of directors, they focus on board independence because this is one of the most extensively studied board characteristics. Board independence is defined as the percentage of independent directors. BoardEx data classifies directors as “independent” if they are non-executive directors.

For ownership structure, the authors focus on institutional ownership and large shareholders. They measure Institutional ownership as the percentage of shares held by institutional money managers using 13F filings for U.S. companies and FactSet/Lionshares for non-U.S. companies. Large shareholder is measured as a dummy variable equal to 1 if a firm has a large owner with direct or indirect voting rights greater than 10%, using ownership data from Bureau van Dijk.

I present a summary descriptive statistics by country. I show that the sample of 296 firms is relatively balanced between U.S. (125) and European (131) firms, and also reports 40 firms from other regions. In addition, the panel reports the frequency of CEO turnover, as well as average shareholder losses during the crisis period. I show that approximately 21% of the sample firms experienced CEO turnover. I also report that a large decrease in share prices affected financial firms both in the U.S. (-32%) and Europe (-33%). While both U.S. and European firms were considerably affected by writedowns, the average writedowns were substantially higher in the U.S. (-1.36% of assets) than in Europe (-0.30% of assets).

Finally, I present a sample averages of the governance variables per country. The percentage of independent directors in U.S. financial firms is high (85%) relative to other studies that have typically focused on manufacturing firms. In Europe, board independence is generally lower.

Corporate governance and the termination of poorly performing CEOs during the crisis period

The analysis start by examining the influence of corporate governance on CEO turnover during the crisis, because the most important action that boards can take is the decision to remove a poorly performing CEO and therefore CEO turnover is an important indicator of the extent to which corporate boards and shareholders have performed their monitoring role during the crisis period.

If boards and shareholders did not succeed to perform their monitoring role, it is normal to find that board independence and institutional ownership have no influence on the relation between CEO turnover and performance. Thus in this case we would expect the average interactive effects to be insignificant. However, if corporate governance was not broken at these institutions, the turnover-performance sensitivity is higher for firms with greater board independence and higher institutional ownership. The results suggest that CEO turnover is more sensitive to stock returns for firms with more independent boards and greater institutional ownership. The main effect of writedowns is significantly related to CEO turnover, suggesting that firms with larger writedowns were more likely to replace their CEO regardless of their corporate governance characteristics.
The CEO turnover analysis finds results consistent with boards and institutional investors performing their monitoring role with respect to the replacement of poorly performing CEOs during the crisis period. In contrast, large shareholders increase managerial entrenchment and reduce the likelihood of replacing poorly performing CEOs.

I show the results of regressing losses incurred during the crisis on the corporate governance factors. Inconsistent with a lack of monitoring by boards and shareholders having contributed to the crisis, the analysis showed that board independence and institutional ownership are associated with larger shareholder losses during the crisis, for both in terms of more negative stock returns and larger writedowns. Thus, both the turnover and shareholder losses results do not support the view that boards and shareholders at financial institutions have insufficiently monitored management.

However, it remains unclear why firms subject to stronger external monitoring performed worse during the crisis.

Conclusions

This paper investigates the role of corporate governance in the financial crisis at 296 of the world’s largest financial firms. A key finding of this paper is that firms with more independent boards and institutional ownership were not only more likely to replace their CEOs for poor performance during the crisis period, but also suffered larger losses. Thus, although boards and shareholders appear to have executed their monitoring role as measured by replacing poorly performing CEOs, they also appear to have encouraged investments in subprime mortgage related assets before the crisis that led to significant losses during the crisis period. The findings suggest that reputational concerns of board members explain why firms with more independent boards suffered from worse stock returns and recognized larger writedowns during the crisis. In particular, the analysis suggests that firms with more independent boards were more likely to raise capital during the crisis, even though this came at a great cost to existing shareholders.

Overall, the results are inconsistent with the losses during the financial crisis being the result of lax oversight by boards and investors. Rather, these results are consistent with risk-taking encouraged by shareholders and reputational concerns of directors having contributed to the losses.

Bibliography:

LEASING CHARACTERISTICS AND THE ANALYSIS OF THE LESSOR – LESSEE RELATIONSHIP

GEORGESCU MARIA – ANDRADA, PhD Lecturer
National School of Political Studies and Public Administration

ABSTRACT. Even if leasing is a form of financing whose use is quite widely spread, it must be exercised in a precise legislative framework. Thus, we will present the nature of the leasing operation and the framework for exercising it. Secondly, we will treat the obligations derived from the tripartite transaction between the lessee enterprise, the supplier and the leasing company, as obligations that, through their observing, determine the validation of the financing agreement. More precisely, the relation between the lessor and lessee will be analyzed as an agent relationship; the existence of deviating behaviours of the lessee will bring forth agent costs. Thirdly, we will approach different mechanisms that allow the solving of the agent conflicts.

KEYWORDS: leasing, lessor, lessee, agency theory

1. The legal framework for exercising the leasing operations

Very few countries have a specific legislation in the field of leasing, although increasingly more states are about to regulate leasing and progress in this field is accelerating. Where such laws have been put into application, they were modeled after Unidroit Convention on International Financial Leasing. Although the Convention is oriented towards international transactions, it is a useful model for the internal regulations of each country which need specific leasing legislation.

In Romania, the first leasing contracts were run before a special law destined to regulate this operation existed. Therefore, the manner of treating leasing was closer to a rental.

The first regulation regarding leasing emerged in Romania by means of Government Ordinance (GO) no. 51 of August 28th, 1997, regarding the leasing operations and leasing companies; it was republished in January 2002. The definition comprised in the new regulation is: leasing is that operations „by means of which one party, called lessor/financer, transmits for a determined period the right of use over an assets whose owner it is, to the other party, called lessee/user, at its request, against a periodical payment, called rental payment, and at the end of the leasing period, the lessor/financer undertakes to observe the option right of the user to purchase the asset, to extend the leasing contract or to cease contractual relations“ [8, art.1 alin.1]. This triple option available to the user differentiates the leasing contract from other contracts and gives it individuality. For example, the real-estate rental contract brings forth no promise to sell, the tenant being obligated to return the asset in the condition in which it was turned over. The rental – sale contract establishes the tenant’s obligation to purchase the asset taken in rental, ownership over the asset that makes the object of the contract being transmitted at the time of the payment of the last installment. The sale contract with the maintaining of ownership until the payment of the price subordinated the

1 The Unidroit Convention on International Financial Leasing, concluded on May 28th, 1988, in Ottawa, establishes the legal framework on the basis of which leasing operations should be performed and the litigations occurred should be settled, leaving to the “custom law” to determine the competent courts for settling litigations.
transfer of ownership to the full payment of the price. The sale on credit contract immediately transfers to the buyer the ownership of the asset. Also, the lessor, depending on the contract, has different obligations; thus, in case of the real-estate rental contract, it guarantees the tenant both for the peaceful enjoyment, and for the useful enjoyment of the asset, while, in the case of the leasing contract, the law establishes as the financer’s burden only the obligation to guarantee for the peaceful enjoyment of the asset.

From the economic point of view, the leasing operation is analyzed as an investment-financing operation, similar to an asset-purchasing operation with financing through a bank loan. Also, leasing is characterized by a splitting of ownership into legal ownership and economic ownership [6].

Starting from the legal definition, the leasing operation presents itself as a complex contractual operation, through the participation of three subjects, namely the lessor/financer, the user/lessee, and the supplier. This operation brings forth interdependent obligations. We will explain the running of this operation.

2. Running leasing operations and the obligations of contracting parties

The leasing operation is a tripartite operation between the user/lessee, supplier, and lessor/financer, the latter being the legal owner of the asset. This operation brings forth two distinct bilateral contracts: one concluded between the supplier and the lessor and one between the lessor and the lessee.

Within the leasing operations, the user, which decides to acquire new assets, addresses a supplier that produces or trades the assets necessary to it. The user company defines the type of assets, the technical characteristics and negotiates the post-sale conditions and the price. Practically, the future user acts as if it were going to purchase the asset, even though the leasing company will acquire it and, thus, will become its owner [3, p.57]. Then, the user will search for a leasing company willing to finance the assets selected and with respect to which it commits to take in leasing the asset originally selected. Between the lessee and the leasing company are negotiated the terms of the leasing contract: term, rental payments, payment deadlines and the residual value\(^2\). The asset is later purchased from the supplier by the leasing company and made available to the lessee according to the conditions defined through the contract.

Leasing is analyzed as a financing operation whose particularity resides in the splitting of ownership: the legal ownership is held by the lessor and the economic one by the lessee, which justified the difference between the obligations due to the parties.

**The supplier** has the obligation to turn over the asset directly to the user, according to the specifications requested by it, and to transfer the ownership right to the lessor, in exchange to the payment of the price of the asset. The liability for delays in delivery, as well as for any defect that may disturb the useful use of the asset is the burden of the supplier and operates directly towards the user. In a similar manner, the obligation to ensure the conformity of the asset delivered, the guarantee for hidden flaws, as well as the obligation to ensure the user a peaceful enjoyment also operate on account of the supplier.

**The lessor** has essentially financial obligations, both towards the lessee, and the supplier. Thus, in relation to the supplier, it has merely the obligation to pay the price. Throughout the term of the leasing contract, in relation to the user, the lessor has the obligation to confer upon it the rights deriving from the sale-purchase contract, except for the right of disposition, and to insure, by means of an insurance company, the assets offered in leasing. At the same time, it has the obligation to observe the lessee’s right of option, which

\(^2\) The residual value of the asset is considered as being the part on capital not amortized through the payment of the rental payments.
consists of the possibility to choose to extend the contract or to purchase or return the asset. If the lessee decides to purchase the asset, the lessor must transfer the ownership right upon the contract expiry, for a price determined in advance, even at the time of signing the contract. Also, it undertakes to guarantee the user the peaceful enjoyment of the asset, which does not exclude the possibility to periodically inspect the condition and manner of exploiting the asset that makes the object of the leasing contract.

The lessee undertakes to make payments as rental payments in the amount set and on the deadlines set in the contract, to bear the expenses with maintenance and other expenses deriving from the leasing contract and to exploit the asset according to the instructions elaborated by the supplier. Since the user is responsible for maintaining the asset, it must pay the rental payments even when the asset is decommissioned, whatever the cause. Also, all parts incorporated in the asset, which replace the original ones, become the lessor’s property without it being obligated to the payment of compensations to the user.

Beyond the purely financial aspects related to the cost of the manner of financing, the contract particularity may justify the use of leasing by the enterprise: it postpones in time the acquiring of the legal ownership of the asset and it makes it, in fact, optional. Thus, the enterprise prevails itself of the possibility to cease the exploitation of the asset at the term, without bearing the costs related to its resale on the secondary market. Under these conditions, the lessor will have to protect itself against the possibility that the user does not exercise its purchasing option at the end of the contract and to ensure the resale of the asset on the secondary market. Therefore, the asset must preserve a sufficient venal value, which to allow the lessor the full recovery of the amount financed.

The return of the asset is a non-convenient solution for the leasing company, considering that it has a strictly financial role. Therefore, there must be factors that incite to the exercising of the purchasing option. This justifies, in fact, the setting of a residual value of the asset at the end of the contract at a value lower than the market value.

Within the specific relations between the lessee and the lessor, the exercising of the purchasing power is the best solution for the lessor, aspect that we will develop hereinafter.

3. The Lessee-Lessor relationship: an agent relationship

As seen before, the future user acts in its relations with the supplier as if it were going to purchase the asset, although the leasing company will acquire it, thus becoming the owner. The action of the future lessee, in this stage, was explained by certain specialists on the basis of the mandate given by the leasing company.

According to [6], the relations between lessee and lessor, at the conclusion of the leasing contract, do not correspond to a mandate (agent) relationship.

The mandate (agent) relationship is an empowerment through which the principal (financer) entrusts to an agent (user) the management of its own interests. Or, as indicated by [6, p. 90], “the user does not act in the name and on behalf of another person, because it has defined its own need and its own optimal conditions for purchasing the asset. […] In reality, the principal (financer) is the one accepting to take upon itself the legal deeds previously concluded by the agent (user) and not the agent (user) is the one accepting the rights given

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3. There is always a risk of the abusive exploitation of the asset, by the user, exploitation which determines an abnormal depreciation of the asset.

4. In the regulations in Romania (art. 27 para. 4 of GO no. 51/1997, republished), in case the asset comes from import, its residual value cannot be less than 20% of the asset’s entry value, thus breaching the freedom of expression of the parties’ will. Although the rules imposed a minimum level of the residual value for the purpose of determining the customs duties, this interpretation was reached due to the erroneous understanding of the legal provisions.
through the contract". The explanation is true, at least for the situation of the user who selects the asset and then looks for a financer, which excludes the idea of mandate.

Still, to the extent to which the two parties enter in a long-term relationship, which implies cooperation between the two parties and the observance of the mutual commitments, agent costs may occur. A careful lecture of the article by [5] indicates that, from their perspective, what counts are the agent-related costs, rather than the agent relationship, to which the authors implicitly substitute the general notion of the cooperation relationship. This extension of the concept of agent relationship to all forms of cooperation enlarges the field of theoretical applications.

Basing ourselves on the legal definition of the operation, we will, however, prefer an economic approach to the operation and we will re-qualify the relationships between the lessee and the lessor through the agent relationships. They could be described as follows: the lessor, the legal owner of an asset that answers the requirements specified by the user, confers the economic use of the asset to the lessee, which undertakes to pay the rental payments and to return the asset at the end of the leasing period, in case it does not exercise its purchasing option.

In this agent relationship, each participant undertakes the obligations due to it from the contract, attempting to satisfy its own motivations and interests, among the participants inevitably occurring conflicts.

For the lessor, for example, a post-contractual risk occurs. Indeed, it fulfills the obligation established in the contract to finance the purchase of the asset from the supplier, it ensures the right to take over the asset in case of non-payment of the rental payments, but, still, there is an uncertainty connected to the ex-post value of the asset at the end of the contract, considering that the lessee is the one undertaking to maintain the asset.

If at the end of the contractual period the lessee does not exercise its purchasing option and the venal value of the asset is lower than the residual value defined at the conclusion of the contract, as a consequence of weak maintenance or abusive use of the asset, the lessor will incur a cost, cost that we can qualify as agent cost. This agent cost is justified by the separation of the legal property from the economic one and it has at origin the depredication. The anticipation of this risk determines ex-ante and ex-post agent costs [1].

Ex-ante, the lessor may resort to the application of mechanisms susceptible of reducing or even eliminating these costs. Even from the drafting of the contract, the lessor may insert a clause through which to establish the payment of compensations in case of abnormal depreciation (ex-post, the problem is transposed on the evaluation of this abnormal depreciation). Another means to eliminate the agent costs would be, in the vision of [2], the existence of service contracts attached to the leasing contracts having as object assets whose venal value is strongly influenced by the regular maintenance of the asset or for which the lessor can provide maintenance at a cost lower than the one the lessee would incur. This presupposes that the lessor is specialized in financing such assets.

Another modality to fight against the user’s abusive behaviour is based on its monitoring, action which allows users’ discrimination depending on the intensity of using the asset [2]. This monitoring determines a better evaluation of the abusive use and, as a consequence, a better recovery of the expenses incurred due to the asset’s abnormal depreciation. This presupposes that, after concluding the leasing contract, the lessor incurs monitoring costs due to the periodical checking of the asset’s condition and manner of functioning.

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4 We could consider that the risk of adverse selection connected to the existence of the information asymmetry regarding the user’s risk can be reduced by the lessor by resorting to a “filtering” mechanism. Under these conditions, the costs related to searching information and to evaluating the debtor’s (user’s) solvability are transferred upon it by increasing the requested installment. The contract acceptance, in this case, is based on the profile anticipated by the lessor.
The agent costs continue to exist if, in spite of these mechanisms, the asset’s resale value does not allow the lessor to fully recover the capital committed. Then, it will act ex-ante, increasing the requested rental payment, in case the anticipated agent costs are higher, or in case the mechanisms applied are incapable of determining the reduction of these costs. [4] noticed that the abnormal profitability recorded when announcing a leasing operation are negative in case the assets financed can make the object of intensive use from the lessee (for instance, it is the case of airplanes), because this risk will be anticipated by the lessor and will be reported on the lessee by means of the rental payment.

Therefore, we notice that these agent costs disappear in case the lessee exercises its purchase option. Thus, the lessor must incite the lessee to exercise this option, setting a relatively low and attractive resale value: the residual value of the asset, established at the conclusion of the contract must, therefore, be lower than the expected venal value of the asset at the end of the contract. In this case, the agent problem tends to disappear. Still, if the intensive use strongly diminishes the final venal value of the asset, the user will not be interested in exercising its option: it can acquire a better quality asset on the secondary market.

At the same time, setting of the value of the purchase option at a low price does not constitute a safe means to diminish the agent costs, because the lessor cannot force the lessee to exercise its purchase option.[7] foresaw the financing in leasing of assets whose venal value is less sensitive to an intensive use that the user may perform6. Also, according to the authors, the higher the difference between the duration of the leasing contract and the asset’s life term7, the more important will be the moral hazard8 issues. A means to reduce these problems would be to establish possibilities for extending the contract term, even from its signing.

4. Conclusions

The analysis of the leasing operation allowed the outlining of the particularities of this form of financing and, at the same time, of the nature of the relations existing between the lessor and the lessee. Leasing has the particularity of separation of the legal ownership from the economic ownership. This separation brings forth different obligations for the contracting parties and, at the same time, gives rise to agent costs born on the lessor. Only the existence of the purchase option mechanism cannot eliminate these costs. In case these costs prove to be high, the lessor will act by anticipating them, and, implicitly, by increasing the amount of the rental payment.

Bibliography


6 It is the case, for example, of circulating materials, unlike the informatics material, whose intensive use has no a priori influence on its venal value.
7 This difference must be interpreted in the sense that the term of the leasing contract is shorter than the asset’s life term.
8 They refer to the absence of maintenance and the intensive use of the asset.


[8] Government Ordinance no. 51/1997 regarding the leasing operations and leasing companies, republished in the Official Gazette of Romania, Part I, no. 9, of January 12th, 2000, with the subsequent modifications and completions
WHAT DO WE MEAN BY „COMPANY PERFORMANCE”?

Claudiu Marian GRUIAN, PhD student,  
West University of Timișoara

ABSTRACT: This article examines existing approaches in the Romanian and foreign academic literature concerning the concept of company performance. It demonstrates that this concept is used very often but rarely defined and not sufficiently understood. Most studies go to performance measurement and improvement without further theoretic explanation and clarification. After analyzing the existing opinions the article mostly clarifies the significance of microeconomic performance, and other related concepts: productivity, efficiency, effectiveness, profitability and identifies the links between them. It recommends a common understanding of these concepts and all other concepts used in economics to give more precision and rigor to field science and avoid any ambiguity. For some terms it is yet difficult to unify the various contributions of authors because sometimes these are contradictory. Thus some authors may still use different approaches.

1. Introduction

Performance is important in any activity, especially in the economic field. We all want to be performers. In some areas of activity performance can be easily defined, for example in sports (scores, times, centimeters, etc.), but in microeconomics this issue is more complex; on the one hand because there are many factors that influence performance; on the other hand because the economic actors have different points of view about company performance depending on their interests. Thus, managers are interested in the overall performance, investors (actual and potential) will consider performance in terms of return on investment, employees and customers will show interest in the stability of the company and creditors will consider solvency and liquidity [8].

The concept of company performance is often used within literature, but rarely defined. Many studies present performance measurement and improvement methods without a clear explanation of what is being measured or improved. Other authors analyze different facets of performance (technical, operational, economic, financial, social, etc.) without clearly indicating their coverage or how they are integrated within overall performance.

Another issue in performance conceptualization is the confusion that exists between the many terms used in defining it: productivity, efficiency, effectiveness, profitability, competitiveness, etc. A clear delineation of the contents for each concept is necessary to improve field grammar and ensure a common understanding of these categories within economics. In the attempt to remove these misunderstandings the analysis should start with existing approaches on the performance concept.

2. Literature review

If we do a quick search in the economic literature, by using the keyword “company performance” we will find a multitude of articles and studies that measure company performance or evaluate the impact of certain factors on performance but we will find few articles about performance conceptualization [10]. In this paper different performance approaches of Romanian and foreign authors will be presented. Usually the contributions of
different authors are complementary but we have found that in some cases they can be contradictory.

2.1. Company performance approach

The Explanatory Dictionary of Romanian Language defines performance as a special achievement in a field of activity [12]. This definition, although it has a general nature, highlights that only subjects with better achievements than their competitors are performers and therefore it can only exist a limited number of performing companies. A more precise definition, at microeconomic level, presents performance as a state of competitiveness characterizing economic entities, achieved through a level of productivity and efficiency that ensures a sustainable market presence [6, 256]. The authors consider that performance is equivalent with competitiveness. Two new terms are introduced at this moment in the analysis: productivity and efficiency.

Performance may be considered as a special result obtained in management, economic, commercial and other corporate activities and involves business efficiency, effectiveness and competitiveness determined by procedural and structural behavior [11, 63]. It is not enough for the company to perform in a certain direction; it needs a good result in all activities because they all affect overall performance. It is also necessary to highlight the distinction between the concepts: performance and result. Performance is a relative value determined by comparison (with objectives, results achieved by competitors), but the result appears as an absolute concept. Other authors show that company performance is the ability to progress through constant efforts [1, 30]. The term is associated with an ideology of progress: the effort to “always do better”. This dynamic approach links performance to an action, a certain behavior, and not just a result (static view).

Performance has an abstract character, and it is often defined by the use of other concepts: efficiency, effectiveness and value [1, 31]. At company level it includes the ability to access resources and to allocate them in an efficient manner so they can generate sufficient remuneration for justifying the risk assumed by investors. Bărbulescu and Băgu teachers [3, 55] state that performance is the highest results level obtained. The same authors present a model of high performance companies that is based on the following factors:
- Performance in supplying (technical, energy, material, human and financial);
- Performance of processes carried out within the company;
- Stabile organizational side of the enterprise (organizational structure and corporate culture);
- Satisfied business beneficiaries (stakeholders).

By synthesizing the approaches presented above it can be said that microeconomic performance is closely related to other concepts such as productivity, efficiency effectiveness, efficiency and profitability. Therefore these concepts will be closely analyzed within the following points.

2.2. Productivity: the basis of performance

Productivity is generally defined as the rate between the outputs and inputs of an economic system. Although it is a very important variable in decision making and a determinant factor of performance, the productivity concept is rarely used in practice. First of all it is linked to the inputs used in the productive process. Resources must be available at the right moment and in the right quantities, and for increasing productivity their cost must be minimized. Second of all the results obtained in the production process must be maximized. Therefore consumed resources and activities must add value to the new product or service.
A recent study is very helpful in understanding the concept of productivity [10]. The author presents different approaches of the concept synthetically and chronologically. The most relevant ones will be presented in Table no. 1.

Table no. 1: Examples of productivity definitions

| Productivity = units of output / units of input | (Chew, 1988) |
| Productivity = value added / factors consumed | (Aspen et al., 1991) |
| Productivity is defined as the ratio of what is produced to what is required to produce it. Productivity measures the relationship between output such as goods and services produced, and inputs that include labor, capital, material and other resources | (Hill, 1993) |
| Productivity (output per hour of work) is the central long-run factor determining any population’s average of living | (Thurow, 1993) |
| Productivity is a comparison of the physical inputs to a factory with the physical outputs from the factory | (Kaplan and Cooper, 1998) |
| Productivity means how much and how well we produce from the resources used. If we produce more or better goods from the same resources, we increase productivity. If we produce the same goods from lesser resources, we also increase productivity. | (Bernolak, 1997) |

Productivity = efficiency * effectiveness (Jackson and Petersson, 1999)

By synthesizing the presented approaches an opinion can be formed on this matter. The majority of researchers agree that productivity can be quantified by comparing the effects obtained in the activity with the efforts. If we analyze global productivity we will consider all the resources consumed for obtaining a product. If we want to analyze partial productivity we will only consider one kind of resource used (labor, capital, raw materials and energy).

According to Oxford Dictionary of Economics [13] productivity can be generally quantified as the physical number (or value) of output units obtained by consuming one input unit. The most popular productivity measure, used in various fields of activity is labor productivity, indicator that is obtained by dividing total production (as number or value of products) to employee number.

2.3. Efficiency, effectiveness and economy

The efficiency concept was used first in economic literature by classic authors like Adam Smith and Karl Marx. Nowadays it is popular in almost every field of activity. According to Oxford Dictionary of Economics [13] efficiency means obtaining expected results with minimum resource consumption or obtaining maximum results by consuming a certain quantity of resources. Thus there are two ways to define this concept, depending on the situation one can encounter. In first case certain levels of production are forecasted and they have to be reached with minimum resource consumption. In second case a certain quantity of resources is available and the goal is to obtain maximum production. In contemporary practice we usually encounter the first situation. Companies plan certain production levels (depending on different criterions) and they want to reach them with minimum resource consumption, so this definition is more practical.

In Table no. 2 there are presented certain points of view of foreign authors on efficiency and effectiveness that are considered more relevant [10, 42].
Table no. 2: Examples of efficiency and effectiveness definitions (foreign authors)

<table>
<thead>
<tr>
<th>Efficiency</th>
<th>Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency is an input and transformation process question, defined as the ratio between resources expected to be consumed and actually consumed.</td>
<td>Effectiveness, which involves doing the right things, at the right time, with the right quality etc., can be defined as the ratio between actual output and expected output (Sink and Tuttle, 1989).</td>
</tr>
<tr>
<td>Efficiency is a measure of how economically the firm’s resources are utilized when providing the given level of customer satisfaction.</td>
<td>Effectiveness refers to the extent to which the customer requirements are met (Neely et al., 1995).</td>
</tr>
<tr>
<td>Efficiency means how much cost is expended compared with the minimum cost level that is theoretically required to run the desired operations in a given system.</td>
<td>Effectiveness in manufacturing can be viewed as to what extent the cost is used to create revenues (Jackson, 2000).</td>
</tr>
</tbody>
</table>

Swedish researcher Stegan Tangen [10, 41] presents efficiency as the rate between the minimum level of resources theoretically necessary to sustain certain activities in a given system (company) and the resources actually consumed. In this approach the author presents a method to quantify efficiency. It can be determined as the rate between expected and incurred expenses.

It can be observed that in the opinion of mentioned authors the efficiency concept refers only to how well resources are allocated and consumed comparing to optimal values known for that specific activity. In consequence efficiency doesn’t refer to results; it only shows how well resources are consumed. This kind of approach is closer to the Romanian concept of economy (translated „economicitate”).

Romanian authors use in their works definitions of efficiency that have a unitary character. A presentation of some opinions will be synthesized in Table no. 3 [4].

Table no. 3: Examples of efficiency definitions: Romanian authors

<table>
<thead>
<tr>
<th>Efficiency</th>
<th>Effectiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency = Maximum accomplishments, minimum efforts is as short time as possible.</td>
<td>Economic efficiency means obtaining useful economic and social effects, by rationally and economically spending technical, material, human and financial resources, by using scientifically recognized managerial and organizational methods in the productive activity. (Strumilin S. G. cited by Muresan V., 1996)</td>
</tr>
<tr>
<td>Economic efficiency is, generally the result obtained by diminishing the useful effects with the expenses made for obtaining them.</td>
<td>The economic efficiency of an activity is a quality given by the causality relation between total effects, equivalent as nature and time and total resources, equivalent as nature and time, used in that activity, relation that is positive, comparing to other options of the activity and to standard measures. (Matei and Bailesteau, 1986)</td>
</tr>
</tbody>
</table>

456
The meaning of the concept is different than the one presented above. Local authors define efficiency as the rate between the results obtained and the resources used. In consequence the term efficiency is equivalent with productivity. Thus we have two different interpretations for the same term. This is one of the misunderstandings found in the studied bibliography. However it would be more appropriate to use the foreign point of view because it is more simple and precise, and it harmoniously integrates the three bounded concepts (efficiency, effectiveness, and productivity).

Although definitions presented in some dictionaries treat the terms efficiency and effectiveness similarly [12], these are not synonyms. In many articles and especially in practice, confusions are made regarding the two terms. Sometimes they are used with the same meaning and that is the reason why a discussion is necessary. In most Romanian authors opinion effectiveness refers only to the dimension of company results. It represents the rate between the result obtained and the objective to be reached. This definition involves the fact that objectives must be set ex-ante, and the result can be quantified or at least estimated. This opinion is generally accepted and confirmed by all foreign authors cited above.

In effectiveness analysis, the most important issue is objective accomplishment, even by neglecting the efforts. On the other hand resources must be consumed economically. In Romanian language this is described by the concept of “economicitate”, which is conceptualized by Romanian authors. By analyzing the foreign literature it can be observed that the Romanian word “economicitate” doesn’t have a clear correspondent in English and obviously isn’t conceptualized. In the following part of the article we will use the word “economy” to describe it, with the meaning: rational utilization of resources. Some authors consider economy as an economic category that refers to the relations between economic entities, between these and the economic environment or state authorities regarding the rational and economical use of resources [4]. In their point of view a clear distinction should be made between economy and cost concepts, because the second has a larger coverage, by referring to all resources that are reflected in production costs, not only economically consumed resources. In other words economy means saving a quantity of resources in an activity, phenomenon or economic process. From this point of view economy is very important at the moment because material, energetic, human and other resources are limited and more expensive.

2.4. The correlation between productivity and profitability

Profitability is the company’s attribute to create a financial surplus from its activities [2, 49]. In the contemporary market economy the permanent monitoring of profitability is essential to ensure business continuity. For all categories of activity, economic impacts are reflected, ultimately, in the profit obtained by the company. In other words profitability measures the ability of company’s financial, material and intellectual resources to generate profit. In the Romanian literature there are two different terms used to define this attribute. Although they are separately conceptualized (in Romanian “rentabilitate” and “profitabilitate”) they have the same meaning. However for simplifying field grammar and avoiding confusions the usage of a single term is recommended, and this term should be “rentabilitate” because it is more often used in literature.

Profitability is the result of overall company performance but it largely depends on operating activity, in other terms on productivity. Undoubtedly there is a correlation between the two indicators in both short and long terms. Sometimes profitability level can change due to factors that are not related to productivity such as inflation or other specific indicators that belong to external environment. For this reason some researchers argue that productivity is a more appropriate measure of company performance than profitability [10, 39]. Productivity
increase, even if it doesn’t have an immediate impact due to factors in the external environment will generate an increase of profitability on the long-term.

Miller [5] and Stainer [7] presented the relationship between productivity and profitability by introducing the concept of "price recovery". It shows the influence of price changes suffered by inputs (inputs) and outputs (products) on company profitability.

### 2.5. Performance: more than profitability

Performance is a more comprehensive concept than productivity and profitability. It includes all aspects of the business: operational, economic, financial and commercial (cost, flexibility, reliability, responsibility for delivery, quality and speed). Below these issues will be elaborated as follows [9]:
- Lower costs allow reaching a high profit at current market prices;
- Flexibility means adapting operations quickly to changing market;
- Reliability and responsibility ensures the development of activities as planned and no interruptions or unexpected events;
- Increasing operating cycle speed means reducing stock and administrative costs;
- The production process quality helps avoiding situations in which things must be done again.

For a better understanding of the link between productivity, profitability and performance it can be plotted as "The triple P model".

**Figure no. 1 „The triple P model” (Productivity, Profitability and Performance)**

![The triple P model](image)

Source: Tangen, 2005, 43

Figure no. 1 clearly illustrates the way the three indicators are correlated. Effectiveness and efficiency refer both to productivity and at any other aspect of performance. They are generally applicable to all targets that the company has to achieve. The triple P model presents an integrative approach to identified performance elements and helps to understand what generates company performance and which the factors that influence it are.

### 3. Conclusions and recommendations

There is a variety of views on the concept of performance and others related to it: productivity, efficiency, effectiveness and profitability. But diversity is not a problem itself, but rather the fact that some views are contradictory and do not help a more nuanced understanding of the concepts described, such as normal, but bring even more confusion. The
role of definitions is to remove ambiguities and to increase understanding. Although important, they are often neglected and in some cases erroneous interpretation are easily taken from other authors without a more detailed analysis of international literature, thus spreading different opinions and sometimes opposing points of view about certain concepts.

Therefore, to remove any confusion it is recommended to use a common vocabulary for terms specific to any area of performance management and economics. The analysis of all performance approaches led to certain conclusions. The long-term source of performance is productivity. This implies efficient consumption of resources and effective fulfilling of the objectives. But productivity doesn’t assure performance, since it only refers to the operational activity. Therefore performance depends on company’s financial and commercial activity and it is influenced by the prices at which resources are acquired (total expenditure) and by the prices of sold products or services performed (total income). The difference between the two expresses company profitability. According to these considerations productivity takes its tool on performance. Moreover a growing profitability, caused by high productivity creates a sound basis of performance but does not guarantee its future maintenance. To keep this competitive state there are necessary: quality and responsibility in delivering products and services, speed (shorter production cycles and delivery), flexibility for quickly adapting to market demands and innovation.

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WHAT WAS THE ROLE OF THE SUPERVISORY COMMITTEE RECOMMENDATIONS FOR CREDIT INSTITUTIONS AND THE REQUIREMENTS OF BASEL III

Medar Lucian-Ion- Prof.Ph.D.
“Constantin Brancusi” University of Targu Jiu

Abstract:
The economic downturn and financial crisis has negative impacted the European banking system, which determined the Basel Committee on Banking Supervision, after the implementation of "Basel I and Basel II", to conduct a new series of recommendations. The economic crisis has affected all types banking products and services, all models of supervision and all evaluation methods known. Credit institutions innovations, on the ease of promoting new products and services, absence amid of high quality capital who can absorb losses in the limit of liquidity, led to a deadlock on lending activity.

Supervisory Committee appointed by the new "Basel III" recommendations, requires the introduction of minimum global standards for measuring and monitoring liquidity risk and also requires banks to triple quality capital reserve by 2015-2019, up to a 7% capital adequacy.

Keywords: Basel, BCBS reforms, regulatory minimum capital, CAD 3 - Capital Adequacy Directive - European Directive on capital adequacy, capital buffer

1. Basel role

In the full stage credit institution development, the European legislation, which has always set a direct link between the capital of credit institutions and the risks they assume, is known as "Basel Agreement".

The first Basel agreement, adopted in 1988 and sent to major international banks in G10 countries, gave a definition of the minimum regulatory capital, recommended some measures to be taken by banks to prevent exposures at risks and set rules specifying the capital to be maintained in relation to these risks.

Respecting Basel agreement rules, each credit institution has now a "passport" that allows it to operate in any EU country.

Role of Basel Committee on Banking Supervision (BCBS-Basel Committee on Banking Supervision) was to promote the strengthening of credit institutions and the stability of the global banking system even from its founding. In this respect, credit institutions have been preoccupied with own funds of at least 8% of weighted assets, compared with their level of risk. Agreement introduced capital adequacy indicators, based on risk-weighted composition of bank assets and off-balance sheet exposures, which guarantees the maintenance of adequate levels of capital and reserves, to protect solvency.

Solvency indicators may vary depending „Tier I” and „Tier II” and is calculated as:

\[ I_1 = \frac{\text{basic} \cdot \text{own} \cdot \text{funds}}{\text{risk} \cdot \text{exp} \cdot \text{osure}} \geq 4\% \]

\[ I_2 = \frac{\text{total} \cdot \text{own} \cdot \text{funds}}{\text{risk} \cdot \text{exp} \cdot \text{osure}} \geq 8\% \]

Where:
I₁-tier I are the own funds, that must represent at least 50% of the funds required to cover the bank's credit risk assumed;

I₂-tier II is additional internal and external resources available to the bank and can not exceed 50% of tier I.

In addition, the Basel agreement establish and another capital element called "Tier III" represented by short-term subordinated debt.

Calculation of the risk exposure is currently considered in both parts of the operations and especially off-balance sheet.

Monitoring adequare indicator of capital and the banking exposure to risks, was carried out by the central banks where credit institutions operate.

The main purpose of European legislation ("the Second Banking Directive"), was to harmonize laws and methodologies, so that credit institutions can be founded and be able to operate freely in EU countries.

Among the main elements proposed by the „Second Banking Directive” may reveal:

a) minimum capital of 5 million for credit institutions, with special provisions for smaller banks;
b) principles of guarantee for recipient countries to control the liquidity of credit institutions;
c) establishing a single banking license, to be able business anywhere in the EU, which is based on "home country control" and "mutual recognition ",
d) provision for monitoring natural and legal persons who hold a large of the bank shares,
e) supervision and control over long-term banks participation in non-financial firms.

Basel Agreement imposed a series of demands on increased risk exposure, on deposit insurance and also suggested measures for reorganization of banks, setting up own funds, indicators of solvency and accounting for foreign subsidiaries.

Now, there is a deposit insurance requirement in all countries, institutions that have branches outside the national headquarters comply with the deposit guarantee system of the host country.

As a consequence flowing from the recommendations of the Supervisory Committee is that credit institutions should not accept a customer or customer group exposure higher than 40% of own funds.

But the most important consequence was that, by introducing a mandatory minimum level of bank capital to be correlated with the debt to third parties was limited and unfair competition among banks to attract customers through aggressive promotion of banking products and services.

With all the good elements that has imposed, "Basel I" agreement was aimed at ensuring convergence of prudential regulations on credit risk and the risk market, but without focus and financial stability.

Further banking innovations, revealed that "Basel I", imposed a less flexible framework to capture the requirements on the risk profile of credit institutions and used a relatively small number of categories of credit risk weights for bank exposures.

2. **Basel II Implementation**

In June 1999, in full IT banking revolution, the Basel Committee on Banking Supervision imposed a new requirement on equity of credit institutions, known as "Basel II" .

Compared to the old agreement, by the new agreement credit institutions have become more aware of the risks which may affect their activity, focus on credit risk, market and operational risk.

European Directive on capital adequacy (CAD3) required all credit institutions of the european community space, to implement "Basel II Agreement". Thus, the Basel II meeting
of 10 July 2002, European Commission asked all central bank of the EU countries to monitor
apply the agreement by the credit institutions.

Prudential supervision of the romanin banking system is made by the Nationale Bank,
which verify as the credit institutions applied Basel Committee recommendations.

By issuing organization and internal control of credit institutions procedure,
management significant risk and organizing and conducting internal audit activities of credit
institutions, was made the first step on the application of Basel II.

Another process to Basel II implementation, was to issuing rules on capital adequacy
of credit institutions by including market risk with credit risk in capital adequacy requirement.
The central bank also monitored the development of internal risk management procedures and
asked banks to identify their risk profile, the associated risks and profitability of bank capital
strategy.

The most monitored activities by the central bank, was, adapting the system of the
prudential reporting and developing guide for validation of internal models for credit rating.

A main result of credit risk management, as Basel II, has been and remains banking
risk adjustment through the proper rate of return, and maintaining acceptable parameters of
the credit risk exposure.

Revealing elements of Basel II recommendations for improving quality bank capital,
greater transparency, and sufficient liquidity in the banking system, they refer to implement
the three pillars of credit institutions:

Pillar I set minimum capital requirements, including advanced and flexible rules for
determining the minimum requirements capital market risk, credit risk and a new type of risk
-operational risk.

Pillar II, which refers to capital adequacy supervision, has established an active
supervisory authority's role, on the evaluation of the internal procedures, in assessing the
capital adequacy of credit institutions the risk profile, by checking the bank's internal
procedures for risk management and the possibility of imposing a requirement that they
maintain higher equity than minimum indicated by the Pillar I.

Pillar III recommended discipline of market risk management, by promoting
transparency in business conditions. Market risk arising from trading portfolio, consisting of
elements permanently transformed market value, like shares and bonds.

For credit institutions, in this moment, the information required to be published are the
organizational, strategic and methodological about the financial risks (composition and
amount of equity, accounting methodologies of the asset and liabilities management and their
adjustments), credit risk and operational risk informations (operational risk determined by the
banking possible loss). So, market discipline determined more detailed reporting requirements
by the authorities and, as a novelty, also by the public, on the exposures to risk and capital
adequacy risk profile.

Basel II implementation helped to improve Romania country rating, but in the
meantime had inconsistent influence on credit policy. As a result, by the rules required,
central bank, restricted credit access resulting in displacement of the demand for loans from
credit institutions to non-banking institutions (IFN).

A better efficiency in the risk assessment that have successfully implemented the
Basel II had a:

- Banks that have invested in the risk management
- Banks with large retail portfolios
- Cash payments institutions that perform complex operations
- Credit institutions concerned to manage operational risk
- Credit institutions which have made changes on the financial reporting system IFRS and have brought significant changes in financial processes and risk

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management during Basel II implementation.

Among less effective credit institutions, include:

- small banks with simple risk management systems
- credit institutions that do not have enough experience in operational risk.

Basic consequence of Basel II was to promote effective methods of evaluation and management of banking risk, and adjustments were made for each phase of banking activities, strengthening bank capital, made possible banks resistance to the financial crisis.

With all measures taken by credit institutions of the recommendations of "Basel I and Basel II", European supervisors observed that under the prolonged economic recession and deep financial crisis, banks still have a weak equity.

Banks are not prepared to bear all the consequences of banking risks and to encourage economic development through credit from the capital registred at this moment.

3. Requirements of Basel III

We are facing a potential risk in credit institutions who preserve their bank capital and to resist the current conditions reduce their lending activity, financing in Romania, which we most need to exit the current period of recession and to resume growth.

Revenues that credit institutions have done by keeping the active interest of overly large and unjustified charges on their products and services, have led the banks, due to financial crisis, to innovate new offers services and invest in banking technology based on the latest IT products, without the intention of increasing bank capital.

In the autumn, Basel Committee on Banking Supervision, which now consists of central banks and regulators from nearly 30 countries, in response to the credit crunch, has developed a series of stringent financial regulations. These regulations called "Basel III" would be implemented by credit institutions in a period similar to that flown by Basel II regulations.

European Supervisors should monitor carefully "Basel III" recommendations to avoid, the first measure taken by the credit institutions at Basel I implementation, reducing lending activity.

Universal banking development strategy refers to three-fold increase minimum capital, without reducing their lending activity, following to increase adjustments for future losses. The most contentious requirements are those related to the core capital and leverage.

According to these recommendations, banks will calculate an indicator called "capital conservation buffer" and will be a requirement for additional capital over base capital. However, if will be reported "excessive credit conditions" must be create a 0-2.5 % "reservation counter".

National "Basel III" implementation by EU countries will start on 1 January 2013. By that time, the central banks of EU countries, should impose specific norms to the credit institutions and adjust the national regulations to the new requirements, before that date.

Therefore, from 1 January 2013, credit institutions will be required to meet the following minimum requirements in relation to risk-weighted assets (Rwasa):

- 3.5% common equity / Rwasa,
- 4.5% Tier 1 / Rwasa,
- 8.0% total capital / Rwasa.

Banks will be required to hold a 2,5 % capital preservation buffer to withstand future periods of financial crisis. Preserving capital buffer of 2.5 percent is found on top of Tier 1 and will be met with ordinary shares, after application of deductions.

As approved by the group of observation, preservation of capital buffer can be realized:

- 0.625% in January 2016,
- 1.25% in January 2017
- 1.875% in January 2018
- 2.5% in January 2019

The purpose of conservation buffer to ensure banks maintain a capital buffer, which can be used to absorb losses during periods of financial and economic crisis.

For an aggressive policy lending, banks should be based on established capital buffer during such periods, to be closer to regulatory capital levels and implement constraints on managerial liability gains distributions.

4. Conclusion

If banks do not reach the required target indicator, supervisors are able to restrict the granting of bonuses, dividends or repurchases share.

The Basel Committee has proposed supervisory institutions the development of detailed normes on the harmonization of minimum liquidity standards to ensure within a month stability of financial crisis and to promote long term elasticity for the banks.

Recommendations on capital adequacy and liquidity have been the subject of numerous consultations with EU Members and central banks were also established and developed new strategies that will be imposed under a new paradigm for credit institutions management.

It remains to be seen the strategic guidelines on risk management by 2019 to ensure bank liquidity and encourage lending activities.

The basic requirement of the agreement "Basel III" is to strengthen bank capital, liquidity and business relationship between credit institutions and bank customers by using reasonable credit risk, develop monetary creativity and contribute to financial stability.

Due to innovations in the availability of credit institutions and banking products, the Basel Committee on Banking Supervision usually meets from 10 to 10 years, as seen in the evolution of "Basel" and always requires a new discipline bank.

Purpose of the agreement "Basel III" is to give the market a better picture of the liquidity of credit institutions on the risks it assumed.

Strengthening the banking capital and banking stability is required for activities that credit institutions at the crossroads of economic activities and a collapse of an industry in a particular part of the globe can cause real economic problems elsewhere.

Permanent concern for credit institutions, bank liquidity, which will reinforce the liquidity of the banking system can withstand financial crisis.

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ROLE TO ENSURE BANK LIQUIDITY OF CASH LACK IN THE ECONOMY

Medar Lucian-Ion-Prof.Ph.D.
“Constantin Brancusi” University of Targu Jiu

Abstract:
The importance of liquidity bank is given by the influence that money exerts in the entire banking system. Lack of liquidity is a major non-conformity on an institution's ability to effectively cope with the withdrawal of deposits and other liabilities and cover the additional borrowing to the loan and investment portfolio. At the basis of trust in banking system liquidity is the liquidity risk management. Bank liquidity requires a number of requirements related to the financing, from founding by now, anticipated future funding needs, the solutions they require bank management to attract new funds and placing them effectively.

Keywords: "Basel III" Agreement, effective liquidity, necessary liquidity, indicator of liquidity, the liquidity degree, liquidity risk.

1. The role of banking system liquidity

One of the main recommendations of the supervisory committee of credit institutions included in the agreement "Basel III" refers to the liquidity of credit institutions. Besides the development of equity measures, credit institutions are urged to urgently pass the radical redesign of the entire process of cash attracting leading resulting additional costs.

"The economic benefits of proposed reforms (the" Basel III ") are substantial and must be considered alongside costs. These results not only benefits from a solid banking system in the long term, but also from greater confidence in the financial system as soon as it begins the implementation process," said Nout Wellink1 the head of the Basel Committee Banking Supervision.

The economic recession Romania faces a severe lack of liquidity generated by the lack of liquidity in the banking system and other economic factors.

The economic literature states that the economic liquidity is closely linked to the liquidity of the banking system, which depends to the liquidity of credit institutions which is reflected in their structure at a time.

The most complete definition of economic liquidity is given by Radcliffe raport, that said economic liquidity is the monetary mass economy plus all forms of liquidity, quantifiable or unquantifiable, which indirectly influences the demand for money.

And yet, it always puts the naturally question, who creates money in an economy, the he currency needed to support requests for money to pay for investments and development of economic and social obligations?

In a modern economy, money is created by two broad of institutions:

- central bank creates central currency (cash + money of account owned by credit institutions and other entities);

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1 Magazine "Economistul" nr.3235 29-30 October / 2010, Bucharest.
o commercial banks that attract a money people and form deposits (money of account held by the nonbank public), then place them in the form of bank products;

In other words, currency credit institutions located in the homes of service, in their accounts at the central bank and customer bank accounts (deposits) make up liquidity in the banking system.

An adequate bank liquidity is extremely important in terms of minimizing systemic risk, due to contamination risk by interbank payments system.

Banking system liquidity has a significant effect on economic and business performance and has:
➢ a leading role in achieving the final settlement of all financial transactions in the economy (various payments made by customers of banks, financial markets transactions, loans, payments to the budget, revenues from the budget, etc.);
➢ an important role in monetary policy implementation and transmission of impulses is a major function of the central bank and make possible the achievement of its primary objective on price stability.

The volume of currency in the economy (money) is given by cash in circulation (owed by the nonbank public) and currency in sight and term deposits consist of all individuals and legal entities participating in the monetary creation.

The money creation has an important role in the management of credit multiplication related to the raised money volume in the banking system, but in a recession economic period, banking product placement should be carefully monitored.

2. Bank liquidity

Bank liquidity is ensured by a operational management of bank liabilities and assets that have different levels of liquidity. Banks’ managers permanent monitor liquidity asset and chargeability liabilities, liquidity risk is analyzed in all banking businesses.

Lack of liquidity can significantly affect the current banking operations and bank credibility drops to credit institutions facing such a situation. Volatility bank deposits, while expressing their duration may be the main cause of liquidity risk, but can be removed by the depositor confidence in the stability of the banking system.

Potential risk exposure that is equal to the value of these deposits and daily volatility, is seeks daily. In the financial crisis, banks will record significant financial costs to purchase urgently needed cash daily payments.

Currently, banks in Romania recorded an alarming amount of loans outstanding at maturity, which can influence the banking system liquidity. Therefore investment bank deposits with maturity matching is the "golden rule" on the prevention of liquidity risk.

It is known metaphor: "liquidity is bank breathing" and therefore, credit institution carefully program their liquidity needs, so fluctuations in cash flows recorded by the bank treasury to enroll in the approved projections.

"A greater liquidity than is needed, usually, when a substantial part of the loan portfolio consists of loans over the long term value, when the bank has a higher concentration of deposits, or recent trends show a reduction deposits accounts, up by businesses, or individuals of great value."

Bank liquidity is managed in two forms:
• effective liquidity ($L_e$) is calculated by summing balance and off-balance sheet assets, their value has been adjusted and allocated the bands maturity and the value obtained represents amount receivable from the relationships whit customer banking;

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liquidity necessary \((L_n)\) which is calculated by adding off-balance sheet liabilities and obligations, and their value has been adjusted and the resulting value expresses the amount that the bank has to pay its creditors during the time recorded.

By comparing the effective and the necessary liquidity, obtain:
- excess liquidity, when \(L_e > L_n\) which if not properly managed increases costs and leads to lower profitability of the bank’s default;
- lack of liquidity, when \(L_e < L_n\), a situation which the bank loses credibility and lead to cessation of payments.

Therefore, the liquidity risk arising from maturity mismatch between revenue receipts and payments flows, leading ultimately to tapping capital loss, as a result of failure in meeting obligations.

Supervision of liquidity risk is achieved by:
- credit institutions, according to regulations on the banking management, of the internal assessment process capital adequacy at the risk and requirements for outsourcing their activities;
- central bank supervision, based on liquidity ratio reported by credit institutions, as determined in accordance with published rules\(^3\).

At the liquidity ratio calculation and reporting, a first requirement refers to recording cash availability (liquidity actual) scored on the first maturity band (spot) in:
- a house account and other assets;
- a current account at National Bank and deposits with National Bank of Romania;
- a correspondent accounts with credit institutions and deposits with credit institutions;
- an accounts officer on a day other credit institutions and pension amounts received by a living from credit institutions;
- a credit account on a given day to day financial institutions and pension amounts received on a day to day from clients;
- an accounts receivable balances stock companies and other amounts charged on transactions in securities;
- a term deposit accounts of credit institutions with the National Bank of Romania.

The account value of these assets will be reduced, if necessary, with adjustments for depreciation calculated with adjustment quotient \((k)\).

Adjustment quotient "\(k\)" is calculated by dividing the balance of customer outside banking system loans (for which record at least a sum payment with a delay of more than 31 days, including the maturity date), at the total loans customers outside the sector of credit institutions, existing balance at the end of the reporting is drawn up.

Another requirement for the monitoring of credit institutions, by the supervisory organization, refers to the way debts are highlighted (liquidity necessary) with regard to maturity listed on the first strip (maturity) to:
- refinancing loan accounts at National Bank of Romania;
- correspondent accounts of credit institutions and deposits of credit institutions;
- loan accounts on a day to day received from credit institutions and values in the hostel on a day other credit institutions;
- loan accounts on a day other financial institutions and pension values in one day to another customer;
- current accounts payable of customer accounts, settlement of securities transactions (credit institutions’ accounts, the accounts of undertakings for collective investment in transferable securities, credit balances of the accounts of stock exchange companies, other financial accounts, customer accounts and other amounts payable on securities transactions).

\(^3\) Regulamentul B.N.R. nr. 4/2010 published in MOF nr. 192 din 26/03/2010
3. Bank liquidity index

The basic requirement for supervision of liquidity risk is the monitoring of the liquidity index. It is calculated as the ratio between liabilities and assets weighted. The weighting of assets and liabilities is performed using an average number of days (number of interest) associated with each maturity.

\[
I_L = \frac{\sum_{i=1}^{n} P_i \times r_i}{\sum_{i=1}^{n} A_i \times t_i}
\]

Where:
- \( I_L \) = indicates liquidity;
- \( P_i \) = liabilities with maturity \( i \);
- \( A_i \) = active with maturity \( i \);
- \( r_i \) = quotient of liabilities weight with maturity \( i \);
- \( t_i \) = quotient of assets weight with maturity \( i \).

Liquidity indicator may be:
- equal or close to one situation where the bank must not increase the maturity transformation;
- subunit, determined that the bank makes the conversion from short-term liabilities to long-term assets under the curve of increasing interest;
- supraunitar, when the bank is obliged to make the conversion from long-term liabilities in short-term assets and determined currently risk of liquidity.

These requirements purposed, are matching bank assets with liabilities on maturity, doesn’t create money, artificially, by multiplying the credits in economic recession and to prevent the liquidity risk.

Liquidity risk is determined mainly by the following causes:
- inadequate amount and structure of resources and investments;
- maturity mismatch between commitments and resources;
- large variation in prevailing interest rates;
- dependence on financial markets;
- noncompliance real economy;
- financial indiscipline of businesses;
- influence of country risk, etc.

Management of bank liquidity is reflected primarily by supervision monetary position, whose components are:
- cash (notes and coin in credit institution management in counters and treasure) needed daily forecast receipts and payments by the schedule of receipts and payments;
- cash deposits at the banks and other;
- amounts in transit, and others receivable from other banks;
- minimum reserves to be recorded in the reserve account at the central bank.

Currently, the Management Board of Central Bank decided to keep the policy rate of 6.25% and the minimum reserve liabilities in national and foreign currency of 15% and 25%.

Establishment of mandatory minimum reserves to the central bank has a dual role: monetary and prudential. The prudential role is to ensure banking customers that credit institutions always have sufficient liquidity to cover any withdrawals of deposits before maturity. And secondly, the monetary role is to limit the credit institutions to replicate customer deposits, so to "create money" out of Central Bank.
With the sight deposits consist of bank customers, a credit institution may grant credit to customers, banking products are mostly drawn from the amounts (less than book rate). Amounts in current accounts of that customers which have come from another institution, may provide the basis for a new credit and so by repeating this phenomenon creates monetary currency account. It is known that the required reserve ratio is inversely proportional to the multiplier deposits and is a principal instrument of the central bank to limit money creation.

Therefore, recording and monitoring monetary position, requires classification in a minimum level of reserve planning and forecasting required for all significant transactions, affecting the availability of current accounts kept at the central bank. At the same time are made all operations necessary to counter the negative influence of position on monetary transactions. Real-time updates on monetary position is critical since it changes constantly during the banking day depending on the nature and the volume of current operations.

In addition to liquidity indexes in order to manage liquidity crisis and a eventually bank insolvency, treasury credit institution uses a set of specific tools of analysis on the liquidity and the most important are:

- **global liquidity** is the ability of those assets to become active at minimal cost in cash to meet payment obligations due;
- **liquidity ratio** expresses the evolution of the of bank debt over money market from time to time to calculate the maturity of bank lending, new loans contracted by reporting outstanding loans during the same period;
- **liquidity cash asset** is the ability of those assets to meet immediate debt;
- **cash liquidity** express credit institution capacity to of liquid assets to cover liabilities with the highest degree of volatility (demand deposits);
- **total deposits liquidity** expresses that liquid assets can quickly turn into cash with minimal costs to cope with debt accounting for all deposits made by individuals and legal entities;
- **liquidity based on total deposits and loans** is the ability of those assets to become active quickly and at minimal cost in cash to cope with debt to the sum of deposits and loans.

Permanent analysis of liquidity degree will lead banks to radical redesign of the entire attraction process, will reinforce the role of cash and bank liquidity management with the implementation of the agreement a "Basel III".

4. Conclusions:

Credit institutions shall ensure, by removal the non-conformities, that liquidity management strategy is based on new procedures, designed to control and limit liquidity risk. Strategy for effective management of liquidity, reviewed after the committee recommendations, will determinate credit institutions urgently improve computer-information system for monitoring, controlling and reporting liquidity risk.

To resist the widespread financial crisis, in the near future, credit institutions will rethink the whole process of banking, so that will not lend the money received by way of deposit, but only the amounts that customers choose to be placed in accounts investment. Intended to protect depositors, the alleged measure would abolish the system of placing of banking products based on customer deposits.

In the midst of financial credit institutions must bear the consequences and effects caused by the real economy, to maintain diversification of liabilities and to ensure the ability to sell assets.
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CHANGE MANAGEMENT IN FISCAL ADMINISTRATION

DRD. GHEORGHE MOCAN
CITY ADMINISTRATION PUBLIC FINANCE NEGREȘTI OAS

Abstract
This paper presents change as an element of dynamism and progress in tax administration, a modification, a transformation or a recasting in its form or content of a natural process of thought and action. Also, we discuss the factors that determine resistance to change and change management and strategies in the current Community context. The last part of the paper deals with the future managers and the leaders of emotional intelligence, resonant leadership and the four dimensions of emotional intelligence and redefining excellence, referring to leaders gifted with emotional intelligence, right for the tax administration, who are guided more by values, are more flexible and colloquial, more open and more honest than the current leaders, are closer to people and most importantly, they emanate resonance: they feel a strong passion for their mission and that passion is contagious. Their enthusiasm and fervor is spread spontaneously reinvigorating those they lead, and resonance is the key of the management based on emotional intelligence.

1. Change, element of dynamism and progress
The rapid development of science and of technology in all areas of social-economic life raises many complex problems for managers of all companies and government, and to address them, they need searching, adapting and applying new methods, techniques, rules and procedures of organization and management activities taking place in these establishments and organizations.

Changes in the contemporary world are increasingly more in the attention of all mankind and especially managers, scientists, sociologists, etc., because these changes have become more numerous, faster, more frequent and extensive than ever. They affect the political, economic, technological, commercial, cultural, etc. fields, change being the consequence of logical development process.1

Opposition existent in any phenomenon of nature, thought and society finds its resolution by changing the transformation, giving new blank field and energizes all sides to influence the quality and quantity of activities. Change is generally a change, a transformation or a change in form or content of an object, a task or a natural process or social thinking.

Any change involves consequences, consequences and results that may be leading to such positive development, dynamism and progress or destructive process, tending to

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1Mihail Dumitrescu, Introducere in management si management general,Ed Eurounion, Oradea,p 425
underdevelopment, decay, decline. Moreover, any improvement, improvement or innovation, either technical or management field is the result of a struggle between what was and what is new and modern.

The creation of conditions in practical life, to defeat the new, required some changes in those processes, changes that still allow the introduction of new progress worn.

On this occasion, the processes subject to change, especially in social processes such as leadership, there are misunderstandings, disagreements, even resistance to the new element brought by change. This resistance to change appears in all areas, but it is more significant in social activities, from technical work.

Based on the above, change is specific and social processes, including tax administration and management. The question that arises is to define what is change in the leadership of an administration or organization and what changes are needed in this area.

Change in leadership is a change in the management of the activities taking place in a unit that adds new elements of management and appropriate relationship between existing and new items or remove obsolete, outdated items and relationships created by them. Changes in leadership carries with it elements of the specific features of any changes, but also their specific issues, such as:

- the only change in management structure creates movement and modifies relationships between elements. This is a different intensity depending on the application of autonomous decision-making mechanisms;
- advanced any change creates expectations and hopes, hopes to change attitudes and affect the items moved, attitudes influence the results, etc. For these reasons speed management action should be the same if not greater than expected changes adverse reactions;
- a change in leadership leads to the harmonization of actions and activities to a qualitative leap in results of work teams, if there is an improvement or improvement of elements and connections management, but can maintain and oldest state or can be reversed where the change reach an inadequate configuration management elements or a depletion of existing relations.

Social practice outlined two types of changes in leadership by accumulation and by explosion.

Change by accumulation requires a longer period of operation and refers to changes in which the contradictory elements have reached levels of conflict, for example improving organizational structures;

Change explosion demands a short period of operation and refers to changes in which the levels reached conflicting contradictory elements that impede the functioning of economic systems, such as economic reform, financial crisis;

Resistance to change in leadership can always become a real strength of a potential, if management does not consider the establishment of certain principles, rules, standards or does not have the strength to direct the actions required due to speed changes.

Change as a potential element carrier of dynamism and progress, is also found in the management and regulation of disturbances arising as a result of the complexity and business development. In the disturbances that require and make necessary changes in leadership activities, two classes of phenomena are as follows:

A first class is the real phenomena, existing activities, that call for the change management to be directed, routed to mitigate, if not to their settlement, for example:
- outdated modes of organization, bureaucracy, which do not correspond to current and future conditions, which all inhibit the activity of units, such as frozen structures, high information entropy;

- dysfunctional phenomena in the led activities, such as lack of criteria for promotion to senior staff;
- collateral phenomena of positive social action, such as pollution, as a consequence of increasing industrialization;
- fluctuations in external factors which is linked to business unit and management unit, such as those related to lack of resources;

A second class of phenomena are those subjective. They are the result of "gaps" and "misunderstandings" in the units, which require that the change in leadership, embodied in the development and improvement actions to be eliminated, such as:

- existence of differences between the parties which form a unit;
- emergence of new needs at unit level from the social change objectives.

Modifications of these conditions advertisers achieve matching actions in the mechanism governing the organization of administrative units. For example increasing the number of unemployed and social welfare development actions.

- conservatism, narrow-existing forms, bureaucracy and other phenomena of systems with higher degree of entropy, require an open struggle for change, promoting new, more efficient.

2. Factors determining resistance to change

Change becomes every day more and more accelerated, especially through the influence of the technological revolution and behavioral dynamics of the environment, forming a continuous flow of changes and transformations in the process taking place in society, including leadership.

Management units, managers acting in this team have to face these kinds of changes, adapting to permanent changes in pace with new situations, sometimes causing these changes. If adaptability to pace of these changes can be achieved, increasing uncertainty, fear of risk, disorientation and resistance to necessary change, but misunderstood by those overcome. And this is especially resistant to both volume and speed of change, which sometimes exceed the power of adaptability of elements of driving.

On the other hand, managers and not only, react differently to the failure of attitudes and opposition and hostility to those changes. Some specialists who philosophy on account of changes reveal even classical techniques of resistance, such as categorical refusal, specialty or custom obsession.

Changes in leadership cannot always be done without arising problems, whether it is driving a system's development or maintaining and improving it. In practice they are not easily observed, but the intensity, distribution and organization of the elements that compose the work, states and relationships that affect them, can be distinguished as two types of changes and the consequences they bring.

Some researchers on issues of social development strategies concluded that overcoming the forces of inertia and resistance to accelerated change current and future can not be achieved without any disputes, disagreements or problems arise.

Development of social systems is done by changing some items only, with inevitable tensions, contradictions with other items still unchanged.

Due to internal complexity and the complexity of their environment, social systems can not find a practical style in which the existing elements do not exist in a tension or a contradiction. Such a state of inner harmony of the system and its system of social and natural environment is utopian. There's even a wider recognition of resistance reaction to the

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changes certain situations impose. It is important that monitoring and compensation phenomena of change resistance to happen before all the microeconomic levels.

**Factors determining resistance to change management**

Resistance to change management is natural, especially if an activity is performed with good results in a certain way and no assurance that we will succeed better if we make changes or alterations. This attitude means only complacency, routine, self acceptance, which is not characteristic of the new type leader, dynamic modern, performing. Observations showed that three groups are important factors fueling resistance to change, as follows:

a) **Factors concerning the nature of the target change:**
- hierarchical positions reduce the rights of decision and action (proliferation instructions and advice needed);
- unable to use existing knowledge or the need for further efforts to gain further knowledge (computer failing in leadership, lack of preparation for change, no action team);
- excessive gap between the decision and responsibility (changes with the character of a directive, or hazardous measures, contrary, insufficiently substantiated).

b) **Factors relating to how to make change:**
- insufficient communication of the character and consequences of change (failure of related action, surprise, reserve to application);
- refusal of the authority entitled to make a change and moving beyond the hierarchical (nature of change required, which may generate conflict management);
- participate in the design, debate and define the changes foreseen (lack of motivation, unclear on purpose).

c) **Factors relating to those implementing the change:**
- use of inappropriate language (reducing the number of those possible to train in implementing the change, development of conformism);
- impatience to see the success of the proposed change too fast;
- refusal of equal concern for the technical and human side;
- relatively strained relationship between team leader and the parts of the team.

It was noted that when some managers are involved in rapidly changing situations that they are "loaded" by news and keeping their balance of power during the change falls far.

**Forces for change in organization**

Pressures for change are permanent organizations. At the same time manifest a resistance to change, which is a complex issue faced by the managers since it takes many forms.

An explicit open resistance, can take the form of strikes, the diminution of productivity, negligence or even blackmail.

An implicit, voiceless resistance can be expressed through increased absenteeism, delays, resignation, loss of motivation at work or even lower morale.

Resistance to change must be understood by all staff, especially managers must understand the underlying causes of this resistance, which causes differences from individual to organization.

**Each individual** has a tendency to a greater or lesser extent, to resist change in general, change the default organization they belong.

**Selective attention and memory** - can be explained by the fact that people tend to perceive selective factors that do not coincide with their world image. If an individual has formed a certain idea about the surrounding reality, it resists change, because:

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people read or listen only to information compatible with their conception. For example, newspapers and magazines read by everyone match their political options.

- people forget when it is convenient all the knowledge that would lead to change views;
- people are opposed to communications which are incompatible with their present values.

This tendency of people to receive the information selectively and to retain only those which are consistent with their views or opinions is that within organizations, the news for change is not accepted easily. In conclusion, selective attention and memory is an obstacle against organizational change.

Habits can become a source of satisfaction for the individual, allowing people to adapt to the environment of the face. Habit becomes a source of resistance to change, as individuals perceive immediately that he or interest to change his behavior.

Dependence if excessive, can lead to resistance to change. In early life all creatures are dependent on adults. Very dependent on other people lack confidence and self-appreciation, leading to resistance to any change for which they are unprepared. This resistance is evident until the people they depend on agree to change. This explains the fact that within organizations where there is a strong centralization and a limitation of the initiative more difficult changes occur.

Fear of the unknown is practiced more or less to all individuals, some are even scared, when you need to face new events, unprecedented.

In order to avoid making decisions in conditions of more constrained by fear of the unknown, some managers refuse to promote measures which lead to related changes in the job responsibilities they have.

Economic reasons are another source of resistance to change. It is known that money plays an important role in everyone's life, people generally oppose any changes that would reduce direct or indirect income. In other words, people are invested in their job, they learned how to do their work successfully and some have achieved performances. Changes could be introduced which would lead to a threat to economic security of many of them. This makes people show resistance to change and when they see their incomes threatened.

Security as a source of individual resistance to change is the tendency of people to find protection in the past by regressing. When life gets depressing, individuals evoke the past, which they considers much happier. The paradox is that it regresses to past methods, just when they do not produce results and must be urgently changed.

The main causes of resistance to change in the organization are:

Threats of power and influence is explained by the tendency of people within the organization to experience change as a cause of reducing their power and influence. For example, ownership of information can be a source of power, or improved working conditions often appear as an increase of power to subordinates. In both cases, managers may resist these programs.

Structure with clearly defined positions, subordinate relationships, responsibilities and powers, is a question of organization resistance to change. This resistance is greater the more formalized organizational structure is higher and vice versa. Any change would lead to structural changes within the organization, which draws strength from the organization, if we consider only the organizational costs of those changes.

An organization has limited resources, which is another cause of resistance to change. Any change requires mostly resources (capital, time, qualified staff, etc.). Often an organization's managers are convinced of the need for change, they identify, characterize them and maybe even start programming, but they give up, because the organization lacks the resources to change.
Immobilizing capital is closely linked to the previous case of limiting resources and resource limitation is not necessarily their lack. Successful organizations may have difficulties changing because they cannot change capital which is restrained in cars, buildings, land, etc. Most large cities were developed before the discovery of the car. Today they are beginning to be inadequate for the intensity of traffic and parking needs. Investment in buildings, roads, public services are enormous, so that their scale prevents rapid change, which is also important.

Immobile assets are also found in humans. Simply imagine workers who do not make a major contribution to the organization, but have a certain age, meant to preserve their jobs. Inter-organization agreements require, in general, obligations which may curb people’s behavior. Agreements signed with the staff concerning the right for layoffs, promotions, etc., limits the role of management and are often a brake on change.

Proposals for change may be delayed due to competition, their commitments to suppliers or other obligations imposed by public power.

From the above it follows that, on the one hand, there are many pressures on change and on the other hand, there is resistance to change both from the part of individuals and the organization.

The question arises, how is it possible to overcome resistance to change, a fact noted by Kurt Lewin, a pioneer of social psychology, who provides a method for examining change, called "force field analysis." He sees change not as an event but as a dynamic equilibrium of forces acting in opposite directions.

To introduce change, managers must act to change the existing balance of power. He may try to change the situation by:

- employment growth by changing pressure;
- reduction or complete suppression of resistant forces to change;
- changing direction of force, that is the transformation of forces that resist change, a force for change.

The model highlights the factors that can be changed and those who can not be changed. Managers often spend time thinking like best forces to intervene in the game.

An important aspect of the model developed by Lewin, in order to change behavior is to administer and manage changes carefully so that private individuals and organizations in general, to accept these changes.

After K. Lewin, change management involves the following stages:

a) opening, which is to reduce the forces that perpetuate the existence of organizational behavior. This openness can be achieved by introducing information to highlight the difference between desired and actual situation;

b) modification involves switching the organization to another behavior. It leads to the adoption of new behaviors, values, following changes introduced in the organization;

c) closing is to establish a new balance for the organization. This will use the support mechanisms that strengthen the new situation, such as organization culture, rules, policies and organizational structure of the organization.


In Romania, the transition phase to a market economy was heavily influenced by a major management crisis. The confusion was extended between political activity with some specificity and content management with a special content.

This management framework is as follows:

In the political area, we have: realistic, idealistic, interested people.

Typology according to their origin: the vocation and / or training, who continue on a particular path, propelled by insufficiently met criteria; imposters.

In the economic field, we have:

Typology according to the criteria for career development:
a) managers with training, experience and appropriate professional development;
b) managers with training as their main dimension;
c) experienced managers;
d) managers in unclear circumstances or arriving propelled by competitive circumstances.

Typology based on management level:

a) top management;
b) middle management, interim, specialists, senior management assistants, who may be specialists in general, creative vision with interdisciplinary vocation counselors and / or project leader. Acceptable to the extent that they possess qualities and leadership;
c) operational management, specialists in areas with a quasi-interdisciplinary vision, accept the condition that had a horizontal career development organization;
d) relatively narrow specialists dedicated to activities, which must be given attention in the training process because they are more valuable in the work that it carries a certain period of time than their rapid transition to driving.

Also, since December 1989, economically Romania passes through a crucial period, the transition to a market economy, whose success is crucially linked to quality management in the theoretical and practical fields.

If the experts’ view market economy is defined by a number of important features such as:

e) the plurality of forms of property and privatization;
f) financial-economic activity of economic agents;
g) the free operation of supply and demand;
h) unrestricted but fair conduct of free competition;
i) liberalization of prices, etc.

Then, it is clear that the transition is, for these features, appropriate solutions are sought, some sequenced according to resources, the legislative and structural changes.

This transition period is designed to configure and better position the state in society, so it is important that government in general and tax administrations, in particular, to be led by professional managers, but not promoted on the political criteria. We consider it a mistake when in 2009 the political power tried to professionalize the management of tax administrations by promoting managers based on political criteria and who did not meet minimum requirements in selecting these managers.

The concept of social market economy, which belongs to Prof. Dr. Ludwig Erhart, can be a model to which we move. Social market economy is an attempt (successful in West Germany and northern European countries) to inextricably linked everything in an economic policy and social policy.

In the design of German economists and politicians and those in northern states, the mechanisms for implementing the market economy have had a few priorities: "the issue of market forces, ordered the removal of material needs, promote and encourage initiatives in light of honest gain, translating into reality values, ethics: freedom and social justice ".

Continuing the analysis, it can be said that these priorities have worked and encouraged other associated values such as work, seriousness, the cult of always being better. It should be noted that the approach taken regarding the social market economy was achieved in terms of a major economic boom, the significant economic results, so in a climate of economic success, which made it possible to balance social approaches. This allowed the social market economy, the West German view, to make in the political field a priority the consideration of the common good and to convince that this is the economic system in which welfare has become possible.

In the current context, economic development is difficult and due to financial crisis overlapped with a situation where "old and new economic structures compete each other" The
state sector is still strong, leading to new forms of recentralization. For these reasons, the preferred solution is shock, changes in one shot, which creates new conditions and new players.\(^7\)

To this end, the pre-conditions have the utmost importance: resources, the unanimous acceptance of the principles of the approach to political change, the moment of the specified trigger actions, social impact assessment.

The dispute between shock and gradual action involves refined and granular analysis on a political, economic and social level. In addition, the option cannot overlook the break when the content is produced, namely the transition from one stage to another in capitalism and the transition from one system to another, from socialism to capitalism, in the case of Romania.

In conclusion, we emphasize that success in achieving social market economy management is strongly conditioned by its quality and professionalism, the extent to which it is capable in Romania to examine the current state of social-economic situation, determine priorities and make optimal decisions especially linking economic achievements and their positive social impact, materialized improved living standards and quality of life.

4. Future managers

Modernizing tax administration requires reform, which aims at a modern approach to the problem of interaction between the tax and its taxpayers. Modernization strategy is based on experience, but also on the solutions adopted by reference in the tax administrations of EU member countries. The new approach adopted by most Member Community is to balance service and control functions, finding the optimal point of the prevention and combating fraud, in varying degrees, to ensure the highest budgetary revenues and leading to avoid attitudes rejecting excessive check of taxpayers.

On this basis, and building on the vision of what should become ANAF medium term strategic guidelines were drawn for the tax administration.

In order to meet the objectives set, the most important role is that of the leaders / managers, who in this context, be appointed on political criteria, ignoring their professional qualities, so necessary to achieve the objectives set by Strategy ANAF. We maintain that the primary responsibility of leaders is to induce positive feelings of those we lead. This happens when a leader creates resonance - a reservoir of positive elements where everything that is better in men emerge. So originally, the basic role of leadership is emotional.

We believe that basic dimension of driving performance, though often invisible or ignored completely, other things determines the operation undertaken by a leader / manager. Therefore, emotional intelligence - the wisdom with which we live our emotions - matter so much to the success of leadership: leadership based on emotional intelligence involves bringing into the light the emotional intelligence.

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THE FISCAL COMPETITION IN THE EUROPEAN UNION

Ionel Militaru, candidate for doctor’s degree The University of Craiova
The faculty of Economy and Business Administration

ABSTRACT
In planning of this project I have started from the question whether those 27 states belonging to the European Union are able to promote, due to their fiscal systems, the fiscal co-ordination within the European Union or to accept the fiscal systems, consequently. The question has been raised because the systems in discussion have become lately more and more distorted. The inner logic as well as the fiscal competition should be blamed for it?

Thus, the project proposes a critical examination coming from the intervention among those 27 fiscal systems belonging to the countries of the European Union, as well as the presenting the fiscal competition generated by the considerable differences among them.

The fiscal systems belonging to the newest member states of the union (Romanians and Bulgarians included) are, to a higher degree, different from the previous EU 15. This might be viewed as a sheer advantage because the general revenues arisen from taxes as well those accumulated profits taxes (effective and rated) are considerably diminished than those in the former 15 states, members of the EU. Therefore this type of advantage could create the proper premises for starting an efficient economical activity.

The project will ultimately display those differences among fiscal systems are able to set up a real implement in the process of convergence of the new membership, even though this type of approaching can not replace the fundamental reforms from business environment, the only capable of inducing the allocation of economical business in the European countries.

Key words: fiscality, fiscal competition, taxation system

1. Foreword

Taxation, by using three main sources, can make up both developments and wellbeing:
✓ firstly, the taxation system has to attract income effect in order that public services should be properly financed, as well as social transfer at high standards;
✓ secondly, taxation persuades ultimately economical judgement and it would have to offer a stimulus for the key personnel to be deeply engaged. Moreover, the natural resources, efficiently used are consequently required;
✓ thirdly, the taxation system undeniably redistributes gainfulness and this has to be done in such a way that to strengthen the effective request as well as social balance that is the covering of huge misuses from the income distribution.

Regarding European fiscal policy, this one has to contribute towards the accomplishment of the general goal established by the European Union, namely, “by the end of 2010 the European Union economy should become the most competitive and dynamic from the world, capable of a long-lasting economical development, displaying the best places of employment as well as a greater social cohesion” (target established by the European Council, Lisbon, March 2000). This goal demands a drastically diminishing of a fiscality general level from the EU, and, consequently, requires that the taxable basis be extended so that a balance should be achieved among this diminishing financial consolidation supporting through public debts decreasing and proper investments in essential public services. ( Sahra Wagenknecht, “Fiscal policy contribution to Lisbon Strategy”, European Parliament)
Starting from this strategic target proposed by the official meeting in Lisbon, it has been concluded that home market should act a sole market. However, a great contradiction is to be noticed: the measures referring to taxation, the ones that develop inequality and halt the demand, are hardly supposed to achieve such an economical area with a dynamic economical growth, mentioned by the Lisbon Strategy.

Undeniably the question, whether the 27 states, members of the EU are able to contribute through their fiscal systems to the fiscal co-ordination within the EU is to be raised; in other words they have to accept the fiscal systems mandatory, systems that proved to be lately more and more distasted because of the inner logic of such fiscal competition.

The question raised is as judicious because the multinational cooperations are able to complete set of strategies of fiscal optimization provided that the capital is a mobile one.

The transfer facilitated for the profits relocation to the areas with a slight level of taxation as well as financial departments creation in so-called tax heavens/tax shelters are being used in order that investments should be financed by credit lines from the group. However such avoidance strategies not to pay taxes bring forth pressure on the governments; the countries with a raised fiscal pressure will record a decline in tax collection, and, thus Small and Middle Establishments will be disadvantaged not being able to use similar strategies. Notwithstanding, they will participate in competition using the same market. But then, in the very case when the multinational corporations reject to use profits, moreover, they use productive investments - in order to utilize the fiscal differences from various countries- the pressure shinningly raises, the taxation level should be lessened.

This kind of process, now known as fiscal competition denomination, never comes into sight in the taxation field at the corporations level. Due to the fact that the financial prosperity is more changeable than profitably invested assets, the same logic refers to personal income taxes, capital gain taxes or capital gains.

As an expected consequence, the fiscal competition leads to an essential alteration in the taxation framework; as a result, governments have to diminish fiscal pressure level for those factors having a raising mobility and, simultaneously, to the decrease the fiscal burden on less mobile sources, in order that the incomes be protected.

If a fiscal competition arises, taxes will be removed from the corporate incomes to those private ones, from all unearned income to those coming from earned incomes, from the raised income to the diminished one, endangered by manpower. In other words, taxes will be removed from assessment on income and well-being to expenditure tax. The main results of the taxation level evolution in the European Union, according to the last decades, confirm that such activity has already happened.

2. General examination on taxes in the European Union countries

The last century was characterized in the Western countries, by the public sector extensions, through economic and fiscal adjustments. In the fiscal area, the countries belonging to the EU have maintained the expenditure level as well as the public revenue at approximately 40% from Gross Domestic Product (GDP). These have partly supported financially supplying of standard public goods as the national defense, the public order, etc. The most important part of such public expenses rising has to be mentioned as work due to the state. This one refers to the public retirement benefits and public health which produce the most important transfers between generations and intergeneration: financial resources transfer from the active labor towards the unemployed, to the unskilled employees, to the college students, to the families with offspring, to the farmers, to the employed in certain industrial fields, characterized by the hard working conditions, or even to the settlers (or entrepreneurs) found in unfavorable areas. The same social security also refers to other social and professional classes.
According to the fiscal policy the public expenditures have been financed through the consumption taxation (indirect taxes) as well as through the income taxes (on individual’s salary as on the firm profits on the company income tax).

With no doubt the European fiscal system differently affects both natural and fictitious persons because of the structural differences among them, with regard to incomes, specific consumptions or ownership. Moreover, all this occurs due to different rates of regulation or different methods of administration as well as of various possibilities to avoid the taxation system.

Today, 27 taxation systems coexist in the EU, afferent to the 15 member states, plus those taxation systems belonging to the 10 new states which joined on May 1st 2004, besides Romania and Bulgaria entered the EU at the beginning of 2007.

There are noticeable differences among all these states according to their fiscal policies regulations because the national fiscal policies signify a consistent of the member states sovereignty (Dracea R., 2006).

The tax system inherent heterogenity being taken into account, the significant differences between the former member states do not make anybody feel surprised at such diversity in tax systems.

The tax revenue structure will be analyzed in order to emphasize these differences through a comparison between the old member states with the new ones.

3. The tax revenue structure

The tax revenue structure differs between the new and the old member states because the later ones receive smaller sums from direct taxation (personal income tax and company income tax) and a larger one received from the indirect taxation (Value Added Tax - VAT) and public contribution (fig. 1).

Fig. 1. The income taxes, 2006 (% from the fiscal income)

Source: The European Committee (2007)

As it can be easily noticed, the direct tax revenues represent on the average, for 2006, more than a third from the gross profit belonging to EU-15, and almost 20% in the new member states, in the same period of time.

The today fiscal policy of the EU member states both for indirect taxes and social contributions (viewed as weighable in GDP). But then, the weight incoming equals the minimum recorded by the union. Taking into consideration the unique rate, relatively reduced
of income tax as well as of profit tax, Romania exhibits itself as a fiscal paradise in comparison with the other member states in EU; this may become a matter in dispute, European fiscal policy targets, especially the aiming at the fiscal competition. This type of deviation becomes visible for 2004, being marked in 2005 and 2006, as a result of the unique rate application for incomes profits taxation.

**Fig. 2. The Fiscal Income weight in GNP (%), 2006**

![Graph showing fiscal income weight in GNP (%), 2006](image)

<table>
<thead>
<tr>
<th>Country</th>
<th>Fiscal Income/ GNP</th>
<th>Direct Taxes/ GNP</th>
<th>Social Contribution/ GNP</th>
<th>Indirect Taxes/ GNP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Romania</td>
<td>27.3</td>
<td>5.5</td>
<td>9.3</td>
<td>12.4</td>
</tr>
<tr>
<td>Minimum EU</td>
<td>34</td>
<td>9</td>
<td>1.7</td>
<td>11</td>
</tr>
<tr>
<td>Average EU</td>
<td>42.8</td>
<td>13.7</td>
<td>15.1</td>
<td>13.8</td>
</tr>
<tr>
<td>Maximum EU</td>
<td>55</td>
<td>32</td>
<td>19</td>
<td>19</td>
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</tbody>
</table>


In the same time, in the new member states, the receipts coming from corporations’ income taxes are obviously bellow those coming from the old member states, both as share in GDP and as share in tax revenues (fig 3).

**Fig. 3. The profit tax weight, 2006 (% from GDP, % from tax revenue total)**

![Graph showing profit tax weight, 2006](image)

Source: European Committee (2007)
As regarding the taxation rates on profit, these have to be accepted as smaller in member states. Thus, while the revenue tax ratio in 2006 was about of 30%, this was, for the new member states approximately of 20%. As one can easily observe, the income tax rate in the old member states enormously fluctuates from 12.5% in Ireland to, roughly, 40% in Germany.

Fig. 4. The Nominal Rate from the Profit Taxes, 2006

Eventually, while the old member states from EU-15 have decreased charge rates at the same time with the basis of assessment enlargement (still the 80’s), the new member states dramatically diminished the rates, particularly in the second half of 1990.

We have to state precisely nominal tax rates offer too little information about the effective duty which affects companies (for example Germany collects low incomes from the companies taxation, despite the raising rates of the revenue tax), if taxation base is not taken into account.

Table 1

<table>
<thead>
<tr>
<th>THE YEAR</th>
<th>EU 27</th>
<th>EU 15</th>
<th>THE NEW MEMBER STATES</th>
</tr>
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<tbody>
<tr>
<td>1995</td>
<td>35.0</td>
<td>38.0</td>
<td>30.6</td>
</tr>
<tr>
<td>1996</td>
<td>35.0</td>
<td>38.1</td>
<td>30.4</td>
</tr>
<tr>
<td>1997</td>
<td>34.7</td>
<td>37.8</td>
<td>30.2</td>
</tr>
<tr>
<td>1998</td>
<td>33.9</td>
<td>36.7</td>
<td>29.6</td>
</tr>
<tr>
<td>1999</td>
<td>33.3</td>
<td>35.9</td>
<td>29.4</td>
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<tr>
<td>2000</td>
<td>32.1</td>
<td>35.3</td>
<td>27.4</td>
</tr>
<tr>
<td>2001</td>
<td>31.1</td>
<td>33.8</td>
<td>27.1</td>
</tr>
<tr>
<td>2002</td>
<td>29.7</td>
<td>32.6</td>
<td>25</td>
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<tr>
<td>2003</td>
<td>28.7</td>
<td>31.9</td>
<td>23.8</td>
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<tr>
<td>2004</td>
<td>27.4</td>
<td>31.4</td>
<td>21.5</td>
</tr>
<tr>
<td>2005</td>
<td>26.2</td>
<td>30.0</td>
<td>20.6</td>
</tr>
<tr>
<td>2006</td>
<td>25.8</td>
<td>29.5</td>
<td>20.3</td>
</tr>
</tbody>
</table>

Source: EUROMAT
This way there is a huge difference between the accounting profit and the assessable one, the national legislations offering a range of remissions and allowances as:
- the income exclusion from the taxable basis
- the companies’ resources to manage deductions from gross income
- a tax short rate application (tax allowance) to a certain sort of taxpayers
- payable tax discounts, also called tax credits
- the payment deadline extension (postponement) etc.

Unavoidably, every country has its own remission and deduction history; therefore, bases of taxation from one country to another are difficult to be compared. However the general tax pressure could be appraised, using tax effective rates.
state grants. In order to make up for this difference the new member states resorted to reduction of taxes applicable to companies.

4. Conclusions

The competition extension among the member states made them exceed themselves in order to attract a large number of economic operations. As it has already been shown “taxation” is one of the implements used. From this point of view, there is a sharp competition among these states, an issue which, inevitably, may cause disturbances in the assurance of the best level. Moreover, according to W. Koko, this type of conduct may lead to “such an extreme race” for taxes or income (W. Koko, 2003).

In the latest years, especially in the states from Eastern Europe, an increasing amplification has been registered regarding preferential fiscal systems promoting various investments, some of them even displaying high efficiency in attracting foreign investments. This happens according to a well known opinion suggesting that preferential fiscal systems, the reduced taxation being included, may represent premises of an attractive location for foreign investments. (G. Nicodeme, 2003).

However, as it has been noticed form shown information, despite a falling-off registered in the corporate income tax, as well as such differences between fiscal systems, the tax is paid by EU companies represent a percentage of GDP relatively unchanged in the late decade both for old and new member states.

We agreed that the main reasons generating certain stability in collecting revenues are, on one side, raising the income tax but then, the existence of high profits in some member states.

These reasons doubled by significant differences between effective tax rates can confirm the hypothesis that the taxes on companies have not been decisive in affecting the investment decisions.

Normally, the taxation should arise as decisive variable later enough in that process of decision when the location of the investment has to be taken. The company is that which is capable of taken decisions about the location area in accordance with some factors aiming at the importance of the market, the foreign environment and general economic investment. Then, as a rule, companies estimate the microeconomic conditions. All these requests having been fulfilled, the next stage is the location country, in accordance with the tax system from that country.

All these grounds make us think that the fiscal system is only an essential factor in taking decisions about company investments. But then, it might be considered as less important factor than others. As a consequence the Eastern countries look less attractive as potential locations for foreign investors, in comparison with other locations in EU; all these happens because their markets look limited as proportions, as well as the very point of the purchasing power. It is true that the economic growth does not have to be viewed only on the basis of a limited taxation, a low fiscal pressure might remove some of these disadvantages.

Summing up, however much the differences in fiscal systems may be, they are able to make up a basic implement in that convergent process for the new member states; but then, all these can substitute fundamental reforms from the business environment, those reforms capable of moving business in Europe.
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ASSESSMENT OF FISCAL ADMINISTRATION MANAGERS

Drd. Gheorghe Mocan
City Administration Public Finance Negrești Oaș
mocanghe2@yahoo.com

Abstract
The paper presents three types of assessment of managers in general, the assessment of managers in Romanian tax administration, in particular, which is in the process of modernization and harmonization with other administrations in the Community.

Thus, we made reference to the assessment according to personal characteristics of managers, assessment managers with verifiable objectives and assessment of managerial skills and finally we approached the assessment of tax managers as a case study.

Following the conduct of business in 2009 of the General Direction of Public Finance Satu Mare is the main analysis of performance indicators to assess / evaluate managers of subordinate structures. Key performance indicators were selected, trends in the period January to December 2009, and the mode of calculation used, indicators which are also reflected in the Assessment Report in the Chapter objectives.

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Following the conduct of business in 2009 of the General Direction of Public Finance Satu Mare is the main analysis of performance indicators to assess / evaluate managers of subordinate structures. Key performance indicators were selected, trends in the period January to December 2009, and the mode of calculation used, indicators which are also reflected in the Assessment Report in the Chapter objectives.

1. Assessing managers based on personal characteristics
One of the peak practical and theoretical current concerns is to find a more appropriate way to assess managers. Given that most performers are themselves targets imposed from higher levels, appreciation of their work is necessary to know if things evolve in the desired direction. Although assessment of managers is an extremely difficult process, it must be done at all levels and all departments of the organization.

The literature has outlined some aspects of how managers can be assessed, the distinguishing ones being performance measurement, assessment of personal characteristics of managers, identifying targets achieved and taking into account the actual skill to plan, organize, lead, train and control.

For a long time in the past and present, the assessment of managers was done according to their personal characteristics. In this way a system of assessment of several personal characteristics was used: the ability to live in harmony with people, industriousness, the influence on others, judgement, initiative, professional knowledge, performance of duties, etc. These features were dominant in numbers in their assessment, thus the evaluation could be one of six values between acceptable and exceptional.

The method of assessment based on personal traits cannot be objective and, therefore, managers requested to give the rating do not consider in their dignity to engage in subjective assessment of the performance of other managers. Meanwhile, those valued using this
method, especially those receiving a modest grade, will feel they have been incorrectly valued. For this reason, most agree that the method is more psychology than managerial activity.

The assessment of managers by the personal traits criterion has fundamental flaws, because it can not establish a link between certain characteristics and performance. The method actually replaces the assessment based on what people do, what they think that should be done.

Most managers hate it, so they consider it as nothing more than an exercise on paper, which they do just because someone ordered it. For this reason, most people avoid it, because through it can be subjectively done the suppression of the career of subordinates.

As the features of this methods have been identified and highlighted, researchers have tried to improve its usability in assessing managers. Some of these improvements have been directed towards clarifying the strongest personal traits, more emphasis placed on achieving greater clarity of the various features taken into account in assessing managers. For example, the term "judgement" in business, expressed how much is the manager able to recognize the essential aspects from the nonessential.

Also in this respect, those who make the assessments are often required to focus on the valued quality of work, organizational skills of managers, financial results or other aspects that may be linked with popular features. In order to improve the method, it was tried to give the chance to the people assessed to assess themselves, in parallel with the assessments made by their superiors. In other cases, subordinates are required to assess their managers. There are cases in which assessments are made at similar managerial levels.

Self-assessment tests are not successful in any of the circumstances, as always people will manifest a tendency to overestimate their levels so that all attempts of this kind will bear the seal of the ideal image of what that individual thinks and not what is actually that which he really believes.

The tests for assessing the managers by employees were not enlightening either, since failure to preserve confidentiality of assessment is likely to put the subordinate in a position lacking the superior security. This explains why all such actions were completed with the assessment excellent, when there was no certitude that confidentiality would be preserved.

The feedback from similar management levels have not proved of greater utility, since every one involved in the analysis takes into account the fact that he in turn will be appreciated by the manager assessed now who is at the same management level. The results of this assessment are significantly influenced by the requirements of both parties to maintain the good quality of interpersonal relationships.

Due to these reasons, although improvements to these methods were made, they are still far from meeting all the features necessary to make a correct assessment of managers and their business.

Evaluating managers according to how they meet the objectives they have achieved, is one of the basic methods of assessing managers.

2. Assessing managers with the help of verifiable objectives

The method is based on a quite simple and logical approach, meaning that you can not expect people to meet certain objectives, as long as these are not clearly defined. Management by objectives as a method of leadership is considered a managerial system, that is, a system of planning, organizing, staffing, training and control. This approach raises some problems, in specifying the targets. Assessing their degree of objectivity can be achieved through compatibility with the objectives set by managers at similar hierarchical levels. At the same time it must be seen whether the objectives are achievable and if during the performance anything occurs which influences in one way or another their achievement. It must not be ignored the fact that the one assessed may be continuing to meet former targets in the conditions where these old requirements should have required revision.
Compared to the classical method of assessing the personal characteristics of managers according to the assessment based on verifiable targets, this has the great advantage that it is operational. But emphasis is put on what the manager did, however lacking the opportunity to highlight the quality of his activity or the causes which favoured or impeded that process.

Assessing managers by targets of activity reduces personal assessment and increases the importance of objective elements. In this way, managers will be more involved in the actual process of achieving goals that their own employees are assessed for.

Of course, the method of assessment of managers by objectives is not fully perfect either. First of all, achieving goals or failure of achieving goals may be due to factors not depending on the attitude, ability or inability of the rated manager. Uncontrollable factors may interfere, for example, which may ultimately contribute to the lack of achievement of the objective. If we refer for example, to the assessment of a tax administration director, one of the criteria for the method of management assessing by objective is the recovery budget. Changes in the economy, financial crisis or the global economic situation, can overturn the finest managers insights about tax risk factors which involve the collection of state revenues. It is quite possible that in an investment made by a trader on a grant project, based on all the calculations, it should lead to profitability. In time, however, a change in demand for the products is just as likely to occur as expected to be obtained through the investment made. In this case, as that investment will not be able to pay taxes they owed the state budget. For this reason it is difficult to judge what is the man’s role and what role does chance have in achieving managerial performance.

The assessment of managers based on achieved targets do not favour the improvement process, as attention focuses first on the results and only after on their formation and training. Managerial skills are not considered either. Of course, the qualities of managers, their training and skills, help with the environment they work in achieving the objectives.

Therefore, use of this tool for assessing the managers cannot be challenged since the performance primarily reflect the qualities of managers. At the same time, the method cannot be considered suitable in all respects as so many factors are involved which cancel the role of personal traits as a prerequisite to performance. Therefore, estimating managers must be supplemented by another element that reflects their managerial skills.

3. Assessment of managerial skills.

Some companies and administrations attempt to assess managers on other criteria than the personal traits and performances. In this respect, the assessment evaluates managers, as managers, in their activities of planning, organizing, staffing, leading and controlling. But such tests have not yet found a very obvious extension, and the assessment instruments have themselves no enough well defined content. Observing this deficiency of managers as managers, H. Kontz believes that although management functions are general, they serve to make the assessment focus on what is more linked to the manager, as manager. In this regard, a set of questions will be formulated for each of these functions.

For the planning function, for example, the quoted author makes the following questions: ¹:

- does the manager establish short and long term objectives that are consistent with the plans and objectives of the organization and superiors?
- does he understand the role in decision making of the organization’s policy and does he proceed in the same way in his relations with his subordinates?
- does he regularly examine and plan to tell if they are consistent with the realities of current developments?
- when he chooses from several alternatives, can he realize that which one of them is critical and limited to the problem?

Regarding the organization, managers assessment might consider the following aspects:
- how does the manager ensure the process of delegation of authority to get the expected results?
- does he renounce making decisions in the delegated authority?
- is he concerned in the training of subordinates and does he check if the subordinates understand the nature of relationships between line and staff?
- does he observe each time the lines of authority and information, making the distinction between them?

Questions of this kind can be made for all other management functions. On the basis of the data obtained, pertaining to the quality of performance of some functions, the assessments are between 0 and 5, which correspond to grades ranging from "inadequate" to "exceptional.". In this way it is assessed that a large part of the subjectivity which characterizes other methods of assessment of managers would be eliminated.

This assessment system has the great advantage that it favours the familiarisation of managers with the concepts and principles of this science. Moreover, the system draws the managers’ attention to the effectiveness or ineffectiveness of the actions they take.

However, even this method does not meet all the qualities to make a full assessment of managers. First of all, it does not take into account some technical and commercial skills of managers. For example, a tax manager meets the qualification of exceptional, depending on the skills assessed on the establishment of precautionary measures, but we will not know how well they mastered the techniques of accounting, the payer sheet and many other aspects that are related to the tax activity.

Certainly all subjectivity which manifests itself in other methods cannot either be eliminated entirely in this case. However we can say that of all the subjective methods, the least subjective assessment proves to be the assessment of managers as managers.

4. Assessment of tax managers

In the first assessment Report, the annual assessment / evaluation of managers (public governing civil service in tax) has the targets established as the time used to achieve the objectives, performance indicators, weight and grade given, and then the following criteria used in performance evaluation and rating for each criterion. The final mark is determined as the average between the grade on objectives achieved and the grade on the performance criteria used. In the end, special past achievements and difficulties met by the person assessed and other relevant observations².

In the second part of the Evaluation Report the targets established for the following period, the recommended training programs and the comments of the rated manager. The evaluation report ends with the signature of the evaluated, the evaluator and the person who countersigned the assessment, as presented in Annex 1.

In assessing the achievement of objectives established the aim is at how the performance indicators for the performance plan of the tax administration in 2009 have developed, which are:

1. Degree of achievement of program receiving of tax revenues (gross values);
2. Degree of achievement of program receiving of tax revenues (net values);
3. Recoverable arrears level at the end of the year of reporting;
4. Degree of collecting arrears from large / medium taxpayers;
5. Rates budgetary revenue collected by the procedure of enforcement;
6. The degree of voluntary compliance of tax payment (number);
7. The degree of voluntary compliance of tax payment (value);
8. Number of inspections conducted by an inspector (legal);
9. Number of inspections conducted by an inspector (individuals);  
10. Attracted additional amounts (net) by an inspector (legal);  
11. Attracted additional amounts (net) by an inspector (individuals);  
12. The number of appeals filed by taxpayers in the number of decisions of issued tax (legal persons);  
13. The number of appeals filed by taxpayers, in the number of decisions of issued tax (individuals);  
14. The number of notices confirming dysfunctions in the activity of assistance to taxpayers in all complaints;  
15. The degree of settlement in the legal term of address;  
16. Degree of processing, the term of tax returns;  
17. The degree of voluntary submission of tax returns by type of tax;  
18. Degree of settlement within the returns with negative amounts of VAT refund option;  
19. Degree of settlement within the returns with negative amounts of VAT reimbursement option falling within the category of tax returns with low or medium risk (resolved with subsequent review)  
20. Rate of amounts allowed by the court of the total amounts challenged in court;  
21. Number of solutions of admission and abolishment in all the solutions delivered by the bodies responsible for solving the complaints of the ANAF and DGFP in the county.

Of the 21 performance indicators, we further analyze the development of key indicators for the year 2009 in the county of Satu Mare, with direct effect on state revenue collection and according to which the activity of tax business managers is evaluated, especially those with budgetary responsibilities in collecting debts.

1. The progress of the program proceeds

**Formula:** A/B * 100, where:
- **A** = Plan of monthly revenue allocated by DGFP management for each subordinated structure;  
- **B** = Monthly amount received by each subordinate structure

**Coverage:**  
Revenue from current obligations, debts consisting of the budget and accessories, as well as outstanding arrears in the current month and up.

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2. The degree of voluntary compliance to tax obligations (number)

**Formula:** A/B * 100, where:  
- **A** = Number of obligations received in full and within due date, attached to the denominator obligations (including prepayments and self-compensations of VAT)  
- **B** = Number of expected payment obligations under the declarations made – (D 100, 101, 102, 103, 300, 710)

**Coverage:**  
The total number of expected tax obligations according to the statements made, in total and on budget.

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3. Degree of processing of tax returns within.

**Formula:** A/B * 100, where:  
- **A** = Number of statements made within term, processed within term(*)
Thus, if in the first part of the performance criteria of managers, grade that changes in one set of ratings as follows:

**Coverage:**
Declaration Forms: 100, 101, 102, 103, 710, 120,130, 300 and 390 VIES
Form 710 is considered within its registration date.

For Forms 101, 120 and 130, the deadline is annually until 15 February / 15 April

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4. The degree of voluntary compliance to tax obligations (value)

**Formula:** A/B * 100, where:

A = Amounts received in due time, of amounts reported in the denominator (including prepayments and compensation self VAT)

B = Amount declared (payment) cf. D 100,101,102,103, 300 – rd 27, 710

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5. The degree of voluntary submission of tax returns, the types of taxes

**Formula:** A/B * 100 where:

A = Statements made in due time, according to tax vector + statements made outside the vector

B = expected statements according to tax vector + statements made outside the vector

The indicator is calculated for each tax, fee or contribution and the total.

**Coverage:** Forms 100, 101, 102, 103, 300, 120 and 130

expected tax obligations according to fiscal vector: VAT, excise, profit tax, income tax for micro-enterprises, income tax from salaries and wages treated; tax on crude oil from domestic production, gambling tax, fees.

Number of Forms 100 filed for income tax declaration for the quarter. IV will influence the indicator set for February next year, whereas taxpayers who finalized until February 15 year closure.

For Forms 101, 120 and 130, the deadline is annual until 15 February/15 April (on form 101) and until April 30 (for forms 120 and 130). The indicator will be affected for these forms.

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It is noted that the managers of tax assessment, ANAF used both assessment with verifiable objectives and skill assessment of managers. Thus, if in the first part of the assessment report, targets are set and assessed in the second part the performance criteria relate to the qualities and skills of managers, settling in this respect a set of 19 criteria. The final mark will be calculated as the average of the grade on the objectives achieved and the grade on the qualities and skills of managers, grade that changes in one set of ratings as follows:
- between 1.00 – 2.00 – unsatisfactory;
- between 2.01 – 3.50 – satisfactory;
- between 3.51 – 4.50 – good;
- between 4.51 – 5.00 – very good.

In our case, the evaluation process in accordance with Art. 107 al.2 of GO 611/2008, as amended and supplemented, is an evaluator:

   a) civil service leader who coordinates the compartment in which the public servant works for his execution or who coordinates his work;
   b) the public servant in a superior hierarchical position according to the organizational structure of public authority or institution for the leader of public servants;

Conclusions:

Returning to our case, to evaluate a manager in a county tax structures with responsibilities in the collection of budgetary debts we will analyze the development of key performance indicators.

Grading the achievement of these indicators is based on objectives established by ANAF and are found in the Rules of Organization and Functioning in the form of tasks broken down on each structure depending on skills and also on each public official, established by the Job Description. Here are the main objectives and tasks undertaken in the evaluation report which is the document under which the activity of each public servant is valued, in its execution and management.

In our case we reproduce the evaluation of a manager at a municipal tax administration, with responsibilities in the collection of budgetary debts. Analysing the evaluation report in Annex 1, it appears that in the objective section, the first objective has been achieved only at a rate of 55%, which will influence the grading of the rating given.

Also it must be noted that at the revised objectives, the targets were filled with the budgetary arrears recovery target because of their unprecedented growth in this period and with the objective of increasing voluntary compliance, which is at a low level (76%) compared to other Member States EU (98%).

The grade established for the achievement of objectives is 4.43 which is part of the final grade. In the second part of the evaluation Report the skills of the manager are assessed, ending with their grading, and finally averaged, which in our case is 4.47.

The final grade is the average of the grade for the achievement of objectives and the grade on the objectives of evaluating managerial skills, which in our case is 4.45, representing the grade GOOD.

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**Legislation**

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STRUCTURAL AND COHESION FUNDS,
A FINANCING ALTERNATIVE FOR ROMANIAN PUBLIC ADMINISTRATION

Dana Mihaela Murgescu, PhD candidate,
National School of Political Studies and Public Administration, Faculty of Public Administration

ABSTRACT

In conditions of economic stability and, even more so, in conditions of crisis, when the budgetary resources are subjected to additional stress, public administration has an alternative financing source, by means of accessing the structural and cohesion funds made available by the European Union.

The paper aims to analyze the manner in which the Romanian public administration has used the amounts available by means of the European Regional Development Fund, the European Social Fund, and the Cohesion Fund, in the first half of the programming period 2007-2013.

Thus, we propose a comparative analysis of the eight regions of Romania, separately for each fund, analyzing the number of projects submitted, the number of projects won, the amounts of money obtained and the actually used at the regional level.

At the same time, the paper offers a comparative analysis of the regions in Romania with similar regions in Hungary and Bulgaria, with respect to the percentage of accession and absorption of community funds, together with a comparison with the EU average.

The financing of public administration must come increasingly from sources outside the state budget, such as European funds, but this will not happen until the enhancing of the absorption degree at the regional and national levels.

Key-words: structural and cohesion funds, public administration

1. Structural and Cohesion Funds in Romania (2007-2010)

Romania joined the European Union on January 1st, 2007, precisely at the dawn of the multi-annual financial framework 2007-2013, thus having the chance to access European funding for its development projects right from the beginning of the financial period. However, the particularities of the financial aid mechanisms made available by the European Union to its member states differ widely from the requirements and procedures of the pre-accession funds. While the pre-accession funds were meant to help the candidate states get in line with the EU trends and harmonize their legislations, policies and programs with the communitarian ones, the post-accession finance is based on very precise criteria and eligibility conditions, treating the applicant countries as full members of the EU, able to fulfill all requirements and meet all procedural demands.

Needless to say that being a new Member-State Romania had a very difficult time in accessing the available European financing. Even today, almost four years after the accession, the Romanian public administration, both at the central and at the local level, proves little capable of absorbing the potentially available communitarian funding, thus maintaining Romania in a position of net contributor to the EU budget.

For the financial period 2007-2013, Romania could benefit of structural and cohesion funds in the amount of 19.67 billion Euros, contributing, in its turn with 5.6 billion Euros, as co-financing. Divided on the structural instruments, the allocations are: European Regional
Development Fund (ERDF) – 8.976 billion Euros; European Social Fund (ESF) – 3.684 billion Euros; and Cohesion Fund (CF) – 6.552 billion Euros. Most of this amount (19.213 billion Euros) is directed towards the convergence objective of the European cohesion policy\(^1\), for which all regions of Romania are eligible.

As new Member-State, Romania spent virtually all year 2007 in elaborating the documentation required at the EU level, in order to become beneficiary of the communitarian funding. Thus, the Sectoral Operational Programs (SOP’s) financed by means of the Cohesion Fund and the European Regional Development Fund were approved by the European Commission in June-July 2007, while the SOP’s financed through the European Social Fund were only approved in November 2007\(^2\). Therefore, during 2008 the first calls for projects were launched and the first submissions were made and 2009 was the year during which the large proportion of contracts was concluded.

On September 30\(^{th}\), 2009, the situation at the national level was as follows\(^3\):

- 12,975 projects submitted, in total value of 23.6 billion Euros (out of which, the EU contribution applied for was 16 billion Euros, exceeding by 2.8 times the allocation of only 5.6 billion Euros for the period 2007-2009);
- 2,672 projects approved;
- 1,887 contracts concluded, in total eligible value of 3.3 billion Euros, out of which EU contribution of 2.7 billion Euros;
- 447.8 million Euros in payments performed (pre-financing and reimbursements of eligible expenses), out of which 443.7 million Euros EU funds.

At the end of year 2009, the national-level global absorption rate of European funding was of 10.3%. Analyzed per individual fund, the differences were very small: ERDF – 10.3% absorption rate, CF – 11.1%, and ESF – 9%.

2. Developments at the Regional Level

At the regional level, small differences can be noticed, in terms of projects submitted, projects implemented, and co-financing. We also have to bear in mind the distribution pattern of the available European funding, at the regional level. Thus, EU funding was distributed

\(^{1}\) National Strategic Report 2009 regarding the implementation of Structural and Cohesion Funds, elaborated by the Government of Romania. January 2010, p. 5; available at: [http://www.fonduri-ue.ro/upload/RSN_RO.pdf](http://www.fonduri-ue.ro/upload/RSN_RO.pdf), last accessed on 10/30/2010;
\(^{2}\) Idem, p. 6;
\(^{3}\) Ibidem, p. 7;
\(^{4}\) Agency for the Coordination of Structural Instruments in Romania;
among the Romanian regions inversely proportional with their development degree, also taking into account the existing projects in progress. The aim was to provide a uniform economic development, offering less developed regions a chance to catch-up with the more developed ones or, at least, preventing the further increase of regional disparities.

Romania is one of the first three EU Member-States in terms of magnitude of inter-regional disparities, with a 3.4 factor between the wealthiest and the poorest regions. In 2004, the magnitude of development disparity between these two regions was of 2.76. These figures support to some extent the idea that Communitarian financial aid has lead, in fact, to the increase of regional disparities, instead of cohesion at the national level. It is true that all regions have increased their economic development, but the more developed regions had a higher growth rate that the less developed ones, precisely the opposite of the European goals.

Figure 2. Regional differences, compared to the national average (year 2007)

Source: Own processing from data found in the National Strategic Report 2009 regarding the implementation of Structural and Cohesion Funds.

The differences between the economic development of the regions in Romania, seen in the figure above, seem to indicate that the strongest factor of influence was the level of direct foreign investments.

For instance, at the end of year 2007, 64.3% of all foreign direct investments were directed towards Bucharest-Ilfov region, already most developed in the country. The second region of interest for foreign investors was the Center region, which attracted 8.3% of all

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5 As a rule, the degree of development at the regional level is measured in terms of regional GDP. However, the gross domestic product refers to all economic output achieved at the level of the region, by residents and non-residents. A better comparison could be made by taking into consideration GDP/resident inhabitants;
8 National Strategic Report 2009 regarding the implementation of Structural and Cohesion Funds, elaborated by the Government of Romania. January 2010, p. 28; available at: http://www.fonduri-ue.ro/upload/RSN_RO.pdf, last accessed on 10/30/2010;
9 Idem;
direct foreign investments. Again on the last place, the North-East region benefitted of 1.6% of all direct foreign investments.

According to Eurostat regional yearbook for year 2009 “the non-capital region with the strongest growth in the new Member States was Vest (Romania), where per inhabitant GDP (in PPS) increased by 15.3 percentage points between 2001 and 2006, from 29.4 % to 44.7 % of the EU-27 average” (p. 56).

The development degree and the growth rates of the Romanian regions illustrated a very dynamic behavior over the past several years. Except for Bucharest-Ilfov, the wealthiest region, and North-East region, the poorest, which maintained unchanged their positions as leader and, respectively, least developed regions, all other six regions changed places several times in the past years.

The paper will focus on regional comparisons with respect to the Regional Operational Program (ROP), this being the only program for which true comparative data could be found. ROP is the only Sectoral Operational Program for which the Regional Development Agencies provided data with respect to the implementation of European financing, until the date of September 30th, 2010. Most data for the other sectoral programs are scattered.

The available funds for ROP come from the European Regional Development Fund, and they were distributed among the regions as follows:

Figure 3: Allocation of ERDF for ROP

Source: Own processing, based on data from MDPWH Annual Implementation Report 2007.

The differentiated amounts potentially available for the 8 regions of Romania had inconsistent influence on the behavior of the public administration or the economic agents. Thus, region North-East, which benefited from the highest percentage of financing places second in terms in projects submitted (1,102) and second as number of projects contracted (150), while it was ranked third in terms of number of projects rejected or withdrawn (291). However, the financing for the projects contracted exceeds by almost three times the amounts requested in the projects rejected (significantly higher in number than the projects contracted).

Bucharest-Ilfov region, which received the lowest amount of Communitarian financing, submitted the smallest number of projects, significantly fewer than any of the other regions. Unexpectedly, this region also has the highest degree of rejected projects, from the total projects with respect to which a decision was made (175 projects rejected, out of 219 decided).

The highest percentage of projects contracted (35.5%) comes from the West region, which places seventh as number of projects submitted. In opposition, region Center contracted
only 20.6% of the projects upon which a decision was made. As number of projects submitted, Center region ranks third.

The regions of South-West, South and South-East have similar evolution, with approximately 30% of the projects decided upon receiving European financing. Also, in terms of number of projects submitted, these three regions present close figures: 814 projects in SE, 749 in South and 797 in SW.

Region North-West is first as number of projects submitted (1,122), but only sixth in terms of percentage of projects financed (22.8%).

It must be mentioned that for all regions, the number of projects still undergoing evaluation is very high, without exception more than half of the projects submitted have not yet been decided upon.

The average value per project rejected is, in all cases, lower than the average value per project contracted. Thus, the average value per project rejected varies between 1.58 million lei (North-East region) and 5.83 million lei (Bucharest-Ilfov region). The smallest differences between the average values of the projects contracted and, respectively, rejected, are found at the level of the Bucharest-Ilfov region (1.38 million lei) and West region (3.24 million lei). At the same time, significant differences in the values of the projects are exhibited by the South-West region (8.12 million lei), South region (9.89 million lei) and North-East region (10.32 million lei).

The average value per project contracted is between 16.16 million lei, in the South region, to 7.21 million lei in Bucharest-Ilfov region. Among the highest financing per project are the regions of North-East, with the average value of 11.90 million lei per financed project and South-West, with 11.63 million lei. The following group of regions has average values per contracted project lower than 9.5 million lei, namely: 9.40 million lei in South-East, 8.66 million lei in West and 8.00 million lei in North-West. Among the lowest level of financing per project contracted are request in Bucharest-Ilfov region (7.21 million lei per project) and in the Center region (7.86 million lei).
These regional differences with respect to the average values of the projects also offer the trend of projects supported from Communitarian funding. In other words, in the less developed regions, as is the case of the North-East region, it seems that funding was directed towards larger, more costly projects, which, in turn would bring forth higher benefits.

3. EU Regional Comparison

Acceding to the European Union at the same time, Romania and Bulgaria have a lot in common. The same can be said about Hungary, which shares a common political and economic past. Therefore, in the regional comparisons performed at the EU level, both the countries, and the regions, are often found on the same side of the comparison.

For instance, in the EU Regional yearbook 2009\(^\text{10}\), the regions of Romania, Bulgaria and Hungary are found among the regions with a decreasing number of births, with an increasing mortality rate, as well as with net negative migration. Furthermore, most regions in Romania and Bulgaria have a GDP/capita of less than 50% of the EU average. Out of the only 4 regions in the European Union which show a decrease of GDP/capital between 2001 and 2006, one is in Bulgaria (Severozapaden), with a decrease of 0.6%, and one is in Hungary (Del-Dunantul), with a decrease of 1.1%.

However, in the period 2001-2006, the regions in Romania and Bulgaria were among the fastest growing regions, from the economic development point of view. Without doubt, the pre-accession financial aid from the European Union contributed tremendously to this situation. Due to this favourable evolution, the least developed 20 regions at the EU level, comprising almost entirely the regions in these two countries raised the level of their GDP/capita, between years 2001 and 2006, from 28.2% of the EU average to 33.2%.

Regional disparities within the country are among the highest in the EU in Greece and Romania, but also significant in Hungary, Italy, Slovakia and United Kingdom. Between 2001 and 2006, all three countries that we are analyzing, Romania, Bulgaria and Hungary, reported

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increasing regional disparities. These regional differences reached their peak in Romania and
Bulgaria in terms of percentage of the unemployed population. At the same time, two regions
each from Bulgaria and Hungary indicated “under-performances” in the employment rates.

The least developed region in Romania, North-East, has a GDP/capita expressed in PPS per inhabitant of 5,800, while the poorest region in Bulgaria reaches the level of 6,000. The least developed region in Hungary, Eszak-Alfold indicated the level of GDP/capita at 9,500.

While the EU structural funding for the multi-annual financial period for Romania reaches 19.67 billion Euros, for Bulgaria the amount is 6.85 billion Euros, and for Hungary 22.4 billion Euros\(^{11}\). The financing will be granted to projects within six Sectoral Operational Programs in Bulgaria\(^{12}\), seven in Romania and fifteen such programs in Hungary\(^{13}\).

In what concerns the degree of absorption of the Communitarian funding, as indicated before, Romania struggles around 10\%, while Hungary is given as a EU example, with almost 100\% absorption rate, although in the years prior to accession, it was able to use only 26-27\% of the pre-accession funds. In Bulgaria the situation was similar, with an absorption rate of 23.1\%\(^{14}\).

On September 30\(^{th}\), 2010, the situation of the financial implementation of the Structural and Cohesion Funds in Bulgaria indicated that out of the entire amount allocated for the period 2007-2013, 544.7 million Euros had already been paid by the European Commission\(^{15}\). The Sectoral Operational Programs benefiting from the highest amounts are the Transport and Environment OP’s. Apart from the technical assistance, the least financed Operational Program is the Administrative Capacity, financed from the European Social Fund.

According to a KPMG study\(^{16}\) conducted for the years 2007-2009 in Central and Eastern Europe, the absorption rate of structural and cohesion funds, in terms of contracted projects, was of 39\% in Hungary, 23\% in Bulgaria and 16\% in Romania. If this trend persists, and the percentage of absorption remains unchanged for the entire 7-year period, by 2013, the absorption rates will increase to 90\% for Hungary, 53\% for Bulgaria and 37\% for Romania.

4. Conclusions

The accession and use of Communitarian funds is a difficult task for Romania. At the middle of the multi-annual financing period, the Romanian actors still have not managed to increase the absorption rate above the level of 10\%. The lack of long-term vision of the authorities, insufficient funding for co-financing or still undeveloped administrative capacity prevented greater performances in this field. As mentioned before, in spite of its limited

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\(^{13}\) National Development Agency of Hungary, available at: [http://www.nfu.hu/operational_programmes_and_managing_authorities](http://www.nfu.hu/operational_programmes_and_managing_authorities), last accessed on 10/30/2010;


\(^{16}\) EU Funds in Central and Eastern Europe – Progress report 2007-2009. (2010), available at [http://kpmghu.lcc.ch/dbfetch/52616e46f6d49567285f6e9d8f7ed516801eb4b54c1d21aabfd6ca0f392cd7a41/eu_funds_in_the_cee_-_e_-_may_2010.pdf](http://kpmghu.lcc.ch/dbfetch/52616e46f6d49567285f6e9d8f7ed516801eb4b54c1d21aabfd6ca0f392cd7a41/eu_funds_in_the_cee_-_e_-_may_2010.pdf), last accessed on 10/30/2010;
economic development, so far, Romania has remained a net contributor to the EU budget\(^{17}\). However, the perspectives for the future seem to be better.

Due to the global economic crisis, the European Union has made a series of changes in what concerns the access to EU funding. Therefore, the procedures are now much quicker and simpler. Following the public consultation at the end of 2009, the European Commission is proposing further changes to the EU Financial Regulations, meant to speed up and make more efficient the use of funds and the implementation of projects.

Also, the greater experience of both potential beneficiaries and of management authorities at the national level should help surpass any future obstacles on the path to European financing.

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\(^{17}\) Zaman G., Georgescu G. (2009), p.10.
SOME PRACTICAL ASPECTS CONCERNING IAS 39 IMPLEMENTATION IN BANKS TRANSACTIONS

Ileana NICULA, PhD lecturer
“Creștină Dimitrie Cantemir” University, București

Abstract
The paper work Some aspects concerning evaluation and dealing of securities in banks’ operations describes the impact of IAS 39 (International Accounting Standards) on the balance sheets of the financial institutions, through some applied examples. Classification of assets and liabilities of financial institutions is crucial for risks assessment and to prevent the generation of so called “originate to distribute”, actually creating “Structured Investment Vehicle (SIV)”. Simply put, SIV is a way to pass “the hot potato” (all sorts of bad investments) outside entity. IAS 39 states that any asset should be recorded either (1) loans & receivables originated in the reporting entity, or (2) held to maturity, (3) held for transaction and (4) available for sale. Reclassification and derecognition are regulated to avoid misleading profit ratios, SIV innovation and subsequent risks. Thus the banks will softly return to their philosophy “originate to hold”.

The paper outlines the importance of implementing IFRS in order to minimize the risks in banking transactions, through prudence, transparency and predictability. Their assets and liabilities should be recognized, derecognized, classified to offer the best image on the banks’ operations, worth and risks. The analyzed examples are: swap transactions (IRS) and buying/selling financial assets (shares and bonds).

Key words: evaluation methods, balance sheet impact, net present value, settlement/transaction date, fair value
JEL classification: M41

Overview
It is well known that banking innovations and „financial creativity” have increased the risks and some banks have failed, even in good times. The banking risks are also systemic ones and a true image of a credit institution patrimony is essential not only for managers but for the entire banking and economic system. The simplest way to control banking operations is through regulations issued, generally speaking, by central banks. But on the other hand, there have been many debates leading to the conclusion that banks are the producers of high quality information, mainly as a result of the access to private information generated by their customers. But there is a more flexible view on regulation, which considers that to impose good regulations means to draw the starting point, destination point and predictable intermediate stages, avoiding risks. The accounting and financial reporting standards are in my opinion, the optimal approach of issuing “flexible regulations”. Certainly it is possible that different methods agreed in standards could give different values, but the opposite situation could occur, as shown in the paper. Anyhow as in every human activity, rational judgement is an essential factor for assessing each item in banking transaction.

The balance sheets of the banks and other financial entities contain pre-eminently financial assets and liabilities, which values modify during time (money value over time). Thus each transaction should be recorded as close as possible to their fair value in order to be used in managerial decisions (for an in depth analysis see [1]). The assets and liabilities analysis is important to identify and evaluate risks and to cover them. The evaluation process should focus on highlighting the risks and indentifying optimal methods for their hedging.
Methodology framework

The IV EEC directive allows alternative treatments to historical cost, namely: evaluation based on replacement value, re-evaluation taking into account inflation and periodical re-evaluation using different methods of assessing fair value. According to [2] the fair value is a rational and fair estimation of the market price of a good, services or financial asset, taking into account the following: the cost of production/distribution, utility (for good and services), performance (for assets) or market availability. The fair value can be seen as a future value of an asset previously recorded on the historical price basis, taking into account the market risk. The historical cost was the fair value at some point in the past and reflected the risk in that moment.

Theoretical speaking the fair value can be estimated by three methods:

- using an evaluation model or technique (discounted cash flow model, option pricing models so). Periodically there is important to calibrate the figures and to test the validity of the model, using updated data;
- on an active, organised market on which different financial assets are systematically sold and bought resulting a quotation (quoted marked price);
- using a reference price resulting from the recent transactions with similar instruments (e.g. based on a financial instrument rated by an independent agency for which the cash flows can be reasonably estimated).

Virtually all the above three deal with market transactions (actually an evaluation model starts by applying the best practices on the market). Is the market a good model for appraisal? No and Yes. A perfect market does not exist mainly due to the asymmetric information. Thus the prices derive from the transactions undertaken by entities with different, miscellaneous, information and interests. But anyhow the price reflects the very market situation (supply, demand and information).

IFRS implementation raises complex issues for financial institutions due to the imbedded risks into financial assets and liabilities, risks which should be identified and properly managed. IAS 39 has been developed to define principles for recognition, derecognition and evaluation of the financial instruments. IAS 39 also has established the classification and reclassification of the financial assets and liabilities, for banks to be hindered in developing their creativity generating uncontrollable risks. For instance in Romanian banks there are two important classifications criteria for the financial titles: (1) the period they intend to hold and (2) the degree of involvement in the management of the entity. According to the first criterion there are transaction titles, investment titles and available for sale titles (neither for current transaction nor for long time investment) (all recorded in Class 3 of Romanian balance sheet). The allowed transfers between these three categories, according to the National Bank of Romania, are presented in Table no 1.

On Oct. 2008 the IASB issued some amendments for IAS 39 permitting in rare cases the reclassification of some financial instruments. The amendments allows credit institutions to transfer financial instruments held for transactions (trading book) to the banking book, if the current trading brings losses due to the market crisis. Thus there is the possibility to apply historical cost on the assets which have been recorded at the fair value.

The titles of a portfolio can be used in REPO transactions (a sale of securities with simultaneous agreement to buy back the same securities at a stated price on a stated date – see [5]). Whether the securities are carried as held to maturity, the REPO transaction do not contaminate the entire portfolio and banks must not reclassify them (according to IAS 39 requirements), as the titles will be redeemed.

The recognition of assets or liabilities (excluding cash) is made at a cost called transaction cost, which should reflect the right, objective conditions of the market, and therefore should
be considered fair value. In some circumstances there are costs related to the transaction itself (transaction costs – „are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability“18) which should be included in the assets or liabilities value. IAS 39 requires four treatments, namely:

1. Whether the financial instrument is carried at amortized cost, the transaction cost is included into amortized cost and the method is the effective interest rate. Thus the costs are periodically amortized or compensated through the profit and loss accounts until the maturity.

2. Whether the financial instrument has not a specified maturity, the transaction cost is recorded in the income statement when the asset is sold.

3. Whether the financial instrument is classified as a transaction title, recorded at fair value, the transaction cost will not be imbedded in the fair value of the future re-evaluation. Thus it will recognize an „upfront“ loss resulting from the transaction cost, or the loss (or part of it) can be offset due to the increasing value of the title compared to the entrance value.

4. Whether the financial instrument is available for sale and the payments are fixed or computed and the maturity is known, the transaction cost is amortized in the net profit or loss, as appropriate.

Banks have to measure periodically the portfolios’ value, using quotations (if available) or other techniques. Any modification should be recording depending on the title classifications, as shown Example no. 2. The example also presents transaction costs recognition for the all three categories.

The credit institutions are engaged in a variety of transactions based on contract law, creating their own market, on which there are no quotations. Therefore the recognition and appraisal are made periodically using evaluation methods. The example no 1 presents discounted cash flow method for an IRS (Interest Rate Swap), using as reference the money market quotations (LIBOR, EURIBOR).

Even if the hedging instruments are for covering various risks (so not for speculative gains), there are carried in the banks trading book. This characteristic deals to their way of functioning. For instance an IRS is operating regular exchanges of cash flows (so more transactions). These exchanges hedge interest rate risk and are not intended to speculative gains.

The financial assets operations can be launched on a specific date but settled on a future date. IAS 39 allows to record either on the transaction date or on the settlement date, by re-evaluating the fair value.

When using transaction date, the fair value is just that in that time and any subsequent alteration will be recorded in the future re-evaluation. When using settlement date, the changes between the two moments cannot be recorded. IAS 39 states that the modifications between the transaction and settlement dates should be recorded according to the classification of the titles (transaction, available for sale, investment). The Example no 3 illustrates a neutral impact on the final balance sheet either the operation is recorded at transaction date or at settlement date.

Applied examples

Example no 1

Suppose that on the 1st of January 2010 a credit institution CI1 enters into an interest rate swap of 100 million Euros. CI1 pays a fixed APR of 3% and receives a floating interest rate based on EUROBORB 6. The swap maturity is 2014 and the cash flows are exchanged every six months.

18 www.ifac.org/Guidance - FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT
On the beginning the financial instrument has a zero fair value. On the first settlement date (06/30/2010) interest rates have increased and thus the Cash Flows modify. EURIBOR for the last semester of 2010 is 3.5%. Let’s compute the fair value – the difference between the received and paid amounts by CI1 – based on the net present value (NPV) for all the nine instalments until the maturity.

Fixed interest rate on semester = 100 mil. × 3%/2 = 1.5 mil. Euro

Technically it will be used spot EURIBOR on futures contract for the present value of Cash Flows. Suppose that is 3.2% annually. The discount ratio is therefore:

\[
\frac{1}{(1 + 0.032/2)^n}
\]

\(n = \text{payments number}\)

Euro Cash Flows for fixed interest rate (rounded to whole) are presented in Table no 2.

For the floating interest rate we are using forward EURIBOR and the discount ratio is the identical to that for fixed rate. Usually on the re-evaluation time, the net present value of the Cash Flows for the floating interest rate is equal to the nominal value. Exceptions can occur if there are modifications concerning the principal settlement or the re-evaluation is made between the two settlement dates. Thus the Cash Flows for floating interest rate could differ from the nominal value, due to the fact that fair value is influenced by the short term interest rates (up to the settlement/re-evaluation date, for example).

For the first settlement date (06/30/2010) the net present value for the cashing made by CI1 is 100 million euro and the net present value for payment is 99,167,971 euro (see Table no 2).

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<td>Cashing (floating rate):</td>
</tr>
<tr>
<td>+100,000,000</td>
</tr>
<tr>
<td>Payments (fix rate):</td>
</tr>
<tr>
<td>-99,167,971</td>
</tr>
</tbody>
</table>

Net value: 832,029

Thus the swap fair value at the first settlement date is net present value of cash flow receivable and payable under the contract between counterparties. The treatment of the transaction costs that have accrued until the sale is made separately from the appraised value in that moment.

Example no 2

The credit institution CI1 buys 10,000 shares at a price of 5 lei/share and acquisition cost is 100 lei. The titles are carried as available for sale titles (neither transaction nor investment titles). At the end of the financial year the quotation is 4.6 lei and the sale would involve fees in the amount of 100 lei (The example is developed from [3]).

When the stock is bought the entrance value is:

10,000 pcs. × 5 lei + 100 lei = 50,100 lei

At the end of the year the stock will be re-evaluated at the current quote as follows:

10,000 pcs. × 4.6 lei = 46,000 lei, means 4,100 lei less than the book value, so a value adjustment should be made.
But had been positive the difference, no adjustment would have to be made. This approach underlines the fact that the stock was not for speculative purposes, and there was no intention being held to maturity. Thus at the end of financial year part of the upfront expenses will be recorded as a loss. But a potential sale would cost 100 lei, so the CI1 would get a net income of:

\[
46,000 \text{ lei} - 100 \text{ lei} = 45,900 \text{ lei} \text{ less than the fair value but should be ignored.}
\]

If the shares had been carried as transaction titles, the transaction costs would have been recorded into an expenses account. And any re-evaluation difference should be recorded as income or loss, as appropriate, since the purpose of the assets is to take advantage of the market („buy cheap, sell high”). If the instruments had been carried as investment titles, transaction costs, discounts or premiums would have been imbedded into the book value. At the end of the year any positive difference will be ignored, and the negative one will imply a value adjustment in order to show an accurate image of the investment. The value of the discounts or premiums, if any, should be amortized pro rata temporis over the residual life of the instrument.

**Example no 3**

On the 25th Oct. 2007 (transaction date) CI1 draws a contract to buy 10,000 bonds with delivery and payment on the 1st Nov. 2007 (settlement date). The seller is CI2. The nominal value is 50 lei/piece, quotation 105%; the next interest payment is on the 31st May 2008. APR is 12%. CI1 intends to classify the bonds as transaction titles. The quotation on the 31st Oct. 2007 is 110%.

25th Oct. 2007

\[
\text{Fair value} = 10,000 \text{ pcs.} \times 50 \text{ lei/bond} \times 105\% + 25,000 \text{ lei} = 550,000 \text{ lei}
\]

(25,000 lei is the value of the accrued interest since the last payment date – 31st May 2007 – until the 31st Oct., so 5 months elapsed).

31st Oct. 2007

\[
\text{Fair value} = 10,000 \text{ pcs.} \times 50 \text{ lei/bond} \times 110\% + 25,000 \text{ lei} = 575,000 \text{ lei}
\]

The contract has been irrevocable and signed for 105%, so the cost for CI1 is 550,000 lei. The impact of operations depending on the recording method (transaction or settlement date) is presented in Table 3. It is noticed that the two approaches have no impact on the final balance sheet. Consider the transaction from the seller point of view, credit institution 2 (CI2), assuming that the stock book value was 600,000 lei. The impact regarding the posting way (transaction or settlement date) is presented in Table 4. The market value on the settlement date is 575,000 lei (see previous example), so CI2 supports an expense of 25,000 lei (550,000 – 575,000). Whether the market value had been 500,000 lei, CI2 would have not experienced any selling loss. As well as in the acquisition situation, the two approaches have no impact on the final balance sheets.

**Conclusions**

From the herein examples the accounting approaches regarding the posting based on the transaction or settlement date is neutral in terms of the balance sheet. The value of the item named *Difference* is recognised either in the Income statement or the Capital accounts,
depending upon the category of the title. For instance in Table 3, Difference is recorded in the Income statement. But had been the investment or available for sale titles, the positive difference would had been ignored and for the negative difference would had been made adjustments to the value.

In Table 4 Difference, that is the 50,000 lei loss, is recorded in the Income statement, if it is a transaction date. For a settlement date the re-evaluation adjustments are recorded in Capital accounts until the actual settlement, provided that the modification in fair value for that title to be part of those alterations which are recorded in capital accounts. And the impact on the balance sheet is the same, namely a loss that will be recorded in the CI2 Income statement.

Table 1 – Titles migration between categories, according to NBR regulation

<table>
<thead>
<tr>
<th>Other categories</th>
<th>→NO</th>
<th>Transaction titles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction titles</td>
<td>→YES (0)</td>
<td>Other categories</td>
</tr>
<tr>
<td>Available for sale titles</td>
<td>→YES (1)</td>
<td>Investment titles</td>
</tr>
<tr>
<td>Investment titles</td>
<td>→YES (2)</td>
<td>Available for sale titles</td>
</tr>
</tbody>
</table>

(0) In very rare circumstances, exceptional cases less likely to happen
(1) There is a change in intention or ability to hold securities.
The past two financial years have elapsed.
(2) Yes → NO if the entity has reclassified investment titles in available for sale in the past two years (contamination rule)

Table 2

<table>
<thead>
<tr>
<th>Date</th>
<th>CF</th>
<th>CF NPV</th>
<th>Discount ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>31.12.2010</td>
<td>-1,500,000</td>
<td>-1,476,378</td>
<td>0.9943</td>
</tr>
<tr>
<td>30.06.2011</td>
<td>-1,500,000</td>
<td>-1,453,128</td>
<td>0.9688</td>
</tr>
<tr>
<td>31.12.2011</td>
<td>-1,500,000</td>
<td>-1,430,244</td>
<td>0.9535</td>
</tr>
<tr>
<td>30.06.2012</td>
<td>-1,500,000</td>
<td>-1,407,720</td>
<td>0.9385</td>
</tr>
<tr>
<td>31.12.2012</td>
<td>-1,500,000</td>
<td>-1,385,552</td>
<td>0.9237</td>
</tr>
<tr>
<td>30.06.2013</td>
<td>-1,500,000</td>
<td>-1,363,732</td>
<td>0.9092</td>
</tr>
<tr>
<td>31.12.2013</td>
<td>-1,500,000</td>
<td>-1,342,256</td>
<td>0.8948</td>
</tr>
<tr>
<td>30.06.2014</td>
<td>-1,500,000</td>
<td>-1,321,118</td>
<td>0.8807</td>
</tr>
<tr>
<td>31.12.2014</td>
<td>-1,500,000</td>
<td>-1,300,000</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>-100 mil. + 1.5 mil.)</td>
<td>-87,987,843</td>
<td>0.8669</td>
</tr>
</tbody>
</table>

Table 3

<table>
<thead>
<tr>
<th></th>
<th>Transaction date</th>
<th>Settlement date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair value</td>
<td>Amortized Cost</td>
</tr>
<tr>
<td><strong>25 Oct. 2007</strong> Bonds</td>
<td>550,000</td>
<td>-550,000</td>
</tr>
<tr>
<td>Financial liability</td>
<td>550,000</td>
<td>-550,000</td>
</tr>
<tr>
<td><strong>31 Oct. 2007</strong> Accrued receivable</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>– re-evaluation income</td>
<td>Bonds</td>
<td>575,000</td>
</tr>
<tr>
<td>Financial liability</td>
<td>-25,000</td>
<td>-550,000</td>
</tr>
<tr>
<td>Difference</td>
<td>-25,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>1 Nov. 2007</strong> Accrued receivable</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>– re-evaluation income</td>
<td>Bonds</td>
<td>575,000</td>
</tr>
<tr>
<td>Cash flow (out)</td>
<td>-25,000</td>
<td>-</td>
</tr>
</tbody>
</table>

509
Table 4

<table>
<thead>
<tr>
<th></th>
<th>Transaction date</th>
<th>Settlement date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair value</td>
<td>Amortized Cost</td>
</tr>
<tr>
<td><strong>25 Oct. 2007</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bonds- receivable</td>
<td>550,000</td>
<td>550,000</td>
</tr>
<tr>
<td>Difference</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td><strong>31 Oct. 2007</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued receivable – re-evaluation income</td>
<td>600,000</td>
<td>600,000</td>
</tr>
<tr>
<td>Bonds</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Difference</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td><strong>1 Nov. 2007</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued receivable – re-evaluation income</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bonds</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash flow (input)</td>
<td>550,000</td>
<td>550,000</td>
</tr>
<tr>
<td>Difference</td>
<td>50,000</td>
<td>50,000</td>
</tr>
</tbody>
</table>

Bibliography

THE EVALUATION OF THE PUBLIC SECTOR PERFORMANCES- A NECESSITY! THE "SIN QUA NON" CONDITION OF THE MARKET ECONOMY

Amalia-Luisa Pupaza (c. Mitrulescu-Paiseanu)
Graduand, West University, Faculty of Economics and Business Administration from Timisoara

Abstract

Public service organizations from developed countries have as the main objective improving public sector performance. Addressing such issues as public sector performance involves the selection, definition and implementation of a set of performance indicators which quantify the results obtained from conducting public activities. Performance indicators have been determined since the 80s in all European Union countries, the main reason being the desire to know the level of management effort implicated in service organizations with the purpose to reach a high level (competitive) of these services. However, determining and assessing the performance of public organizations is not easy.

This article aims to highlight the importance of performance indicators in assessing public sector performance.

Keywords: public sector, performance, performance indicators.

Introduction

One of the most important objectives set by the public policies of industrialized countries is to improve public sector performance. Approaching the issue of performance, it should be noted that public organizations who want to join a select group of high performance organizations must be oriented towards developing and implementing effective methods of performance measurement and performance management systems because only through such systems they can be considered high performance organizations.

Because of the role that the public sector plays in economics, with direct impact on citizens' welfare and quality of life globally, most of the countries have gone to assimilation of certain policies and practices of other countries considered to be good. It should be noted that global economic performance of countries have major impact on public sector performance, and there is a strong connection between them.

Performance of public organizations is determined according to how human resources, materials, information and financial performance are used in order to achieve the goals of users expectations.

Opinions in the literature about the performance of public organizations are numerous, but generally believes is that "performance is the ability of an administration or public institutions to procure resources in an economic manner and use these resources in an effective way to obtain the desired result. "(OECD-Journal of Budgeting, Vol.2 / 2, pag.45)"
If you don’t measure the results you can not distinguish between failure and success, if k you don’t recognize success you can’t reward it, if you can not see failure you can’t correct it.
"(Osborne, Gaebler, Reinventing Government, 1992, pag.147).

Determining the performance of public organizations is not easy. Specialists in the field have encountered a number of difficulties in defining concepts in terms of performance: the concept of performance, how to obtain and identify performance indicators and performance criteria, ie performance evaluation. In order to measure public sector
performance it should be considered differentiating issues that arise in a production process: means used, process, product and outcome, the effect (Profiroiu M. and A., 2007).

In order to measure efficiency in public organizations take into account that the efforts to meet social needs are quantifiable, but difficult to determine, calculate and set are the social effects. Regarding the need to assess performance and the difficulty of measuring the results, Peter Drucker said: "We know we have to measure results. Also, we know that except businesses, we do not know how to measure results in most organizations."

Quantifying performance provides a clear picture of the results recorded after carrying out public activities. Thus, citizens owning real information about objectives set in the public sector, but also information about the results of the actions undertaken to achieve these objectives, can assess how far their expectations were met. The fundamental objective of public management should be represented by meeting the increasing public interest, being determined by the general and specific needs of the population.

Due to the cyclical economy, where economic times of well being are cycled regularly with periods of crisis, issues related to improving and measuring performance are extremely important objectives of public authorities. Both the literature and practice in the field reveals the complexity of measuring the performance of management process. In order to measure public sector performance indicators of performance are required.

**System performance indicators in public sector of developed countries**

Performance indicators are tools used to quantify the process of public sector performance. By analyzing performance indicators you can compare results both with those already existing and with performance standards. A performance indicator can be defined as a variable that measures and provides information on issues related to the transformation of public institutions.

As I stated above, in order to use the information displayed by various indicators in performance analysis and reports, for the purpose of modifying and improving the aspects they quantify, these indicators should be compared with previously established values, standards or outcomes recorded in studies already completed. Experts in the field consider that performance indicators should have certain attributes. As stated by Peixoto (2004) the most important attributes of performance indicators are:

- Adaptability: due to changes in most areas some indicators may lose their usefulness and then it is necessary that they are removed or replaced with more relevant ones;
- Representativeness: representative performance indicators are difficult to obtain and it is therefore necessary that the data and information underlying the construction of these must be significant, important, true and from correct sources;
- Simplicity: it is very important that these indicators and the information provided by them can be understood and used both by persons specialized in the field and by the rest of the population.

Performance indicators are built on data and information collected from internal and external areas related to the area to be used. These data and information that are used in designing performance indicators should have certain characteristics: recognizability, availability, cost, feasibility and stability.

Performance indicators may have as a starting point:
- Entries-represented by resources that are used in order to obtain products or services;
- Processes- which are activities by which resources are transformed into products and services;
- Outputs- with references to products and services which are delivered;
- Results- reflects the results obtained by the delivery of products or services.

Quantifying public sector performance is important to be done through performance indicators from all perspectives listed above: inputs, processes, outputs and results. These
performance indicators reflect the necessity of understanding the capabilities and structural characteristics of the organization, the necessity of determining the degree of enjoyment given to the population by public services, the need for understanding the amount and clarity of services and develop effective indicators, the degree of satisfaction of needs of population and wealth.

Construction and analysis of these indicators are to measure public sector performance and to discover strengths and weaknesses of this sector to act in order to increase performance. In order for the performance indicators to be relevant they must meet certain criteria: they must be worth measuring, they must be understood by people who need to act, they must be measurable for diverse populations, they must be relevant to policy and practice, they must be feasible to collect and report, they must comply with national processes.

Indicators for measuring performance of public services fall into two categories of performance indicators:
- Economic indicators
- Quality indicators

Performance indicators that are part of the economic indicators are:
- Cost of service as a performance indicator is used in analysis about productivity, while also being compared in time and adjusted with an index, for eliminating from the discussion the influence of inflation. This indicator is often used in comparing and analyzing the evolution of productivity for a public service.
- Service charge represents the sale price of public services, taking into account the cost of investments and the inputs.
- Efficiency of public services

Performance indicators that are part of the quality indicators are:
- Technical indicators reflecting the volume of services: the number of requests for aid for maintenance, water pressure, number of people attending public libraries;
- Environmental indicators: the degree of pollution of the environment, the degree of water pollution;
- Specific indicators of quality: drinking water purity, degree of radiators heat at the client.
- Indicators of consumer service: service availability, the degree of satisfaction of the service recipient, service organization managers effectiveness, economic and managerial efficiency of the services organization. Regarding the quality of public services, we can say that it can be appreciated in relation to the degree of satisfaction of customer expectations.

Due to limitations that arise in quantifying the quality of public services in developing countries, quality control systems for the services were developed and implemented.

Conclusions

Complying with existing studies in this field the quantification of public sector performance involves correct and transparent definition of what is measured, of the means of evaluating and of the ways of implementing measuring systems, that is a coherent system for measuring performance. One of the most important methods used for growth and improvements in public management is the measurement of performance.

Performance indicators are quantifiable measures used to highlight the success of an organization. To indicate this properly it is required that performance indicators chosen by the organization to be relevant, to reflect the things essential for the organization.

Identifying and measuring performance is achieved through the performance indicators that through the information they provide are used in: evaluating alternatives for action, determining strengths and weaknesses and attempt to eliminate the latter, the optimal allocation of resources, increasing quality of public services, improving and development of public sector performance.
Performance indicators are the most important tools for monitoring and improving performance and quality of public services. Public services developed and raised in terms of quality once with the introduction and evolution of performance indicators.

**Bibliography**

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THE ROLE OF REGIONAL TRADE AGREEMENTS IN THE GLOBAL ECONOMY

Irina Gabriela RADULESCU
Associate professor, Petroleum-Gas University of Ploiesti

Marian ZAHARIA
Professor PhD, Petroleum-Gas University of Ploiesti

ABSTRACT: Regional and sub-regional groups having an integrative character appeared after the war and they aimed at harmonizing their economic policies, and, at the same time, they ensured, in accordance with the agreed degree of integration, free turnover of goods, products, services, capitals and labor force. By setting up these international economic organizations, the states of the world and especially developing countries wanted to improve their efforts for a sustained economic growth, to counteract the effects of the unequal external affairs and to eliminate underdevelopment.

Some of the regional agreements that represent the new regionalism have been motivated politically and they were stimulated by the conviction that good agreements do not necessarily stand for good neighbors. Such agreements consolidate good diplomatic practices and their objective is to reduce the inevitable confrontation that may appear as a result of commercial disputes that interfere at the border.

Key words:

1. Introduction

Regional Trade Agreements (RTAs) are a major feature of today’s multilateral trading system. The number of preferential agreements as well as the world share of preferential trade has been steadily increasing over the last years. Many WTO Members use the RTAs as trade policy instruments and as complementary to MFN. The promotion of free trade at a preferential level may help developing countries to implement domestic reforms and open up to competitive market pressure.

The WTO agreements recognize that regional arrangements and closer economic integration can benefit countries. It also recognizes that under some circumstances regional trading arrangements could hurt the trade interests of other countries. Normally, setting up a customs union or free trade area would violate the WTO’s principle of equal treatment for all trading partners (“most favoured nation”). But GATT’s Article 24 allows regional trading arrangements to be set up as a special exception, provided certain strict criteria are met [11].

Article 24 says if a free trade area or customs union is created, duties and other trade barriers should be reduced or removed on substantially all sectors of trade in the group. Non-members should not find trade with the group any more restrictive than before the group was set up.

Similarly, Article 5 of the General Agreement on Trade in Services provides for economic integration agreements in services. Other provisions in the WTO agreements allow developing countries to enter into regional or global agreements that include the reduction or elimination of tariffs and non-tariff barriers on trade among themselves [7].

In 1947, when the GATT was negotiated, there were effectively no regional agreements in the world trading system. By this time, there were only systems of trade preferences but no formal regional trade agreement. These agreements were minimally
discussed in the negotiation of the GATT Articles and only Article 24 focused on this issue. This permitted members to participate in regional agreements under two conditions [11]:

- All trade between parties would be covered;
- No barriers should be raised against third parties as a regional agreement takes effect.

2. Causes and determinants of regional trade agreements

The degree of the phenomenon of regionalization made several specialists turn their attention and warn on the fact that regional agreements could lead to the setting up of closed trade blocks. Other specialists believe that the initiatives towards regional and inter-regional integration are complementary, not alternatives to promotion of free trade. Regional blocks do not hinder, on the contrary, they stimulate international exchanges. Setting up these areas, more or less integrated, should not lead to misunderstandings among the different blocks, but they need to contribute to working together towards development [8].

There are several motivations to set up agreements for regional integration and we mention the following [5]:

- The existence of a large number of countries with different sizes, population and economic potential, together with the fact that economic importance determines the role of a country on the world market are serious stimuli for many nations to set up economic groups.
- At the same time, individual economic and political interests of each country are barriers in the way of free coordination and collaboration within these groups. Each country wants to define its national economic objectives and to keep the right to promote its own policy, although it also gets the capacity to make decisions that cross national borders.
- Benefiting both from the advantages of nationalism and multinationalism is obvious when groups of countries are set up and they explicitly decide to coordinate some aspects of their policy.
- Economic integrity in a certain region presupposes the absence of discrimination or gradual elimination of this within economic relations or within any other thing that constitutes a certain economic whole and may contribute to the economic stability and efficiency of the relationships among the member states.

Pascal Lamy considers that there are several reasons for the attractiveness of bilateral agreements as compared to multilateral negotiations [4]:

- Preferential trade agreements seem quicker to conclude and they are very attractive to both politicians and business communities who are looking for quick results;
- They can enter into new territories because of similarities in interests and often more common values;
- Many of the recent FTAs contain political or geopolitical considerations. For developing countries negotiating with more powerful developed countries, there is usually the expectation of exclusive preferential benefits, as well as expectations of development assistance and other non-trade rewards.

Fiorentino and Crawford (2005) describe four main RTA related trends [3]:

- Several countries are making RTAs the centrepiece of their commercial policy;
- RTAs are more complex by establishing new trade regimes;
- Preferential agreements between developed and developing countries are increasing;
- RTAs become more and more consolidated and expanded.
3. The impact of RTA on global economy

In the last few years, it was emphasized the phenomenon of liberalization at multilateral, bilateral and unilateral level. Many trading arrangements have appeared because of political economic forces that lead to further trade opening (“juggernaut effect”) and because countries wanted to participate in more open trade arrangements in order to avoid being left outside (“domino effect”) [1].

Regional trade agreements (RTAs) can be divided in five categories based on their integration level: Preferential Trade Agreements (PTAs), Free Trade Agreements (FTAs), Custom Unions (CUs), Common Markets and Economic Unions.

Preferential Trade Agreements (PTAs) allow member countries to impose lower trade barriers on goods produced inside the union. A Free Trade Agreements (FTA) is a union in which member states abolish trade barriers. In a Custom Union member countries apply a common external tariff on a good imported from outside countries. In Common Markets member countries want to harmonize commercial and financial regulations among themselves and in an Economic Union countries adopt common economic policies and a single currency. There is a strong relationship between the different levels of RTAs shown in figure 1.

![Fig. 1 Forms of Regional Trade Agreements](image)

Source: Das (2001)

Generally speaking, it is considered that the impact of regional integration on member states and on non-member states will depend on the type of agreement (the area for free trade, customs union or common market) and on the degree of freedom for intra-regional trade. Overall, the following comments can be made [6]:

- Regional integration as such may disadvantage non-member states, leading to a substitution of trade with these countries. In economic terms, we talk about trade embezzlement, meaning that an efficient supplier from a third country is replaced by a supplier with higher costs just because it is part of the Regional Trade Agreements (RTA), and because custom duties have been eliminated in intra-regional trade.

- The larger internal freedom stipulated in an RTA, the more competition on the markets within the respective region. Although this leads to an increase of general welfare in the member states, being one of the objectives for economic integration, it can also be associated with high pressures to adjust inefficient industries in the member states. These countries can try to put a part of the burden brought about by adjustment on third countries, increasing thus external barriers. As a result, one must take into account both the implicit discrimination (due to the preferential nature of
Some experts believe that regionalism should involve an increased intra-regional trade out of political reasons even if such trade means that member states import products with higher costs from the member states, that are part of the agreement, than from non-member states. This argument states, in fact, that trade embezzlement is necessary out of political reasons. It is obvious that, although member states can make a decision that any economic cost is compensated by some (non-economic) advantages as they are defined by and large, third countries will not benefit from these advantages and will simply have to face implicit costs.

Third countries can also be disadvantaged by the so-called investment embezzlement. This happens because some companies decide to invest within an agreement of regional integration and, consequently, to produce locally and not in a third country with the lowest costs, then to export these products to the regional group [9].

### Table 1 RTA in force, sorted by Type of Agreement, 2010

<table>
<thead>
<tr>
<th>Type of Agreement</th>
<th>Enabling Clause</th>
<th>GATS Art. V</th>
<th>GATT Art. XXIV</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custom Union</td>
<td>6</td>
<td>9</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Custom Union - Accession</td>
<td>0</td>
<td>6</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Economic Integration Agreement</td>
<td></td>
<td>80</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td>Economic Integration Agreement - Accession</td>
<td></td>
<td>3</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Free Trade Agreement</td>
<td>10</td>
<td>157</td>
<td>167</td>
<td></td>
</tr>
<tr>
<td>Free Trade Agreement - Accession</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Partial Scope Agreement</td>
<td>14</td>
<td>2</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Partial Scope Agreement - Accession</td>
<td>1</td>
<td></td>
<td>1</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>31</strong></td>
<td><strong>83</strong></td>
<td><strong>174</strong></td>
<td><strong>288</strong></td>
</tr>
</tbody>
</table>

Source: www.wto.org

The proliferation of RTAs during the last years was explosive. Some of them are intended to be free trade areas and the others want to become customs unions. The most common category is the free trade agreement (FTA) (see figure no. 2 and table 1).
Table 2 The past WTO rounds of multilateral negotiations

<table>
<thead>
<tr>
<th>Year</th>
<th>Negotiation</th>
<th>Number of years</th>
<th>Number of participant countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>Round 1</td>
<td>1</td>
<td>23</td>
</tr>
<tr>
<td>1949</td>
<td>Round 2</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>1951</td>
<td>Round 3</td>
<td>1</td>
<td>38</td>
</tr>
<tr>
<td>1956</td>
<td>Round 4</td>
<td>1</td>
<td>26</td>
</tr>
<tr>
<td>1960-1961</td>
<td>Dillon Round</td>
<td>2</td>
<td>26</td>
</tr>
<tr>
<td>1964-1967</td>
<td>Kennedy Round</td>
<td>4</td>
<td>62</td>
</tr>
<tr>
<td>1973-1979</td>
<td>Tokyo Round</td>
<td>7</td>
<td>102</td>
</tr>
<tr>
<td>1986-1994</td>
<td>Uruguay Round</td>
<td>9</td>
<td>123</td>
</tr>
<tr>
<td>2001-present</td>
<td>Doha Round</td>
<td>10+</td>
<td>150</td>
</tr>
</tbody>
</table>


4. Conclusions

RTAs represent growing numbers of agreements across regional groupings, as well as across developed and developing countries; increasingly there is a variance in the form of these agreements, from initial limited framework agreements to deeper partnership agreements going well beyond trade; a sharp growth in coverage beyond goods and services into areas such as mutual recognition, competition policy, movement of persons, investment, and cooperation agreements; and a focus on trade management (or process) establishing procedures for joint exchanges, coordination and other actions as well as joint limitation on the use of trade restricting instruments (such as tariffs).

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12. www.wto.org
THE IMPACT OF THE CURRENT INTERNATIONAL FINANCIAL CRISIS ON THE MONETARY POLICY TRANSMISSION MECHANISM

Roman Angela, PhD, Assistant Professor
„Al. I. Cuza‖ University of Iași, Faculty of Economics and Business Administration

ABSTRACT

In order to reach the fundamental objective of monetary policy, namely the stability of prices, central banks use the monetary policy interest rate as a main instrument. In normal conditions, the level and the variations of the monetary policy interest rate influence real economy and, eventually, the level of the prices via several channels, among which the channel of the interest rates and the credit channel. Via these channels, the monetary policy exercises influence of the finance conditions of economy, which influence the aggregate demand of goods and services, and, eventually, the level of the prices.

In times of crisis, the two channels for the transmission of the monetary policy no longer function in a satisfactory manner, which means that the modification of the monetary policy interest rate is no longer transmitted to the real economy.

This paper aims at revealing the perturbations determined by the current international financial crisis at the level of the transmission of the monetary policy decisions on real economy, as well as the exceptional measures adopted by the central banks of some developed states, seriously affected by the crisis, for the purpose of reestablishing the normal functioning of the monetary policy transmission mechanism.

Keywords: the current global financial crisis, transmission mechanism of monetary policy, central banks, monetary policy, unconventional measures.

1. Introduction

The transmission mechanism of monetary policy represents the process by which the monetary policy decisions adopted by central banks for the purpose of achieving the primary objective of the monetary policy (represented primarily by the stability of prices) influences, via varied channels, the real economy and, eventually, the general level of prices.

Concretely, the monetary policy influences real economy via financial markets, as follows: the monetary policy decisions lead, at first, to reactions on the financial markets (for example, the modification of interest rates, of the price of financial assets, of the exchange rate etc.) which are then transmitted to real economy and eventually affect the level of the prices.

The starting point in emphasizing the impact of the monetary policy on real economy is represented by the central bank policy rate. In normal circumstances, in the absence of crises or turbulences, the level and variations of this interest rate influence real economy and eventually the level of the prices via several channels, among which we can distinguish, in a traditional (classical) sense and with reference to the financial systems oriented on the banking sector, the channel of interest rates and the channel of bank credits. The channel of interest rates reflects the influence exercised by the central bank policy rate and by the anticipations with regard to its future evolution on the real short-term nominal interest rates, which have a decisive impact on aggregate demand.
As concerns the second channel, it stresses the impact of the monetary policy on real economy via the offer of bank credits. The interest rates influence the cost at which the banks obtain their cash, which affects, in its turn, the offer of bank credits, as well as their cost. Hence, the monetary policy, via the central bank policy rate, affects the financing conditions of the economy which influence, in their turn, the aggregate demand of goods and services and eventually, after a certain time period, the level of prices.

In times of crisis, the transmission mechanism of monetary policy can register significant dysfunctions and it can even be blocked. Such a situation can occur if the central bank policy rate reaches or comes close to the critical level of 0%. In this context, the monetary policy can no longer influence, via the central bank policy rate, the real interest rates. Moreover, disorders at the level of the monetary policy transmission mechanism can also occur if the banking sector does not function normally and the bank crediting of the economy is significantly reduced or even interrupted.

The blockage of the monetary policy transmission mechanism is not synonymous with the incapacity of central banks to continue to influence real economy. Both specialized literature and practice show that, in such circumstances, central banks have the possibility of resorting to certain monetary policy measures, called “unconventional or nontraditional”.

This paper is structured as follows: the second section deals with the problems registered on the financial markets in developed countries, severely affected by the crisis, and which had extremely negative implications on the monetary policy transmission mechanism; the third section presents the main measures of monetary policy adopted by central banks for the purpose of restoring the normal functioning of the monetary policy transmission mechanism, and the paper ends with the conclusions.

2. Reactions of the central banks in some developed countries in the context of triggering of the world economic crisis

The current world economic crisis, triggered in September 2008, after the bankruptcy of Lehman Brothers, determined significant reactions of some central banks in some developed countries.

The increase of the instability of the international financial system, the worsening of the recession of world economy determined the central banks in six developed countries (the Bank of Canada, the Bank of England, the European Central Bank, the Federal Reserve, Sveriges Riksbank and the Swiss National Bank) to simultaneously announce, on October 8, 2008, the reduction by 50 points of the central bank policy rate (see figure 1).

This coordinated decrease of the central bank policy rates revealed the increased concern of the central banks for taking action in order to counteract and limit the effects of the economic and financial crisis. In the months that followed, in the context of the deterioration of macroeconomic indicators and of the decrease of the inflation rate, the central banks of some developed states repeatedly reduced the central bank policy rates, which have been situated, as of May 2009 until the present moment, between 0 and 1% (see figure 1).

However, these actions of central banks did not manage to correct the dysfunctions on the financial markets. For example, on the monetary markets, the uncertainty concerning the refinancing needs of banks, the growth of the lack of trust in the creditworthiness of the counterparties determined the banks to be unwilling to lend money to other banks. In this context, we witnessed the significant augmentation of risk premiums for interbank credits and the diminution of transactions between banks, which led to the increase of the spread between 3-month LIBOR and the overnight indexed swap (OIS) of the same maturity (see figure 2).
Since bank interest rates depend on Libor interest rates (Euribor in the euro area) and are often indexed to these, they also increased. In addition, due to the financial crisis and economic downturn, many banks increased the required credit risk premiums and tightened lending standards. In this context, the decrease that central banks operated in policy interest rates since October 2008 did not impact on bank interest rates, so that the monetary policy transmission mechanism has been disrupted. These circumstances called for central banks to adopt some unconventional monetary policy measures to facilitate the transmission of policy rates on the real economy and restore the confidence in the financial system.

3. The role of unconventional measures in restoring the normal functioning of the monetary policy transmission mechanism

The unconventional monetary policy measures are those measures that directly target the cost and availability of external finance to banks, households and non-financial companies [10, p. 3]. According to the specialty literature, [5, p. 8], the unconventional monetary policy measures encompass three broad categories:
Central banks’ commitment to maintain low policy interest rates for a certain period of time in countries where it reaches zero or it is very close to this threshold. With the condition that central bank’s commitment is credible, an decrease in medium and long term real interest rates is registered and thus, global demand is stimulated;

- Measures aimed at increasing the size of central bank’s balance sheet, also known as „quantitative easing” or unconventional policies oriented towards central bank’s balance sheet liabilities. Such measures are targeted to increase the monetary base and, from the point of view of the central bank, consist of direct purchases of private or public securities in order to influence on the financial assets’ long-term interest rates. The “quantitative easing” measures were practiced by the Bank of Japan over the period March 2001 and March 2006. The efficiency of these measures was analyzed in numerous studies, but it is considered that the Japanese experience does not provide significant conclusions with regard to their efficiency [5, p. 24].

- Measures aimed at shifting the composition of central bank’s balance sheet assets, also known as „credit easing” or unconventional policies oriented towards central bank’s balance sheet assets. Such measures are targeted to directly and/or indirectly support the flows of credits to the economy and imply changes in the structure of central bank’s balance sheet assets. In the case of the direct credit easing measures, central bank mainly purchases private securities (commercial paper, corporate bonds, asset-backed securities etc.) to improve liquidity and reduce risk premiums on certain segments of the market, as well as outright purchases of government securities to influence on their yields [2, p. 101]. Indirect credit easing measures are mainly aimed at reducing tensions on the interbank market and consist of central bank loans to other banks on longer term and collateralized with eligible assets, possibly assets traded on temporarily disrupted markets [10, p.8].

The unconventional measures of monetary policy adopted by the central banks in some developed countries (see table 1) can be differentiated according to the particularities of the financial system of each country. For example, in the euro area, where bank credit is the main finance source of finance for the economy, the “enhanced credit support measures” taken by ECB targeted the credits granted by banks. By comparison, in U.S., where the financial market is the main source of finance for businesses, the “credit easing” measures adopted by Fed focused on the non-bank credit markets and on the operations with securities issued by the private sector.

Table 1. Unconventional measures adopted by some central banks* between August 2007 and June 2009

<table>
<thead>
<tr>
<th>Measures</th>
<th>FED</th>
<th>ECB</th>
<th>BoE</th>
<th>BoJ</th>
<th>BoC</th>
<th>RBA</th>
<th>SNB</th>
<th>SRB</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Enhanced liquidity provision</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Modified discount window</td>
<td>x</td>
<td>x</td>
<td></td>
<td>x</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exceptional long-term ops</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Broadening collateral</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Expanding counterparties</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>FX swap lines</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td><strong>Asset purchases/funding</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government bonds</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency securities</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Commercial paper</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Asset-backed securities</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td></td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>Other securities</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>x</td>
</tr>
</tbody>
</table>
The unconventional monetary policy measures taken by central banks during the current crisis targeted, mainly, to help restore the normal functioning of the monetary policy transmission mechanism by facilitating the provision of liquidity to markets and improving their functioning. Via these measures the central banks also attempted to support the credit flows beyond what would have been achieved only by reducing the policy interest rates [11]. However, lending to non-financial private sector is still low (see figure 3).

Figure 3: The evolution of the annual growth rate of the loans to the nonfinancial private sector between March 2007 – March 2010

interest rates of government bonds are often used as rates of reference when a bank establishes the interest rate for the loans given to its customers or when a company takes a loan via emission of securities. Consequently, if the securities market functions normally, the related interest rates constitute a reference for the financing conditions of the private sector. Government bonds can also be used as guarantees in the refinancing operations of banks. If the market of government bonds has problems, there will also be dysfunctions at the level of the interbank market, leading to the growth of the interest rates; thus, the possibilities of banks to give loans and to finance real economy diminish.

As concerns the National Bank of Romania, it gives importance, just like other central banks, via its monetary policy measures, to the improvement of the functioning of the monetary policy transmission mechanism. For example, in order to improve the signal role of the monetary policy interest rate and increase the efficiency of the transmission mechanism, in May 2008, the central bank decided to reduce the due date of the key instrument of monetary policy (the standard operations of deposits, whose maturity has been reduced from two weeks to one week) and to narrow the amplitude of the corridor formed by the interest rates on standing facilities to a value of ± 4 percentage points (see figure 4).

**Figure 4.** The evolution of interest rates of the National Bank of Romania and interbank interest rate between January 2007 - October 2009

In comparison with other central banks, BNR has not been compelled, until now, to resort to exceptional (unconventional) measures of monetary policy as a result of the particularities of the Romanian banking sector, which has not been directly affected by the current crisis due to the fact that it has not been exposed to toxic assets, and due to the cautious administrative measures adopted by BNR over time [8, p. 4].

Starting with October 2008, the effects of the international crisis were felt indirectly by the Romanian banking sector in the reduction of the external financial volume, determined by the decrease of the credit supply and demand, respectively the restriction of the banking crediting. Also, in October 2008, in the context of the current international crisis, there were significant malfunctions on the interbank market, reflected by the amplitude of the gap between the interbank interest rate and the monetary policy interest rate. The increased disbelief and the risk aversion of the credit institutions, resulted in a significant decrease in the interbank market transactions so that the monthly average interbank rate reached a level of 23% (see figure 4), well above the monetary policy interest rate of 10.25%. In this context, the central bank, considering that it is the case of an unrealistic growth, granted the possibility to temporarily suspend publication of the interbank market indices (ROBID / ROBOR), when
the quotations for participants’ deposits (ROBOR) to the calculation of the average interest rates interbank exceeds the interest rate on lending facility by more than 25% [9].

In February 2009, in the context of a reduction in the economic growth rate and in lending activity, given the current international crisis, NBR started to relax the monetary policy, as shown by the reduction of the monetary policy interest rate and the Reserve Requirements. Nevertheless, the reactions of the bank interest rates to the monetary policy impulses are slow and limited in size due to the high degree of cautious of the credit institutions, but also to people and traders’ reluctance to borrow.

4. Conclusions

The monetary policy affect real economy via financial markets, which, in their turn, transmit their monetary policy decisions to the real economy and, eventually, to the level of the prices. The problems registered on the financial markets, especially in September 2008, prevented the efficient transmission of monetary policy decisions on real economy. In this context, the central banks of some developed countries, severely affected by the crisis, adopted a series of exceptional (unconventional) measures of monetary policy.

The unconventional monetary policy measures taken by central banks during the current crisis targeted, mainly, to help restore the normal functioning of the monetary policy transmission mechanism by facilitating the provision of liquidity to markets and improving their functioning.

The unconventional monetary policy measures are temporary and are designed to be used only under crisis conditions. Thus, as the functioning of the financial markets and the economy improves, it is no longer necessary to maintain them. Therefore, the exit from these extraordinary measures depends on the state of the financial markets and of the economy in general.

By a gradual exit from unconventional measures, central banks intend to return to a normal monetary policy and the policy interest rate to resume its crucial role as signal for the monetary policy stance.

The current world economic crisis stresses the fundamental importance of the stability of the financial system for ensuring the efficient transmission of the monetary policy towards the real economy. The extremely negative implications of the crisis show how important it is for central banks to pay more attention to the impact of monetary policy decisions on the financial system and on real economy.

The current crisis, considered the most severe one after the 1930s, brings back into focus the necessity for central banks to give priority to securing financial stability, including by making this the primary objective of monetary policy.

References

THE IMPACT OF THE CURRENT INTERNATIONAL CRISIS OVER FINANCING THROUGH BANK LOANS OF SMES IN ROMANIA

Rusu Valentina Diana, PhD student
Roman Angela, PhD, Assistant Professor
„Al. I. Cuza‖ University of Iași, Faculty of Economics and Business Administration

ABSTRACT
In comparison with large enterprises, SMEs are faced with numerous obstacles when obtaining financing resources, due to the reticence of the financial markets to take risks, as well as to the insufficient guarantees offered to the creditors. If one takes into consideration bank financing, one may notice that some banks refuse to grant loans or increase interest rates for operational SMEs that do not offer adequate guarantees or do not have a credit history, because they have just started their activity or they have a degree of solvency that does not fall into the limits imposed by the banks in question.

In Romania, small and medium enterprises are highly dependent on banks, aspect that can be explained by the fact that this type of enterprises has fewer financing options in comparison with large enterprises. On the other hand, the high dependence on banks, especially that of micro-enterprises and small firms makes these enterprises very vulnerable to a credit crisis.

This paper aims to highlight the particularities of financing through bank loans of small and medium sized enterprises in Romania, as well as the difficulties encountered by them in obtaining this type of financing in the context of the current crisis.

Keywords: SMEs, bank loans, banks, financial crisis, anti-crisis measures.

1. Introduction
Traditionally, SMEs finance themselves, to a great extent, from internal sources, which include owner investment, as well as financing through retained profits, and/or the sale of assets. The preference for internal finance, of small and medium enterprises in particular, is due to information asymmetries that determine the investors to require greater returns on capital. However, for many SMEs, and especially for fast growth firms, internal sources are not sufficient, for example, for financing new investments, and thus, they are forced to resort to external financing sources. This external financing sources can be “informal financing sources”, for example money raised externally through the so-called three F’s – “friends, families and fools” and/or through Business Angel investment and more conventional sources of (formal) external financing (debt finance in the form of loans from bank and other financial institutions, micro credits, leasing, hire purchase, risk capital, factoring, trade credit) [4, p. 14].

The easy access to finance of enterprises in general and of small and medium enterprises in particular is of crucial importance, because it conditions their creation, survival and development and, eventually, the economic growth and the creation of workplaces.

In comparison with large enterprises, SMEs face numerous obstacles in procuring financing resources, even when the economy it is normally functioning. This is due to the reticence of financial markets to take risks (especially due to the incomplete informing of the equity suppliers with regard to the situation and development perspectives of SMEs) and to the insufficient guarantees offered to creditors. In the light of bank lending, we notice that some banks refuse to grant loans or increase interest rates for operational SMEs that do not offer adequate guarantees or do not have a credit history, because they have just started their activity or they have a degree of solvency that does not fall into the limits imposed by the
banks in question. In crisis conditions, SMEs face greater barriers in the way of access to bank loans because the deteriorating macroeconomic environment determines the banks to show a greater reluctance about lending these companies.

This study is structured as follows: Section 2 shows how the business environment from Romania is perceived by some international organisms, the main obstacles to its development and the importance of SMEs to the national economy. Section 3 presents the role of bank credit in financing SMEs, the implications of the current crisis and the measures adopted to improve the access to bank loans of these enterprises. The study ends with conclusions.

2. Developments in the business environment and the role of SMEs in national economy

Romania's accession to European Union on January 1, 2007, marks the end of the transition to a functioning market economy and highlights the achievement of significant structural reforms. The evolution of the business environment in Romania in the context of EU accession can be highlighted based on data from World Bank's annual report, “Doing Business 2010”, which assesses the ease of doing business in 183 countries on the basis of 10 indicators, namely: starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business [15].

According to World Bank's annual report, “Doing Business 2010”, in 2009 Romania ranked on the 55th place out of the 183 analyzed countries. However, compared with 2008, when Romania was ranked on the 45th place, according to “Doing Business 2009”, there can be observed the deterioration of the business environment, which highlights, in the opinion of many observers, significantly slowing the speed of the reforms after the accession to the European Union [13, p. 308].

In the light of the ten indicators used to assess the ease of doing business the main problems arise in paying taxes, in which case Romania ranks on the 114th place; and on employing workers, in which Romania is ranked on the 113th place. Moreover, these difficulties are also reported in the survey conducted for the period September - December 2008 by the World Bank (Business Environment and Enterprise Performance Survey) on a sample of 541 companies from Romania. Thus, approximately 28% of respondents said that the tax rates are the main obstacle for the business environment, and approximately 20% of the respondents mentioned the inadequate training of the workforce as the most important barrier (see Figure no. 1).

The sector of small and medium enterprises is seen as the engine of the economic and social development of a country, this appreciation resulting from the assessment that this sector generates a large proportion of a country's gross domestic product and provides jobs for most occupied population.

Figure no. 1: The three main constrains identified by the business environment from Romania (in %)

The role of small and medium enterprises in the national economy can be shown based on the data in figure no. 2.

**Figure no. 2**: Key indicators for SMEs in the EU and Romania, 2008 (in %)

From figure no. 2 it results that the percentage of SMEs in the total number of firms in Romania (99.59%) is approximately equal to the EU average. As concerns the structure of SMEs according to size classes, we notice that the percentage of micro-enterprises in the total number of SMEs is smaller in Romania, which means that the percentage of SMEs is bigger. As concerns the contribution to workplace occupancy (63.56% in Romania in comparison with the EU average, of 67.44%), and especially to the creation of added value (42.16% in Romania in comparison with the EU average, of 57.72%), one may notice the differences that do not honour our country. This situation is due to the micro-enterprises with poorer performances in comparison with the EU average; hence the necessity of continuing the process of real convergence.

### 3. Bank loans – the dominant form of external financing of SMEs activity

To highlight the importance of bank credit as a financing resource for SMEs and the existing differences when we compare our country with other EU countries, we can take into consideration the results of the survey conducted by Flash Eurobarometer no. 271. This study was conducted by the European Commission and Central European Bank in order to identify the access to finance of enterprises from EU and from other three countries. The study focused on approximately 9000 enterprises in the EU, Croatia, Iceland and Norway, and took place over the period January – July 2009. The interviews were taken over the period June – July 2009, and the analyzed sample of enterprises was structured according to their size class, distributed as follows: 50% - micro enterprises (1-9 employees), 30% - small (10-49 employees), 10% - medium enterprises (50-249 employees) and 10% - large enterprises (with 250 employees and over). As it results from the distribution of the sample, small and medium enterprises cover an overwhelming segment (90%); hence, we can consider that the results of the Flash Eurobarometer survey are relevant to this research.

Regarding the external financing of the SMEs, the results of the Flash Eurobarometer study show that the bank was the popular source of financing for the enterprises from all the countries that participated to this survey. Such a result is natural if we consider that the financial systems of the EU countries rely, to a great extent, on banks. In the case of Romania we may notice that, during the last two years, 87% of the small and medium enterprises...
interviewed over the period June – July 2009 resorted to bank credits, only 3% to loans from family or friends and 10% to other sources (see figure no. 3).

**Figure no. 3:** The role of bank loans in external financing sources for SMEs in EU

![Figure no. 3](image)


As shown in figure no. 3, SMEs are highly dependent on banks, aspect that can be explained by the fact that this type of enterprises has fewer financing options in comparison with large enterprises. On the other hand, the high dependence on banks, especially that of micro-enterprises and small firms makes these enterprises very vulnerable to a credit crisis [6, p. 32].

The bank loan is not only the dominant form of external financing for small and medium business, but the most preferred type for future use (see figure no. 4). In Romania, the results of the survey show that approximately half (49%) of the interviewed small and medium enterprises mentioned the preference for this type of external financing in the future.

**Figure no. 4:** Most preferred type of external financing to realise growth ambitions

![Figure no. 4](image)


4. **Implications of the current economic crisis on bank loans granted to SMEs sector in Romania and measures adopted by public authorities**

The current international crisis has affected more severely the SMEs sector compared to large firms because SMEs are generally more vulnerable in times of crisis for several reasons, among which we mention: it is harder for them to reduce their activities since they are already small; they are less diversified individual within their business; they have a weaker financial structure (e.g. lower capitalization); they have a lower credit rating; they are strongly dependent on credit and have fewer financing options [12, p. 15].
To highlight all the major issues faced by SMEs in Romania, and the implications of the current financial crisis over their activity we will analyze the sociological study conducted by CNIPMMR with the consulting firm Cult Market Research Ltd., based on a questionnaire addressed to the participants at the event: National Top of Private Companies in Romania, on 6 November 2009 [11]. The study was conducted on a sample of 228 SMEs. Regarding the main problems faced by firms, the survey shows that about 70% of firms surveyed consider that the main problem are the late payments from customers or partners and more than half of companies consider that the main problem is drop in demand for the products and services of the company. The lack of capital is mentioned by approximately 22% of the respondents (see Figure no. 5).

**Figure no. 5: The main problems faced by the SMEs in Romania**

<table>
<thead>
<tr>
<th>Problem</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Late payments from customers or partners</td>
<td>68.9%</td>
</tr>
<tr>
<td>Reduced demand for the products or services of the company</td>
<td>52.6%</td>
</tr>
<tr>
<td>Euro rate increase</td>
<td>45.2%</td>
</tr>
<tr>
<td>The firm's cashflow</td>
<td>32.9%</td>
</tr>
<tr>
<td>Inflation</td>
<td>21.5%</td>
</tr>
<tr>
<td>The lack of capital</td>
<td>16.7%</td>
</tr>
<tr>
<td>Reduce all operating expenses</td>
<td>12.3%</td>
</tr>
<tr>
<td>Decreased market capitalization of the company</td>
<td>7.5%</td>
</tr>
<tr>
<td>Decreased number of employees</td>
<td>4.8%</td>
</tr>
</tbody>
</table>


The study mentioned previously also highlights the main effects of the crisis on the company, as follows: reduction of the sales revenue (reported by approximately 60% of firms surveyed), reducing the company's cash flow (56.6%), reducing the access to finance (41.7%), reducing opportunities to enter on new markets (41.8%), and reducing investment opportunities. In the context of the significant deterioration in economic activity and hence the financial situation of SMEs has been registered a significant increase in the rate of bad loans, which in June 2010 stood at 10.2% for loans secured by mortgages and 9.5% for unsecured loans with mortgages (see Figure no. 6). Compared to this for the larger firms the analyzed indicator recorded a much lower level, namely 3.3% for loans secured by mortgages and 1.5% for those unsecured [7, p. 107].
Figure no. 6: The evolution rate of bad loans granted to enterprises, depending on the type of credit guarantee, during December 2007 - June 2010 (in %)

![Graph showing the evolution rate of bad loans]


The adverse domestic macroeconomic developments and increasing the risk of bad loans and related guarantees have led banks to tighten lending standards (most notably, by requiring additional collateral), especially for SMEs, and to raise interest rates on loans (see Figure no. 7).

According to the survey on lending to non-financial companies and the population conducted by the National Bank of Romania [8] from the total number of credit institutions surveyed, over 90% reported increased risk of lending to SMEs and the deterioration of loan portfolio quality especially for micro and small firms. In the presented context, there was a reduction of both the supply and the demand for loans from the private sector, which led to a significant reduction in bank lending to the private sector (see Figure no. 7).

Figure no. 7: The evolution of bank credit granted to the private sector and of the interest rates, during December 2007 - May 2010

![Graph showing the evolution of bank credit and interest rates]

Regarding the supply of bank loans, it’s reduction reflects the banks’ increasing aversion to risk even though the central bank adopted measures to re-launch the lending activity (e.g. Lowering the ratios of the minimum reserve required applicable to domestic and foreign currency liabilities of credit institutions, lower the interest rate of monetary policy, the amendment of certain provisions of bank prudential rules) [7, p. 38]. The demand for credit, especially for micro and small firms, was determined not only by tighter lending standards, diminishing their ability to leverage, but also by the uncertainties about the evolution of the economic environment.

The deterioration of the financial situation of SMEs and hence the quality of bank loan portfolio has determined the intensification of the bank loans restructuring process, which was started both at the request of the debtor enterprises and on banks' own initiative. Thus, in late 2009, the share of loans restructured in the total loans granted to non-financial enterprises stood at 10%, and SMEs held an overwhelming share of 85% on total restructured loans [7, p. 105].

Given the extremely negative implications of the current crisis on SMEs, as well as their important role in national economies, public authorities from different countries including Romania reported a series of measures aimed at facilitating the access of this sector to bank loans.

According to OECD studies, among the measures taken by public authorities in many countries to improve the access to bank loans of SMEs this have a significant importance: the creation and extension of guarantee schemes for loans to SMEs, or when that fails, direct public lending; on the discipline or sanction side, setting targets for SME lending from banks that have been recapitalized by public monies, putting them under administrative monitoring or putting in place specific procedures to solve problems between individual SMEs and banks. [12, p. 30]. Although, the European Commission gave a significant importance to the adoption of measures meant to support the access to finance of the SMEs. The main measures envisaged by the Commission include: the granting of a limited amount of aid, aid in the form of guarantees, aid in the form of subsidised interest rate, aid for the production of green products, risk capital measures. These additional measures can be granted by the EU member states to SMEs, as well as to large enterprises, for a limited time period, respectively until December 31, 2010. By implementing these measures, the EU states primarily aim at unblocking bank credits for enterprises and at encouraging them to make investments.

In Romania, the adopted measures of the government to improve the access to finance, including to bank loans of SMEs are: CEC and Exim Bank capitalization to support SMEs, the establishment of the Counter-guaranty Credit Fund for SMEs, additional capitalization of National Credit Guarantee Fund for SMEs, providing government guarantees for the beneficiaries of the projects financed from structural funds in priority fields for Romanian economy, state aid granting.

The extremely serious effects of the current crisis over the access to finance for enterprises in Romania led to increased concerns for the signing of partnerships between the banking and business sectors, aimed mainly to identify and promote solutions for the financing of SMEs during the crisis.

5. Conclusions

The easy access to finance of enterprises in general and of SMEs in particular is of crucial importance, because it conditions their creation, survival and development, and eventually, the economic growth and the creation of workplaces.

In the external financing resources of SMEs in Romania, bank loans have an overwhelming share because these companies have fewer funding options than large firms.
Dependence on the banks of SMEs (particularly of micro and small enterprises) makes this to be affected significantly while there is a reducing of the volume of loans granted by banks.

The current global economic crisis adversely affected the real sector from Romania, registering a significant decrease in GDP, a decrease of the net earning from the economy and a substantial increase in unemployment. The damage to domestic macroeconomic conditions, the increased rate of non-performing credits and increasing the risk associated to guarantees led banks to tighten lending standards, particularly by requiring the additional mortgage guarantees and by interest rates increase. In this context, there was registered a significant decrease in the supply and demand for bank loans, which have led to sharp reduction in the volume of lending by private banks.

The measures adopted by public authorities in improving SME access to bank loans, and the partnerships between banks and businesses environment have not resulted, so far, only a timid recovery (slow) of bank lending.

The significant revival of bank lending depends significant on the expectations of the improvement in overall economic situation, the real economic recovery, which in turn is conditional on improved access to finance for the SME sector.

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FINANCING OPPORTUNITIES TO START-UP SMES IN THE CENTRAL AND EASTERN EUROPEAN COUNTRIES

Rusu Valentina Diana
PhD Student, “Al. I. Cuza” University of Iași

ABSTRACT

Any organization needs financial resources to enable it to carry out its activities. The needs of financial resources can be experienced at any time in conducting a business. From all the companies operating in the Central and Eastern European markets the start-ups SMEs are facing the greatest financial difficulties.

To help these businesses the Central and Eastern European countries try to provide a range of facilities which aim to support project implementation for start-ups.

In the first part of this paper we will identify the needs for financial resources of start-up SMEs in the Central and Eastern European countries. Then, in the second part of the paper we will seek to highlight the involvement of venture capital in financing start-ups in various countries and measures taken by national authorities to stimulate this form of financing.

In the third part of the paper we will consider the measures adopted by the Central and Eastern European countries to support the creation of new SMEs through various loan and guarantee facilities. In addition we will also consider the help from the European Bank for Reconstruction and Development as well as the measures taken by national authorities to support the start-ups.

Keywords: start-up SMEs, venture capital, one-stop-shop

Introduction

Small and Medium-sized Enterprises are often faced with many problems in the start-up stage. Most of them can not escape the fate of death in this period. Starting up a business is really challenging. It is not enough for a person to have a good business idea. Neither is it enough to just be able to produce or manufacture a product or a service idea. A start-up SME should plan his budget, staff and strategize them accordingly to be a success.

All over the world, SME organizations have a high rate of death and short-lived trend. For example, the United States each year register 600,000 SMEs, among which only 300,000 SMEs live to 1.5 year, and less than 1% can last for 10 years. Compared, the newly created European enterprises have a 68 % chance of still being in the market after two years.

One significant barrier to more entrepreneurs has been the time taken and the costs involved in the administrative procedures to start up and run a small enterprise. After that, the next problem faced by start-up SMEs is the availability of financial resources which they need to conduct their business. In the current context, the financial crisis adversely impacts most of the SMEs reducing the development rate and increasing the number of bankruptcies. Start-ups in particular are most vulnerable, lacking the resources to survive the downturn.

Europe needs more enterprises and especially SMEs because they are the engine of the European economy, and about 97% of the European companies are SMEs. So, both the
European Union globally, and individual countries particularly adopt various measures to support the establishment of new SMEs and to provide financial resources they need to start their activity.

1. Financial needs of start-up SMEs in CEE

Start-up SMEs often face both a lack of credit history and a lack of the necessary guarantees for a loan, so they have a high risk that most financial institutions are not prepared to assume. As a result, start-up SMEs typically use informal sources of external funding and rely on owners' personal savings and loans from them to finance their operations.

When a newly established firm manages to obtain a loan, the lender must ensure that the borrower is able to effectively organize its available resources to generate profitable revenue quickly enough to survive and to repay the received loan. For a granted loan to a start-up SME, the own capital of the firms plays an important role because the lender wants to ensure that the borrower has sufficient cash reserves to meet unforeseen expenses or an unexpected slowness of the sales.

The start-up phase of a business can always generate many unforeseen expenses. In addition, the debtor's financial forecasts will be analyzed carefully, because there are no previous records that can be compared. Also, the owners of newly established enterprises should expect to encounter significant difficulties in securing financial resources in the first stage of company life.

2. Financing start-ups with venture capital in CEE

Venture capital is a subset of a larger private equity asset class which includes seed, start-up, expansion, growth, buyout, bridge and mezzanine investment. A venture capital investment is a form of professional equity which is invested in unlisted companies together with the entrepreneur in order to provide seed or start-up capital, or to fund an expansion of the business [7, p. 18].

Although an entrepreneurial culture has slowly been developing in CEE over the past decade as the region has seen significant growth, the venture capital industry is still so small that many investors ignore it.

The persons who want to start-up a new business usually apply for the traditional method to raise capital, meaning bank loans. Also, some government grant programmes do exist for small companies, but these funds available are too insignificant, especially taking the lengthy bureaucratic process into consideration that entrepreneurs have to go through to secure some of that capital. But now they can access angel networks and apply for venture capital. Most venture capital investors are international firms that have started looking at the region but there are also some local managers.

In CEE, the attitude towards starting an own business is somewhere between what it is in the US and Western Europe. There is less fear of failure than in Western Europe, which is commonly regarded as one of the reasons why venture capital in Europe has not yet produced substantial returns. In CEE, the entrepreneurs are more daring, more risk-taking, compared with the more conservative views prevalent in the West. So, the venture capital it is still just in its early stages of development in CEE.

More, it is still pretty much impossible to secure financing for an early stage of a company in CEE from a venture capitalist because the funds in this region tend to focus more on the later stages of the companies.

Venture capital has a long way to go in CEE but there are many encouraging signs for future growth. There is still just not enough capital available for early stage investment. To
support venture capital development there are required a series of measures such as tax incentives for venture capital investors. These do exist in some countries but they need to be assessed and adapted to actually what they are meant to do: attract investors from outside a country and motivate local investors to set up companies and venture capital funds.

Looking at CEE by country, Poland has been the favourite destination for much of the venture capital invested in the region. Some investors now feel it is getting a bit overcrowded and other countries could soon become or have already become better destinations for venture capitalists.

A trend of the investment in venture capital in CEE countries between 2007 and 2009 can be seen in the table below:

**Table no. 1** Stage of investment in CEE, 2007-2009 (in thousand euros)

<table>
<thead>
<tr>
<th>Stage of investment</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Number of companies</td>
<td>Amount</td>
</tr>
<tr>
<td>Seed</td>
<td>3,296</td>
<td>7</td>
<td>4,305</td>
</tr>
<tr>
<td>Start-up</td>
<td>22,497</td>
<td>33</td>
<td>27,124</td>
</tr>
<tr>
<td>Later-stage venture</td>
<td>68,519</td>
<td>42</td>
<td>94,407</td>
</tr>
<tr>
<td><strong>Total venture</strong></td>
<td><strong>94,312</strong></td>
<td><strong>81</strong></td>
<td><strong>125,837</strong></td>
</tr>
</tbody>
</table>

*Source: processed data after EVCA Central and Eastern Europe, *Central and Eastern Europe Statistics*, 2009, p. 13*

**Table no. 2** Type of investment by CEE country, 2007-2009 (in thousand euros)

<table>
<thead>
<tr>
<th>Year</th>
<th>Bulgaria</th>
<th>Poland</th>
<th>Romania</th>
<th>Slovakia</th>
<th>Slovenia</th>
<th>Hungary</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seed</td>
<td>0</td>
<td>2,483</td>
<td>0</td>
<td>0</td>
<td>377</td>
<td>0</td>
</tr>
<tr>
<td>Start-up</td>
<td>0</td>
<td>3,321</td>
<td>0</td>
<td>0</td>
<td>104</td>
<td>2,083</td>
</tr>
<tr>
<td>Later-stage venture</td>
<td>3.322</td>
<td>40.267</td>
<td>1.327</td>
<td>0</td>
<td>0</td>
<td>13.399</td>
</tr>
<tr>
<td><strong>Total venture</strong></td>
<td><strong>3.322</strong></td>
<td><strong>46.070</strong></td>
<td><strong>1.327</strong></td>
<td><strong>1.240</strong></td>
<td><strong>481</strong></td>
<td><strong>15.482</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Bulgaria</th>
<th>Poland</th>
<th>Romania</th>
<th>Slovakia</th>
<th>Slovenia</th>
<th>Hungary</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seed</td>
<td>0</td>
<td>4.003</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Start-up</td>
<td>3.771</td>
<td>10.660</td>
<td>5.551</td>
<td>0</td>
<td>500</td>
<td>2.017</td>
</tr>
<tr>
<td>Later-stage venture</td>
<td>3.397</td>
<td>35.687</td>
<td>3.984</td>
<td>0</td>
<td>2.353</td>
<td>22.900</td>
</tr>
<tr>
<td><strong>Total venture</strong></td>
<td><strong>7.168</strong></td>
<td><strong>50.350</strong></td>
<td><strong>9.535</strong></td>
<td><strong>0</strong></td>
<td><strong>2.853</strong></td>
<td><strong>24.917</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Bulgaria</th>
<th>Poland</th>
<th>Romania</th>
<th>Slovakia</th>
<th>Slovenia</th>
<th>Hungary</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seed</td>
<td>0</td>
<td>1.100</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Start-up</td>
<td>1.600</td>
<td>0</td>
<td>4.170</td>
<td>0</td>
<td>900</td>
<td>1.255</td>
</tr>
<tr>
<td>Later-stage venture</td>
<td>1.275</td>
<td>634</td>
<td>0</td>
<td>0</td>
<td>776</td>
<td>362</td>
</tr>
<tr>
<td><strong>Total venture</strong></td>
<td><strong>2.875</strong></td>
<td><strong>1.734</strong></td>
<td><strong>4.180</strong></td>
<td><strong>0</strong></td>
<td><strong>1.676</strong></td>
<td><strong>1.617</strong></td>
</tr>
</tbody>
</table>
Analyzing the data in Table no. 1 we see that the number of start-up enterprises that have turned to venture capital in 2008 compared to 2007 increased from 33 to 48, as well as the amounts invested in this type of financing. In 2009, however, we see a drastic reduction in the number of newly established companies that have used venture capital and in the amounts invested in this direction. This regression may have occurred due to the manifestation of the current financial crisis, because we see that also the number of firms in other stages of development (seed or later-stage) that turned to venture capital has decreased.

To make a comparative analysis on the number of the start-up SMEs that have turned to venture capital in the six countries considered in the analysis we can see the data from Table 2. Analyzing this table we see that Poland is indeed the country with the largest venture capital investment to finance companies, and in 2007 and 2008 it was the country with the largest amounts of financing with venture capital for start-ups of the six countries. In 2009, however, no newly established company was financed by venture capital in this country. Moreover, in 2009 we see that the total amount of venture capital invested in start-ups is much smaller than in the other two years for all countries analyzed.

Venture capital had a difficult year in 2009. The economic crisis has clearly taken a toll on the sector. Especially the early-stage segment, which is crucial for innovation, seems to be suffering. Also, compared to 2009, investments in 2010 are now down by a third. The immediate outlook for venture capital activity in Europe remains bleak.

3. Measures adopted by the Central and Eastern European countries to support start-ups

There are evidences that heavy, expensive and time-consuming administrative procedures to start and run a small firm are a significant disincentive to too many people who want to become entrepreneurs. There is also known that countries with lesser administrative burdens in the procedures required to create a company (cheaper and faster start-ups) have greater numbers of business start-ups.

A study conducted by the European Union in 2001 revealed that: the average time to start-up a company in the EU 15 was 22 days and the cost € 827. To remedy this situation and to help those who wish to establish a new SME the Spring European Council from 2006 adopted these measures: "The Member States should establish, by 2007, a one-stop-shop, or arrangements with equivalent effect, for setting up a company in a quick and simple way. Member States should take adequate measures to considerably reduce the average time for setting up a business, especially an SME, with the objective of being able to do this within one week anywhere in the EU by the end of 2007. Start-up fees should be as low as possible and the recruitment of a first employee should not involve more than one public administration point. [1, p. 9]"

In 2007 and 2008 both times and costs to start-up a business have been reduced in many countries. Also, most countries have established a one-stop-shop or equivalent arrangement even though in some cases they do not cover all types of companies. However, starting a business requires more than mere registration and there are still vast differences between Member States in terms of the number, cost and length of procedures required.

The changes made at the European Union level, since 2007, can be summarized as follows:

- in 2007 the average time to start-up a private company was 12 days, and the cost was 485 euro;
- in 2008 the average time to start-up a private company was reduced to 9 days and it cost 463 euro;
- in 2009 the average time to start-up a private company was reduced again to 8 days, and the cost has reached the level of 417 euro.

Also, if we analyze the situation in each country from the six countries analyzed we observe which individual changes were made. For example Bulgaria has consolidated a start-up procedure streamlining the process initiated in 2008 in which nine start-up procedures were merged and simplified into just one. This has led to a considerable time reduction. But, streamlining of processes in Hungary and Slovakia has also contributed to some time reductions in those countries.

The December 2008 Competitiveness Council adopted "The Council's Action Plan for a Small Business Act for Europe" which included a number of concrete measures to support SMEs. Among these it asked Member States to bring down start-up times to three working days. Compared to the previous benchmark that was one week (five working days).

Although there were required the improvements in times to start-up a company, this new three day benchmark means that only nine countries comply on this count (thirteen was complying on in 2008 when the benchmark was five days).

The member states that fully comply with all three objectives (one-stop-shop, time and cost) from the six countries analyzed are Slovenia, Romania and Hungary as can be seen in the table below:

Table no. 3 Country to country assessment regarding one-stop-shop for start-ups

<table>
<thead>
<tr>
<th>Country</th>
<th>One stop shop to start-up a company</th>
<th>Fully operational</th>
<th>Time required to start-up a company</th>
<th>Cost to start-up a company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>Registry Agency</td>
<td>YES</td>
<td>3-7</td>
<td>56 euro</td>
</tr>
<tr>
<td>Poland</td>
<td>Tax Offices</td>
<td>NO</td>
<td>20-23</td>
<td>369-488 euro</td>
</tr>
<tr>
<td>Romania</td>
<td>Counties Trade Registers</td>
<td>YES</td>
<td>3</td>
<td>100-125 euro</td>
</tr>
<tr>
<td>Slovakia</td>
<td>Trade licence offices, companies register</td>
<td>NO</td>
<td>12</td>
<td>335 euro</td>
</tr>
<tr>
<td>Slovenia</td>
<td>VEM</td>
<td>YES</td>
<td>3</td>
<td>0 euro</td>
</tr>
<tr>
<td>Hungary</td>
<td>County Courts</td>
<td>YES</td>
<td>2</td>
<td>392 euro</td>
</tr>
</tbody>
</table>

Source: processed data after Start-up procedures: progress in 2009. (http://ec.europa.eu)

Notes:
* NO it means that the services offered by the one-stop-shop are not sufficient so we can consider it fully operational one-stop-shop
- The numbers in red box are for the countries that do not comply with the targeted objectives

The entrepreneurs from Romania have little access to finance other than from family members or sources beyond the financial sector that can charge very high interest rates. There are still not enough banks in Romania which are willing to lend to micro and small enterprises (MSEs) due to seemingly increased risks associated with the sector.

The microfinance market in Romania is estimated to be worth over 0.5 billion of euro. Commercial banks meet 55% of the microfinance market demand, 15% of the market is met by non-bank micro finance institutions and at least 30% of the market remains uncovered. The proportion of uncovered market in rural areas as well as lending to start-up SMEs is likely to be much higher. In general, for the proportion of the micro, small and medium-sized enterprises per inhabitant, Romania is estimated to have about 13.6 active MSMEs per 1,000 inhabitants, which is less than half of that of neighbouring Bulgaria (27.6 MSMEs per 1,000 inhabitants).
inhabitants) and even less than when compared to Hungary Slovakia and Slovenia (42.7 MSMEs per 1,000 inhabitants).

To sustain these enterprises was established the Romania Micro Credit Facility that provides loans to local banks and non-bank micro finance institutions to lend to the smallest enterprises, sole entrepreneurs and farmers. This new facility is financed with 40 million euros from European Bank for Reconstruction and Development. Also, to encourage lending institutions to finance more start-up SMEs a total of 3 millions of euro coming from the European Union and the Romanian government has been assigned for the risk-sharing facility to support lending to start-up micro businesses [2].

Regarding Bulgaria the EBRD was the main provider of finance throughout all areas of the Bulgarian economy. In the context of the current financial crisis the access to finance for SMEs has been tightened so the Bank extended an SME credit line worth 50 million euro to UniCredit Bulbank to sustain this sector but also to stimulate the creation of new SMEs [4].

In Poland the EBRD extended a 100 million euros medium-term credit line to Bank Millennium to sustain lending to small and medium-sized enterprises. Also, Europejski Fundusz Leasingowy, the largest leasing company in the country, benefited from an EBRD loan worth up to 70 million euros for the provision of leases to micro, small and medium businesses [3].

Conclusions

From those presented above we observe that when an entrepreneur wants to establish new SME he is facing many difficulties, starting from the cost and the time required to start-up a company and reaching to the possibilities of purchasing the necessary resources for financing the business. But to support start-up SME Central and Eastern European countries make significant efforts. Moreover, the European Union set the need to establish a one-stop-shop to reduce the time necessary for setting up a new business but also to reduce the initial costs.

Regarding the financing we observe that increasingly more and more start-ups may benefit from new facilities such as venture capital, though not used too much in CEE have real growth opportunities in the future. EBRD comes also to help SMEs through establishing of a new series of credit facilities to stimulate local banks to provide easy loans to start-up SMEs. From the performed analysis, we also observed the impact of the current financial crisis on the start-up SMEs which are more vulnerable to the lack of financial resources on the market than companies that already have market experience.

In conclusion Central and Eastern European countries should support the establishment of SMEs because they are the engine of the economy and they ensure its proper functioning and growth.

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SOURCES OF FUNDING FOR EDUCATION IN DEVELOPING COUNTRIES

Ţopa Roxana-Elena, PhD student, "Alexandru Ioan Cuza" University of Iaşi

ABSTRACT

All over the world, access to education is widely recognized as a basic human right. In all countries, a large portion of national resources, both public and private, are devoted to education. Education funding comes from many different sources. Adequate levels of expenditure lead, all other things being equal, to optimum educational outputs and outcomes. Although there is not a certain adequate level of resources that a country should devote to education, the actual level of resources a country invests helps determine the quantity and quality of education received by its children. A good education financing system generates an adequate level of funding while promoting efficiency and equity.

Keywords: education, financing, resources, equity, budget.

Today, access to education is widely recognized as a basic human right. In recent decades, education has been a key area of policy focus for governments, given the widely accepted view that it generates positive externalities - benefits not only for individuals concerned, but also for society. In all countries, a large portion of national resources, both public and private, are devoted to education. The rationale sustaining this fact is compelling. A quality education, beginning with primary education, is fundamental to endow individuals with the capacity to successfully pursue their private goals, while at the same time equipping them with the knowledge and skills necessary to contribute to the economic, social and political development of their societies [5].

States face the difficult choice of budget allocation among other basic social services, such as health and infrastructure, as well as different levels of education from early childhood up to university. In effect, whether in the form of direct tuition fees to schools or indirect fees like supplies and uniforms, household contributions have become essential components of overall education financing in most countries. High levels of user fees raise equity concerns as they inevitably impose a barrier to access for the poor who cannot afford to pay for services, unless strong systems for subsidies and state payments are in place. However, moderate levels of fees targeting the non-poor can be crucial resources for the expansion of services and its prevalence points to the existence of some level of private demand and willingness to pay for education, which may not be surprising as education has private benefits that accrue to individuals [4].

In developing countries, education funding comes from many different sources. The total level of funding a country dedicates to education is the result of the total level of funding provided by each one of these sources [2]. The main sources of education finance are the following:

1. Public finance, which refers to the total of the resources allocated and spent in education by the various levels of governments (central, regional and local), as well as by public educational institutions. They represent, on average, the bulk of national educational expenditure or about 80% or so of the total. In different countries, the participation in total public education financing of the various government levels varies widely.
2. **Private sources of finance**, which represent, on average, close to 20% of total national educational finance. In some countries, however, they represent a significant share of resources and even the larger portion of total educational expenditures. Private sources include, in general, mostly households, but also communities, civil society organizations and the private sector. With few exceptions, households pay for the overwhelmingly largest share of total private financing. They do so by incurring both direct and indirect costs. Direct costs include tuition fees, transportation to and from school, uniforms, teaching materials and so on. Indirect costs are those that are not directly incurred by the household, but instead indirectly as the opportunity cost of having their children in schools instead of working and earning an income.

3. **International sources of finance**, including loans, which represent about 2% of total educational expenditure by developing states.

Countries need, generally, to look inwards to search for more abundant sources of funds. There are some exceptions. Small economies and least developed countries may benefit from more significant external sources of finance. Still, with few exceptions, national resources are the key to educational spending.

In all developing countries, governments face persistent constraints in ensuring the financing and provision of services of sufficient quality in an equitable manner. As a result, there has been increasing call for a wide range of private providers, whether it is for-profit entities, non-governmental, community-based or faith-based organizations, to play an active role in education. Fees in education are not only common, but they also represent as much as 20 percent of all education spending in many developing countries. The growth of the private sector has been fuelled, on the one hand, by conscious policy design and, on the other hand, by voluntary, demand-driven factors related to increased access and better quality education. The private sector has come to play a significant role in providing education to the poor.

The importance of private financing of education is such that, without it, educational resources would be seriously reduced in most countries and the outputs and outcomes produced by the education system significantly diminished. Countries that have been effective in mobilizing private sources of funds enjoy more resources per student spent by taxpayers than those who have not and rely exclusively on public sources. Private sources can and should make a fundamental contribution to education financing in all countries. The lesson for policy-makers is clear: efforts must be made to mobilize private sources of finance so as to increase availability of much needed funds. This is especially urgent in countries where governments already spend a relatively large portion of the public budget on education. However, charging tuition fees and other direct costs to families need to be weighed carefully for their consequences over equity, but also over access to education.

Community management is essential and family engagement and support of schools is often a sign of their health. What is clear, however, is that no children should be excluded from education due to an inability of their families to pay fees or make mandatory contributions [4]. Concerns regarding quality of education contribute to this debate, as experiences of fee abolition from many countries show that expansion of coverage without complementary investments in supporting mechanisms has negative effects on overall quality of education due to overcrowding, limited supply of trained teachers, etc.

If we look at the current state of education systems in Europe we can see many positive trends. Participation rates in pre-primary education have increased. As part of efforts to ensure that young people acquire core competences, there has been a rise in the number of years of compulsory education, and some countries require pupils to continue beyond the compulsory age in order to obtain a certificate of basic education. Higher education has seen a massive rise in the number of students, in particular in the younger age groups and female students. In the EU-27, the share of GDP given over to education has largely remained stable.
and some countries have even increased social investments in human capital over the last years [1].

On the other hand, many challenges remain. Ensuring wide and equitable access to pre-primary education as well as increasing equity of overall skill levels of pupils in compulsory education are at the forefront. The education and training of teachers continues to be a crucial element in improving the quality of teaching and learning at all levels of education systems. Demographic and social changes such as the projected decline in the school age population or the increase in the rate of the student population have far reaching consequences that point to the need to rethink and modernize the structure and functioning of education systems. Establishing sustainable and efficient funding mechanisms is clearly another challenge.

Education systems in many of the world’s developing countries are experiencing the aftermath of a crisis that originated in the financial systems of the developed world. National budgets have a vital role to play in preventing the financial crisis from turning into a long-term human development crisis. Rich countries have put in place large-scale fiscal stimulus packages aimed at supporting economic recovery and protecting vital social and economic infrastructure. Unlike developed countries, where education has been seen as a priority area for public spending, most low-income developing countries lack the capacity to mobilize financing on the scale required to maintain public spending in priority areas. They desperately need an increase in concessional development assistance to provide breathing space to cope with the crisis and maintain spending plans in education and other areas. These countries themselves can do a great deal to mobilize more resources for education. But in the absence of a step increase in aid, efforts to accelerate progress in basic education will be held back by a large financing gap [6].

Today, very many countries regard the education of modern man as an exceptionally difficult problem, and all countries regard it as one of the greatest importance. Serious anomalies appear where the educational systems have been set up only recently, and are copied from foreign models - usually the case in developing countries. These models are adapted neither to their needs nor to their problems. Their investments in education have become incompatible with their financial possibilities. The production of graduates is greater than the capacity of their economies to absorb them, giving rise to unemployment among certain particular groups. This is the kind of situation which calls for an effort by the better-endowed nations in favour of solidarity. The less-developed countries could not, alone, find the necessary capital; the developed countries would therefore have to help, in new, but specific ways [2].

Increasing educational expenditure, nevertheless, is not a panacea. Increments in education spending do not translate automatically into improved outputs and outcomes. Under conditions of low system efficiency or high inequities or poor system organization, increasing spending may well prove to be "the wrong medicine for the country’s educational ailments" [5]. When spending more resources in education, other factors also need to be in place for the system to respond properly, so the intended educational goals are actually achieved.

The overall finding is that simple resource policies - such as reducing class sizes, increasing teacher salaries, spending more on schools - have little consistent impact on student performance when the overall institutional structure is not changed. This does not say that spending never has an impact. In fact, there is reason to believe that some basic resources in the least developed schools - such as providing textbooks for all students - have a reliable impact. But these situations have been documented just in the poorest schools and, even there, just in limited areas. There is also evidence that some schools use added resources better than others, although research does not characterize these different situations well enough to build them into overall resource policies. When asking how education policies in developing countries can create the competencies and learning achievements required for their citizens to
prosper in the future, the binding constraint seems to be institutional reforms, not resource expansions within the current institutional systems. For educational investments to translate into student learning, all the people involved in the education process have to face the right incentives that make them act in ways that advance student performance [3].

To conclude, although there is not a certain adequate level of resources that a country should devote to education, the actual level of resources a country invests helps determine the quantity and quality of education received by its children. A good education financing system generates an adequate level of funding while promoting efficiency and equity aimed at optimizing the distribution of education quality and its benefits among the members of society. Adequate levels of expenditure lead, all other things being equal, to optimum educational outputs and outcomes, while allowing for a balanced pursuit of other, competing social goals.

Whenever considering the amount of resources a country should spend in educating its children, policy-makers should keep three basic principles in mind. First, the level of expenditure needs to be adequate to achieve whatever education sector objectives and broader national goals have been set, within national resource constraints. Further, levels of expenditure need to be sustainable for education policies to have a lasting impact. Unsustainable increases in the level of educational expenditure tend to reduce efficiency and hurt access to quality education. Finally, the provision of additional educational resources should never be used as a substitute for efficiency, an instrumental goal that, together with equity, should always be assigned priority.

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ECB MONETARY POLICY CONSISTENCY AND INTERBANK INTEREST RATES FORECASTS

GIOVANNI VERGA
Full Professor of Monetary Economics, University of Parma
giovanni.verga@unipr.it

ABSTRACT
The European Central Bank has often declared that it has two main monetary policy tools: the official interest rate (Repo) and its communications to the public (the monthly President’s Conferences above all). In this paper an ECB’s reaction function formed by a system of two non-linear equations is employed to explain both ECB’s Repo and communications, and to verify if the two policy instruments are used consistently. It turned out that the estimated system is particularly robust, and the consistently is proved. During the financial crisis, however, also an index of monetary market risk must enter the equations in order to maintain the other parameters stable. By employing those two monetary policy tools as regressors, along with risk and liquidity, a good deal of the future changes in the interbank interest rates can be explained. During the crisis such forecasts are much better than those obtained by applying the usual term structure theory.

Keywords: monetary policy, communications, crisis, forecasting and simulation
JEL Classification: E17, E51, E58, G01,

1. Introduction
The European Central Bank has always attached great importance to both the official interest rate and its communications about the monetary policy stance. In many papers a sort of Taylor Rule for the ECB have been estimated (Gerlach-Kristen P, 2003), (Sauer and Sturm , 2003), (Carstensen. 2006), (Belke and Klose, 2009), (Forte, 2009), and, in others, the influence of its communications on market expectations and market interest rate behaviour has been taken into consideration (Gerlach, 2007), (Rosa and Verga, 2007 and 2008), (Blinder et al, 2008), (Sturm and de Haan, 2010). However neither an ECB’s reaction function based on communications as well on official interest rate has ever been considered, nor the effects of the 1% minimum Repo level and all other monetary policy constraints. The aim of this paper is to fill this gap by estimating a system of equations valid for the whole period 1999-2010, one for the official interest rate (the so-called Repo) and the other for communications, with some ECB’s behaviour constraints explicitly taken into account. After that, the official interest rate and a communication index are used for explaining and forecasting the interbank monetary interest rate before and during the crisis.
Our main results are the following: (i) ECB employs its two instruments consistently and our model estimations are fairly robust; (ii) the variables to be considered are more numerous than those of a simple Taylor Rule, among which there is a measure of the interbank market risk; (iii) the large amount of liquidity introduced in the banking system after October 2008 is justified by the inability of the traditional monetary policy to face the crisis; (iv) the impact of both Repo rate and communications on the interbank market interest rate is the same before and during the crises; (v) communications played a central role on interest rate expectations even during the crisis.

2. The relevance of communications
The ECB considers all information about its inflation goal, as well as on the future path of the official interest rate, particularly relevant for market expectations
The two types of information are, however, of a different nature. The ECB’s information about inflation is referred to the medium-long term and can be identified with its one-for-all definition of price stability: “The ECB has defined price stability as a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area ... of below, but close to, 2% over the medium term.” (ECB, 2010).

But the ECB explained clearly (ECB, 2002) that also the short-medium term expectations about the future monetary policy is of a particular relevance owing to their impact on the monetary market interest rates of all maturities.

More recently, Jean-Claude Trichet (2008), President of the ECB, in a speech given in London, explicitly stated that “A central bank has two instruments (...) which are not substitutes, but rather complement each other” and he was clearly referring to the official interest rate as well as to communications. In fact he added “The introductory statement at the monthly press conference after the first Governing Council meeting in each month is an important vehicle of our communication (...). It explains in depth the view of the Governing Council on the monetary policy stance.” “There is compelling empirical evidence indicating that the ability of financial market participants to correctly anticipate the next monetary policy decision is – both in absolute terms and relative to other central banks – remarkably high.”

From the above quotations, it is clear that ECB’s communications are an important source of information about the future path of monetary policy, i.e. on the future path of Repo (the EMU official interest rate).

But in order to be so informative, “deeds” (the Repo movements) must follow “words” (the information conveyed by the ECB communications – apart, of course, if some unexpected events prevent the central bank to do what previously announced). And this implies that both communications and official interest announcements must derive from a unique economic analysis conducted by the monetary authority: both words and deeds must be explained by the same reaction function.

One problem to be faced when studying communications empirically is that they must be expressed in some quantitative index in order to apply the usual econometric tools. Some index related to the content of official communications are however available, and in this paper the Rosa-Verga (2007, 2008) index has been employed. This index summarizes the monthly President’s Press conference content and ranges from -2 (a very likely Repo decrease in the near future) to +2 (a very likely increase). The value 0 indicates a Repo probably unchanged for some months. This information is relevant for market expectations and, therefore, for the short to medium-term interest rates: in fact the monthly press conference starting 45 minutes after the decision on the Repo is considered by the ECB itself the main source of information about the future monetary policy (ECB, 2002).

3. The model

Suppose now that the equilibrium level of the official interest rate (Repo in case of ECB) is explained by some variables x_t known in t, the moment of the central bank decision, and suppose that, as usually, the bank follows a partial adjustment scheme in fixing its interest rate (Clarida et al, 1998):

\[ \text{Repo}_t^* = \alpha x \]  

\[ \Delta \text{Repo}_t = \lambda (\text{Repo}_t^* - \text{Repo}_{t-1}), \] from which

\[ \text{Repo}_t = (1 - \lambda ) \text{Repo}_{t-1} + \lambda \text{Repo}_t^* \]
The communication content $Word$ measured by the Rosa-Verga index must reflect the future path of the official interest rate and, therefore, must be related to the difference between the equilibrium Repo* level and its actual value $Repo_t$ decided by the ECB’s governing council at 13.45 on day $t$:

$$Word_t^* = h (Repo_t^* - Repo_t)$$

(4)

In practice, since the European Central Bank does not often change its most relevant keywords, a partial adjustment model seems appropriate also for this variable:

$$Word_t = (1-\eta) Word_{t-1} + \eta Word_t^* = (1-\eta) Word_{t-1} + \eta h (Repo_t^* - Repo_t)$$

(5)

In order to make our equations more consistent to the ECB’s actual behaviour, some constrained have been added to equations (3) and (5) that constitute the basis for our analysis:

(i) Constraints about the official interest rate $Repo$:

The interest rate determination obeys the rule $Repo_t = (1 - \lambda) Repo_{t-1} + \lambda Repo_t^*$ if and only if its value is greater or equal to the minimum Repo value ($Repo_{MIN}$) the Central Bank has actually fixed (i.e. 100 bps, reached in May 2009), otherwise it corresponds to $(1 - \lambda) Repo_{t-1} + \lambda Repo_t^*$ only if its value > 1. Moreover, if in $t-1$ ECB has announced that the actually stance of the interest rate is appropriate ($Word=0$), the Repo should remain unchanged in $t$:

if $[(1 - \lambda) Repo_{t-1} + \lambda Repo_t^*] \geq Repo_{MIN} \Rightarrow Repo = [(1 - \lambda) Repo_{t-1} + \lambda Repo_t^*]$ (6)

if $[(1 - \lambda) Repo_{t-1} + \lambda Repo_t^*] < Repo_{MIN} \Rightarrow Repo = Repo_{MIN}$ (7)

if $Word_{t-1} = 0 \Rightarrow Repo = Repo_{t-1}$ (8)

(ii) Constraints about the communication content $Word$.

The $Word$ variable obeys the rule $Word_t = (1-\eta) Word_{t-1} + \eta Word_t^* = (1-\eta) Word_{t-1} + \eta h (Repo_t^* - Repo_t)$ if and only if the level of Repo decided in $t$ is greater than the minimum value $Repo_{MIN}$, otherwise $Word$ cannot be negative:

if $Repo_t > Repo_{MIN} \Rightarrow Word = (1-\eta) Word_{t-1} + \eta h (Repo_t^* - Repo_t)$ (9)

if $Repo_t = Repo_{MIN}$ and $(1-\eta) Word_{t-1} + \eta h (Repo_t^* - Repo_t) \geq 0 \Rightarrow Word = (1-\eta) Word_{t-1} + \eta h(Repo_t^* - Repo_t)$ (10)

if $Repo_t = Repo_{MIN}$ and $(1-\eta) Word_{t-1} + \eta h (Repo_t^* - Repo_t) < 0 \Rightarrow Word = 0$ (11)

Since the Rosa-Verga ECB communication index ranges from -2 to 2 also the constraint that abs($Word$) cannot be greater than 2 has been included.

The vector $x$ of variables entering the ECB reaction function

A simple Taylor rule is known not to be appropriate in explaining the ECB’s decision process. Apart the Bank having stated that it does not follow a Taylor rule, and that the output
gap is not included in the set of variable it considers, a simple look to the President Press Conferences or the ECB Monthly Bulletin makes obvious that many variables are examined together before a decision.

In this paper following variables are employed in estimation the ECB’s reaction function. They are almost the already considered in a previous paper of mine with C. Rosa (Rosa-Verga, 2007) (their theoretical effect on the official interest rate is in brackets):

- **Inflation (+)**: differently from the above quoted paper, here it is taken into consideration the year-on-year increase in the consumer price index entering the ECB’s definition of price stability \((\text{INFL})\). Even if \(\text{INFL}\) is significant in both equations of the system, I also investigated if the magnitude of the impact of such variable on the monetary policy decisions is greater the greater is the spread between its actual value and the ECB target (2%). For this reason \(\text{INFL} \times \text{abs}(\text{INFL} - 2)\) was also introduced in the model instead of \(\text{INFL}\). The difference between the two estimations is however small, and I decided to use the simpler variables \(\text{INFL}\), even the more complex variables gave somewhat better results in terms of coefficient robustness.

- **A growth real sector index (+)**: since our data are monthly and GDP growth is quarterly and known with a long delay, the monthly “coincident” Eurostat Sentiment indicator index \(\text{EAESI}\) has been used (ad alternative would be the Eurocoin index).

- **Money growth (+)**: the money growth \((\text{GM3})\) employed in this paper is the 3-month moving average of M3 annual growth, the definition considered more important by the European Central Bank.

- **Exchange rate (-)**: even if the exchange rate is not an ECB’s target, the bank has declared that this variable is important as an indicator of future inflation. The annual growth \(\text{C$/€}\) of the exchange rate dollar/euro is used here.

- **An index of the risk in the interbank market (Risk) (-)**: this index is defined as the difference between the 1-month interest rate of the unsecured Euribor and the secured Eurepo markets. The hypothesis is that in case of an interbank market crisis the ECB tends to decrease the Repo.

For all variables the last data available at the moment of the governing council meeting have been used (real time data).

Differently from other analyses (e.g. Gorter et al, 2008), expectations about inflation and GDP growth were not found in our system of equations and were eliminated. When the quarterly data of the one- and two-years ahead expectations of the “ECB Survey of Professional Forecasters (SPF)” are included among the regressors, their coefficients were not significant even at the 10% probability level, apart from the GDP one- and two-years ahead expected growth, that are significant only in the Repo equation with sign of the coefficient of one-year ahead GDP growth wrong. When eliminating this variable, also the two-years ahead expected GDP growth becomes insignificant. Apart from these empirical results, there is also a theoretical reason against their inclusion as explanatory variables. If rational, inflation expectations are based on the expectation that the Central Bank will act to preserve price stability: as a consequence, inflation expectations are strongly influenced by the ECB’s inflation goal (an inflation rate below but near to 2%). As the SFP date show, however, inflation expectations are actually almost always near 2% (the two-years ahead expectations in particular), but this means that their value is usually consistent to the medium term price stability goal, and, therefore, the best policy they suggest to the ECB would be.... “do nothing since the target is already achieved!”.

### 4. The estimations

Our results, obtained by SUR, are reported in table 1: all coefficient signs are those suggested by the theory. The Wald test confirms that for any variable their coefficients...
entering the two equations explaining \textit{Repo} and \textit{Word} respectively are not statistically different at the 57\% of probability: the consistency between deeds and words cannot therefore be rejected. In system (2) the estimates correspondent to the null hypothesis of “same coefficients in both equations” are also reported.

Figure 1 reports the dynamic forecasting for both the key monetary policy variables (\textit{Repo} and \textit{Word}) starting from September 2007, i.e. soon after the financial crisis began. The vertical line correspond to October 2009, the first month after Lehman Brother’s default. During this month there were exceptionally two ECB’s meetings. The former on 2\textsuperscript{nd} October was the scheduled one; the latter, on 8\textsuperscript{th} October, was unscheduled and taken at the same time of the other most important Central Banks. The datum of \textit{Repo} included in our analysis refers to the 8\textsuperscript{th} October meeting, when it was reduced from 4.25 to 3.75\%. Both forecasts are very similar to their actual values, confirming that our model seems a good representations of what ECB actually did during the crises.

\begin{table}
\centering
\begin{tabular}{|c|c|c|c|c|}
\hline
System & \textit{Repo} & \textit{Word} & \textit{Repo} & \textit{Word} \\
\hline
\textit{coeff/variable} & (1) & (2) & (1) & (2) \\
\hline
\lambda & 0.085*** & - & 0.064*** & - \\
\eta & - & 0.389*** & - & 0.382*** \\
\eta_h & - & 0.330*** & - & 0.335*** \\
INF & 0.821*** & 1.048*** & 1.031*** & 1.013*** \\
EaESI & 0.146*** & 0.219*** & 0.210*** & 0.206*** \\
GM3 & 0.397*** & 0.609*** & 0.585*** & 0.588*** \\
\epsilon_{SI} & -0.060** & -0.078*** & -0.077*** & -0.077*** \\
Risk & -4.023** & -3.742*** & -3.749*** & -3.749*** \\
R^2(\text{adj}) & 0.986 & 0.899 & 0.986 & 0.899 \\
DW & 2.232 & 2.101 & 2.172 & 2.113 \\
\hline
\end{tabular}
\caption{Estimation of equations (3) \& (5)}
\end{table}

Estimation: SUR; equations: unlinear; period: 1999.01-2010.08, monthly data

\begin{figure}
\centering
\includegraphics[width=\textwidth]{repo_word_forecasts.png}
\caption{The dynamic forecasts of \textit{Repo} and \textit{Word} after the Lehman Brothers’ crisis}
\end{figure}

Figure 2 contains some simulations of the official interest rate obtained from the system (1) of table 1, along with the banking system liquidity (excess reserves plus deposit facilities with the Eurosystem minus marginal lending facilities). Simulations span from September 2007 to August 2010, and refer both to the equilibrium level \textit{Repo*} of the official interest rate, and the possible path of the actual interest rate \textit{Repo} in absence of its 1\% minimum

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If market expectations are strongly influenced by central bank communications, it must also be:

If Repo* became negative, and also the actual Repo should have become negative some month later after it reached its minimum level in May 2010. The right-hand-side of the same figure shows that the effect of the financial crises on the official interest rate was significant, but, after October 2008 most of the decrease was due to the other economic variables.

**Figure 3: Repo simulations from system (1) table 1**

All these simulations can contribute to justify the change in the ECB’s monetary policy after the Lehman Brother’s crises. With a negative equilibrium value of the official interest rate and no hope of an easy exit from the economic crisis, a policy based only on Repo and communications were to become, soon or later, ineffective. And actually, in October 2008 the European Central Bank decided to give up to its policy aimed to keep the short term interbank market near the official interest rate by maintaining the bank liquidity stable and near zero. The new policy, called “non-standard” (Governing Council, 2009) consists of increasing bank system liquidity by satisfying its entire demand in order to keep interbank interest rates low, and often below the official rate, and avoid episodes of credit crunch connected to the difficulty of banks in obtaining liquidity through the usual monetary interbank markets.

### 5. The interbank interest rates

From the previous analysis it turned out that the ECB used its two monetary policy instruments, deeds and word, in a consistently manner. If so, also interbank monetary interest rates should be strongly influenced by those two tools of ECB’s monetary policy.

In fact, if indebtedness with the central bank and interbank market loans are strictly substitutes, the usual expectation theory suggests that, in equilibrium:

\[
R_{n_t} = \text{Repo}_t + \{E_t[\Delta_1 \text{ Repo}_{t+1} ] + \ldots + E_t[\Delta_N \text{ Repo}_{t+N} ]\}/N + L
\]  

(12)

Where \( R_{n_t} \) is the n-maturity interbank interest rate at time \( t \), \( \Delta_j \text{ Repo}_{t+j} \) is defined as \( \text{Repo}_{t+j} - \text{Repo}_t \), \( L \) represent all other demand and supply variables. 

If market expectations are strongly influenced by central bank communications, it must also be:

\[
R_{n_t} = \text{Repo}_t + f(\text{Word}_{t+1}, \ldots) + L
\]  

(13)

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Where the dots represent other variables relevant for expectations but not considered here, and $L$ is strongly influenced by the monetary market risk ($Risk$) and the banking system liquidity ($Liq$).

The estimations for the “unsecured” interbank interest rate Euribor are reported in table 2. The maturities considered are 1, 3 and 6 months, and the correspondent interest rates are denoted by $R1m$, $R2m$ and $R3m$ respectively. The equations refer to the first day after the govern council meetings and the relevance of both Repo and Word is self-evident. The coefficients are always significant at the 1% level of probability and the R2 are high. The coefficient of Word are higher the maturity is longer, and this is consistent with the theory stating that monetary market expectations are more relevant for medium than short run maturities. Both Repo and Word coefficients seem also stable between the two periods. Their coefficients are almost the same before and during the financial crisis: the impact of monetary policy on the interbank interest rates remained the same.

During the period 2000 Sep -2010 Aug, also Risk and Liq are relevant, whose effects are obviously positive for the former and negative for the latter. MAV_{22}(Liq_{t-1}) indicates the 22 days (the average number per month of working days) moving average of Liq_{t-1}.

This results can also be used to simulate the possible paths of the interbank interest rate under some alternative values of the variables entering in the ECB’s reaction function. For example, figure 4 (right) show the official rate movements in case on no financial crises: by adding to the system the equations of table 2, could be easily computed also the correspondent Euribor path.

| Table 2: Interbank interest rates, monetary policy, liquidity and risk |
|---|---|---|---|---|---|---|
|  | const | $\text{R1m}$ | $\text{R3m}$ | $\text{R6m}$ | $\text{R1m}$ | $\text{R3m}$ | $\text{R6m}$ |
| const | 0.091*** | 0.128*** | 0.200*** | -0.466*** | -0.362*** | -0.255*** |
| Repo_t | 1.002*** | 0.990*** | 0.968*** | 1.123*** | 1.086*** | 1.045*** |
| $\Delta$(Repo_t) | -0.126*** | -0.156** | - | - | - |
| Word_{t-1} | 0.022*** | 0.082*** | 0.139*** | 0.024 | 0.076*** | 0.126*** |
| MAV_{66}(Liq_{t-1}) | - | - | - | -1.285*** | -1.447*** | -1.384*** |
| Risk_{t-1} | - | - | - | 1.041*** | 1.048*** | 1.048*** |
| n.obs | 84 | 84 | 84 | 34 | 34 | 34 |
| Adj R$^2$ | 0.998 | 0.992 | 0.978 | 0.997 | 0.998 | 0.996 |

Days after the ECB monthly govern council meetings; method: OLS-HAC

During the financial crisis the usual hypotheses on the basis of the “pure” expectation theory of the term structure of interest rate are no longer valid. Apart from also risk and liquidity being relevant, the different maturity markets became “less integrated” since the (often) low liquidity prevented arbitrages, and the corresponding interest rates became somewhat independent.

| Table 3: The future 3 month changes in the 1-month interbank Euribor |
|---|---|---|---|---|---|
|  | $\text{R1m(t+3m)-R1m_t}$ | $\text{R1m(t+3m)-R1m_t}$ | $\text{R1m(t+3m)-R1m_t}$ | $\text{R1m(t+3m)-R1m_t}$ | $\text{R1m(t+3m)-R1m_t}$ |
| const | -0.093*** | -0.668 | 1.194*** | -0.422 |
| $(4R4m-3R3m)_t$ | 1.145*** | 0.460 | -1.635*** | - |
| Word_{t-1} | - | - | - | 0.406*** |
| MAV_{66}(Liq_{t-1}) | - | - | ns | 4.286*** |
| Risk | - | - | -2.561*** | -1.301*** |
| n.obs | 107 | 33 | 33 | 33 |
| Adj R$^2$ | 0.661 | -0.020 | 0.780 | 0.735 |

Days after the ECB monthly govern council meetings; method: OLS-HAC
A simple look at table 3 (only the 1-month interest rate case is reported) shows that the ability of the so called “implicit interest” rates obtained from the Euribor term structure in forecasting the 3-month changes in the interbank interest rates vanished completely during the crisis: the adj R2, high before the crises (Jan. 2000 – Jan 2007), became negative during the period Sep 2007 Aug. 2010).

And the bad performance of the implicit rate does not change improve when adding liquidity (the 3-month moving average of $Liq$) and the monetary market risk: in this case $Liq$ is not significant and the implicit rate coefficient sign is wrong. Things are different for Word (last column of the table), that remains highly significant also in the last period: the information content of ECB’s communications still conveys important information about the future interbank interest changes.

6. Conclusions

In this paper a model of estimating simultaneously a reaction function for both ECB’s Repo and communications was presented. The empirical results are strong and the ECB’s decisions on Repo and words was found consistent. When estimating the interbank interest rate, the monetary policy turned out to explain the largest part of this variable both before and during the crisis. ECB’s communications was also found relevant in explain the future Euribor changes also after 2007, while forecasts based on the term structure was interest rates completely fail in the same period. In order to complete the analysis, also tick-by-tick data of the future on Euribor should be included. Moreover, an estimation method more efficient than SUR should be used for the case of “discrete values” that characterised the dependent variables of our reaction function.

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ASPECTS CONCERNING TRADE LIBERALIZATION AS RESULT OF
THE INTERNATIONAL ECONOMIC COOPERATION

Paul-Bogdan Zamfir Assis D.
University Constantin Brancusi of Tg-Jiu

ABSTRACT: International economic cooperation allows countries to reduce levels of protection below what
they would have chosen individually. The process that produces this cooperative outcome – where countries
achieve higher levels of international trade and welfare – is reciprocal liberalization. Reciprocal liberalization
means parties to a trade agreement are required mutually to reduce levels of protection. The coordinated
reduction of protection by all parties to the negotiation expands the volume of trade, which is welfare enhancing
for all. On top of this, the terms of trade remaining unchanged means that this trade expansion is not
accompanied by world price changes that leave one of the parties less well off. The political economy
approaches to international trade cooperation can also provide support for reciprocal liberalization. Reciprocal
liberalization mobilizes a country’s exporters to lobby for greater domestic trade liberalization since it is the
avenue through which they gain better access to foreign markets. A counterweight to the import competing sector
is thereby created, diminishing the political heft of these domestic producers.

KEYWORDS: trade liberalization; international economic cooperation; tariff reductions; General Agreement
on Tariffs and Trade; trade barriers.

1. General Considerations Regarding Reciprocal Trade Liberalization

Reciprocal liberalization in the GATT can be seen as a set of tariff changes that bring
about changes in the volume of each country’s imports that are of equal value to the changes
in the volume of its exports. It can be shown that this is equivalent to a set of tariff changes
that leave the world price (and hence the terms of trade) unchanged. Reciprocity in the GATT-
WTO implies a result that Member States consider beneficial, whatever it, provided that it be
adopted by policy consensus.[1]

Although reciprocity is an explicit criterion in GATT Article XXVIII bis (Tariff
Negotiations) and thus in the negotiations leading to multilateral trade liberalization, there is
no precise definition of it, in the GATT or in the GATS, leaving the concept ambiguous.
Besides GATT Article XXVIII bis, there are many other GATT and WTO provisions that
could be considered relevant to liberalization covering all merchandise goods (agricultural
and non-agricultural goods) and services.

On this line we emphasize GATT Article XXVIII bis that provides a mechanism for
Members to conduct periodic "negotiations on a reciprocal and mutually advantageous basis,
directed to the substantial reduction of the general level of tariffs and other charges on
importsThe negotiations may be directed towards the reduction of duties, the binding of duties
at existing levels or undertakings that individual duties or the average duties on specified
categories of products shall not exceed specified levels.

Two things need to be noted about Article XXVIII bis. First, it refers to the binding of
duties at specified levels, suggesting that the undertaking to bind tariffs has an intrinsic value
to negotiating parties, a point that economic theorizing about GATT focusing on the terms of
trade problem has tended to neglect. Second, the Article does not refer to free trade as a goal,
only to the “substantial reduction” in tariffs.

The provisions on subsidies are found in GATT Article XVI and the Agreement on
Subsidies and Countervailing Measures (SCM). GATT Article XI prohibits the use of
quantitative restrictions – quotas, import licensing, etc. – to limit trade, prescribing instead the
use of import duties, taxes or other charges. It could be argued that Article XI has less to do
with liberalization than with efficiency or even transparency. But there are strong reasons for believing that, at least in the first decade or so of the GATT, the elimination of quantitative restrictions was a critical tool of trade liberalization. In the immediate post-war era, the principal obstacles to international trade were not tariffs, but quotas, import prohibitions and foreign exchange controls. By forcing governments to give up those measures, the GATT provided an important boost to trade liberalization. The tariff bindings negotiated in the first few rounds of GATT negotiations then prevented governments from undoing this liberalization through tariff increases.

The Agreement on Agriculture (AoA) was intended to initiate a process of reform in trade in agricultural products. The reform process is to consist of progressive reductions in agricultural support and protection. Articles IV, VI and VIII of the AoA involve market access, domestic support and export competition commitments respectively.

In the meantime, GATS Article XIX asks WTO Members to enter into successive rounds of negotiations “with a view to achieving a progressively higher level of liberalization” of trade in services. As in the case of the GATT, the goal is not free trade, only progressive liberalization.

In the final of this section it is important to mention that the liberalization in the GATT not only means reduction in tariff rates, but the binding of those rates. The contracting parties to the GATT and the WTO membership have attached as much importanceto the legal commitment not to raise tariffs beyond a certain level, and the security in market access that this implies, as towards the reduction of duties.

2. Securing the Gains from Trade Liberalization

Trade cooperation focuses on the design of rules that legally prohibit or discipline a defined set of trade barriers. However, there are always a rather large number of possible non-trade or not explicitly trade-based policies that individual member states can implement, which will undermine the value of then negotiated market access concessions to their trading partners. Economists have shown that in the absence of appropriate legal provisions governments may indeed be tempted to use internal measures to circumvent negotiated market access and that this may trigger “races to the bottom” in domestic policies and reduce the value of negotiation outcomes. Trade agreements, therefore, often make use of additional legal provisions to protect agreed tariff reductions from being undermined by non-tariff trade barriers or other governmental measures.\(^2\)

2.1. Internal Measures and the Effectiveness of Trade Agreements

Negotiated tariff bindings are effective only if they imply secure market access commitments, in the sense that members cannot undermine their commitments using other internal measures. But a large number of not directly trade-related internal measures can have effects that are very similar to tariffs and the use of such policies can therefore offset tariff concessions. Assume a country binds itself to not increase tariffs on steel beyond 15 per cent ad valorem. What would happen, if by legislation the country turns the steel industry into a domestic monopoly? Or if it sets a regulatory standard that foreign competitors in the industry are unlikely to be able to meet, or that it will cost them much more that the domestic industry to meet? Or if the government subsidizes domestic production of steel? All these policies would improve the competitiveness of domestic steel producers with respect to foreign producers and the market access that foreign governments had expected to gain through the bound tariff reductions will be partly or entirely offset.\(^6\)
Although the above-mentioned policy instruments can have similar effects on trade as tariffs, they are unlikely to be perfect substitutes. It has been shown in the literature, that in this case, governments will anyway be tempted to use the imperfect domestic policy to substitute for tariffs, but that the resulting overall level of protection will be lower than if countries were entirely unconstrained in the use of protectionist measures. In other words, trade agreements with “loopholes” are better than no trade agreements. This argument may, however, not hold for all individuals within countries. If, for instance, government policies are mainly influenced by producer interests, consumers may end up carrying the major part of the burden created by the negative efficiency effects of alternative “trade” policies, while producers take advantage of the protectionist effects of those policies. As a consequence consumer interests may not necessarily be served by agreements that completely eliminate tariffs, because other, more costly instruments may be substituted for tariffs.

Even though agreements with loopholes lead to more liberalization than no agreements, one may want to consider keeping the loopholes as small as possible in order to encourage trade liberalization by limiting the ability of members to replace tariffs by altered “domestic” policies. A failure to do so could not only imply that tariff negotiation lead to little market opening, but could also contribute toward inefficient domestic policy choices. This is the case, because many internal measures are used to pursue policy objectives that are not trade related. Environmental standards are used to remedy environmental production or consumption externalities. If those policies are suddenly also used for protectionist motives, governments could end up trading off protectionism against those other policy objectives.

2.2. Disciplining the Use of Trade Distorting Policies under WTO Agreements

In order to protect the agreed tariff reductions as well as the reciprocal “balance of concessions” from being undermined by non-tariff trade barriers or by other governmental measures, trade agreements, like the WTO Agreements, often make use of one, or a combination, of three complementary legal techniques:

- substantive legal rules prohibiting or limiting the use of trade restricting or distorting trade policy measures;
- procedural rules providing for legal remedies not only in case of treaty violations but also in situations where the commercial opportunities protected by those trade agreements were being nullified by other (e.g. purely domestic) measures;
- termination clauses allowing a disappointed party to terminate the trade policy obligations altogether on short notice (mostly three to six months).

In the GATT the first legal approach is reflected in Articles III and XX. GATT Article III provides a nondiscrimination norm to distinguish acceptable from non-acceptable non-trade internal measures, the national treatment principle. The concept of national treatment implies, that once imported goods have entered the domestic market, they should in principle not be treated differently from domestic goods. In other words, goods that can enter a country’s territory thanks to reduced border barriers, should not be discriminated against once they have entered that territory. Article III thus reflects the awareness of treaty writers that internal measures have the potential to substitute for border barriers and Article III is meant to avoid such practices. The legal text indicates that imported products should not receive treatment that is “less favourable” than the treatment given to “like” domestic products. It also indicates that internal measures should not be applied “so as to afford protection” to “directly competitive or substitutable products”.

The GATT legal texts also contain procedural rules representing the second and third legal technique mentioned above in that they provide for legal remedies in situations where the commercial opportunities protected by those trade agreements were being nullified by
other measures and that they contain a termination clause allowing a disappointed party to terminate the trade policy obligations altogether.

GATT drafters recognized that it would be next to impossible to catalogue all potential trade distorting policy measures in advance and it was therefore suggested that trade agreements should have another more general provision which would address itself to any other government action that produced an adverse effect on trade benefits accruing under the covered agreements. This eventually led to the inclusion of a provision for non-violation nullification-or-impairment complaints in GATT Article XXIII.

Paragraph 1(b) of GATT Article XXIII provides for a right of redress where, even though it does not violate a specific provision of the GATT, a Member engages in actions that undermine the value of negotiated concessions under the GATT. As drafted, GATT Article XXIII:1(b) could be read as providing a basis for requests for compensation, where policy changes adversely affect the value of negotiated concessions. In the end of this section we admit that the drafted, GATT Article XXIII:1(b) could be read as providing a basis for requests for compensation, where policy changes adversely affect the value of negotiated concessions.

3. Some Concluding Remarks

The history of trade between nations has been a long and colorful one, punctuated by wars and dramatic changes in beliefs about trade. Because of the economic impact that trade has always had on civilizations, governments often become involved in trade with the goal of producing a particular economic outcome for their countries. Trade liberalization refers to the removal of government incentives and restrictions from trade between nations. The current process of international trade liberalization can be seen as an increase in import competition, thereby encouraging domestic producers to pursue productivity gains, either through the use of better technology and business practices, or through innovation and/or quicker adoption of new ideas.

Finally we can say that the domestic efficiency improvement and liberalisation of other countries trade barriers will develop the competitive position of exporters, and greater exports may also be associated with productivity gains.

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TRENDS AND CORRELATIONS OF ROMANIAN MERCHANDISE FOREIGN TRADE FROM 2006 TO 2010. AN ECONOMETRICAL APPROACH

Marian ZAHARIA
Professor PhD, Petroleum-Gas University of Ploiesti

Irina Gabriela RADULESCU
Associate professor, Petroleum-Gas University of Ploiesti

ABSTRACT: The Romania’s adhesion to European Union has implied several economic and social changes with a direct impact to foreign trade. At regional level, the foreign trade in Romania has registered a growing bias of commercial exchanges with the EU member states, giving the fact that the EU has become the main commercial partner of Romania in the last few years. The period from June 2006 to June 2010 includes both the last years of economic growth in Romania and the first years of actual economic crisis. Thus, the monthly statistically data series show the time and effects of Romania’s change from a relative economic growth to recession. There are different influences upon the structure of FOB exports and CIF imports. The paper analyses the evolution of Romanian merchandise foreign trade in EU area and also with the non-members states. It is also analysed the weight as against total results of foreign trade and the evolution of FOB/CIF deficit. There is an estimation of the correlation between and the lei/euro monthly exchange rates for this period and also there are presented the influences of lei/euro exchange rate upon FOB exports and CIF imports.

Key words: foreign trade, correlation, ANOVA, F test, trend

1. Introduction

The dynamic of international markets and the complexity growth of financial markets determined the emergence of new models and practices of international trade. The place and role of Romania in the new global economic order were established by several economic and political events that have had a major impact upon economic policies.

The analysis of commercial policy and its consequences upon Romania’s position at regional and international level must take into account several determinants which may have some influence in Romania’s economic development.

At regional level, the Romania’s foreign trade registered a growth of commercial exchanges with the member states of European Union. In time, the European Union has become the main commercial partner of Romania (70% of total foreign trade), the most important partner countries being France, Germany and Italy. Another important partner is the group formed by Switzerland, Island, Lichtenstein and Norway (European Free Trade Agreement – EFTA).

The relatively open high degree of the economy is not necessary a positive indicator of Romanian trade because Romania exports a great part of goods with a low technological degree (metallurgical products, ready-made clothes, furniture and agro-food products).

The Romania’s adhesion to European Union implied a series of economic and political changes that requested the adoption of the external common tariff which diminish the custom
protection of national production and also in commercial exchanges with the non-member states of European Union.

The economic crisis has affected progressively Romania beginning with the end of the 2008 year and continuing in 2009. In the second trimester of the 2010 year it was a low economic growth but the perspectives are gloomy.

2. The evolution of Romanian merchandise foreign trade from 2006 to 2010

Between June 2006 and June 2008 Romanian foreign trade has gone from a relative growth to recession.

2.1. Trends of FOB exports

The evolution of FOB exports in the period analyzed was quite tortuous. If EXTRA EU exports have been relatively small variations from a minimum of EUR 432.5 million in January 2009 to a maximum of EUR 953.7 million in June 2008, with an average of EUR 709.38 million and a standard deviation of 118.16, the INTRA EU exports have fluctuated between EUR 1314.8 million in December 2006 and EUR 2444.2 million in June 2010, with an average of EUR 1830.48 million and a standard deviation of EUR 269.3 million.

Even if on the whole, throughout the period under review, there is an evolution around a linear growth (Chart 1) gave the equation:

$$ FOB_{total, 2006-2010, line} = 10.23 \cdot t - 10769 $$

The value of $R^2_{2006-2010, line} = 0.1639$ makes the linear approximation unsatisfactory.

An approximation somewhat better is given by the polynomial function:

$$ FOB_{total, 2006-2010, poly} = -10^{-5}t^6 + 0.0755^5 - 243.5t^4 + 422089t^3 - 4 \cdot 10^5t^2 + 2 \cdot 10^4t - 5 \cdot 10^3 $$

for that $R^2_{2006-2010, poly} = 0.4733$.

Chart 1. FOB Romania's total exports during June 2006-June 2010
Analyzing trends plotted in Chart 1 we can distinguish three periods of the evolution of international trade of Romania between June 2006 and June 2010. Thus, between June 2006 and July 2008 FOB exports showed a relative increase (Chart 2) from EUR 2280.2 million in June 2006 to EUR 3251.8 million in July 2008. Evolution of FOB exports in this period can be quite well approximated by a linear trend:

\[ FOB_{total\_2006\_2008} = 34.55 \cdot t - 42058 \]  

(3)

This is underlined by the higher value \( R^2_{2006\_2008} = 0.6468 \) than the corresponding trend for the entire period under consideration (Equation 2).

A second period is from July 2008 to December 2009. During this period, are feeling the strong effects of economic crisis (Chart 3). Exports of goods in Romania, after a significant drop registered in January 2008 (from EUR 3245.6 million in October 2008 to EUR 1934 million in December 2008) are record fluctuating values, but without reach to the values of previous period. Towards the end of this period there is certain stability.

The trend of this period is given by the polynomial function:

\[ FOB_{total\_2008\_2009} = -1.1731 \cdot t^3 + 4621 \cdot t^2 - 6 \cdot 10^6 \cdot t + 3 \cdot 10^9 \]  

(4)

Finally, the last period from December 2009 to June 2010 is a growth one (Chart 4). As can be seen from Chart 4 we have a linear trend:

\[ FOB_{total\_2010} = 169.76 \cdot t - 221630 \]  

(5)

The value of \( R^2_{2010\_line} = 0.8915 \) confirms this assumption.
2.1. Trends of CIF imports

Between June 2006 and June 2010 CIF imports were, overall, a relatively similar to the FOB exports (figure 5). EXTRA EU imports showed a somewhat different trend in the period September to December 2008 with significant decreases and maintaining the values below one billion euros from December 2008 to February 2010. INTRA EU imports have fluctuated between a maximum of EUR 3.713 billion in January 2008 and a low of EUR1.9028 billion in January 2009, with an average of EUR 2784.92 million and a standard deviation of EUR 469.53 million.

The CIF imports also, we can see the three periods of evolution as are presented and analyzed in the previous section.

Overall, the evolution of imports CIF, can be described by the polynomial function:

\[ CIF_{total, 2006-2010, poly} = -310^{-5} t^6 + 0.0049 t^5 - 0.2649 t^4 + 6.3394 t^3 - 68.974 t^2 + 269.59 t + 2979.5 \] (6)

Considering the value of \( R^2_{CIF, 2006-2010} = 0.6095 \), we can consider that the function 6 is an acceptable model for the entire period analyzed trend.

2.1. Trends of FOB/CIF deficit

Analyzing the evolution of deficit FOB / CIF during June 2006-June 2009 (Chart 6) we observe that it is an evolution "in mirror" compared with evolution of FOB exports and CIF imports.
Thus, if both imports and exports of goods recorded maximum values in pre-crisis period (EUR 953.7 million in June 2008 for FOB exports, respectively EUR 3.713 million in January 2008, for CIF imports), resulting in a maximum deficit of EUR 2458 , 1 million in September 2008, during the economic crisis, deficit FOB / CIF reduces significantly, reaching in January 2010 to EUR 453 million.

The mathematical model of deficit FOB / CIF evolution is given by the polynomial function:

\[
\text{FOB/CIF deficit}_{2006-2010} = 2 \cdot 10^{-5}t^6 - 0.1872^5 + 608.72 t^4 - 10^6 t^3 + 10^9 t^2 - 5 \cdot 10^{11} t + 10^{14}
\] (7)

This provides a good approximation (\( R^2_{\text{FOB/CIF}} = 0.7498 \)) the trend of the FOB / CIF deficit during analyzed period.

Reducing the deficit FOB / CIF during January 2009 to June 2010 was not due to export revival (which is undergoing a period of decline) but more pronounced reduction in imports during this period.

3. Analysis of correlations between Romanian merchandise foreign trade and exchange rate RON / EUR for the period June 2006 - June 2010

Evolution of the average monthly rate RON / EUR exchange between June 2006 and June 2010 is shown in Chart 7.

As you can see, it has evolved during the analyzed period between the minimum value of 3.13 RON/EUR in July 2007 and a maximum of 4.2396 RON/EUR, in July 2010. Notice that, from January 2009 when he reached 4.2327 RON/EUR, the average monthly rate RON / EUR did not fell below 4 lei / euro.
3.1. The analysis of the correlation between FOB exports and monthly average exchange rate RON / EUR

To analyze the correlation between total exports FOB and the monthly average rate RON / EUR we started from the monthly data series of the two indicators between June 2006 and June 2010. By determining the correlation between them we have obtained the data presented in Table 1.

| Table 1 Correlation between Exports FOB total and monthly average rate RON /EUR |
|-----------------------------------------------|-----------------------|---------------------|
| monthly average rate RON /EUR                | RON /EURO             | Exports FOB total   |
| Exports FOB total                            | 0.266405              | 1                   |

The correlation coefficient value is too low. Furthermore, still using F-test (Fisher), results that it is not statistically significant (F = 0.656219 which corresponds to Significance F = 0.42198, which is much higher that threshold of significance \( \alpha = 0.05 \)).

We conclude that in the period under review, the exchange rate RON / EUR did not significantly influence the development of FOB exports.

3.2. The analysis of the correlation between CIF imports and monthly average exchange rate RON / EUR

Starting from the series of data on CIF imports and monthly average exchange rate RON / EUR for the period under review we have determined, in Table 2, the correlation between them.

| Table 2 Correlation between Imports CIF total and monthly average rate RON /EUR |
|-----------------------------------------------|-----------------------|---------------------|
| RON /EUR                                      | 1                      | Imports CIF total   |
| Imports CIF total                            | -0.541610491           | 1                    |

As is apparent, though not too strong, there is an inverse correlation between the two indicators. Continuing data analysis, we have obtained results which are presented in Table 3.
Table 3 ANOVA results of correlation between Imports CIF total and monthly average rate RON / EUR

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<th>MS</th>
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<tr>
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<td>24232109.63</td>
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<th>t Stat</th>
<th>P-value</th>
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<td>235.69</td>
<td>-4.42</td>
<td>5.85E-05</td>
<td>-1515.19</td>
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</table>

Analyzing the data in Table 3 we see that between the total CIF imports and the exchange rate is a linear relationship \( \text{Significance } F = 5.85 \times 10^{-5} = 0.0000585 \) is much smaller than the threshold of significance \( \alpha = 0.05 \), and the model is valid.

Also, since both coefficients are statistically because the significant P-value for both coefficients is much lower than the threshold of significance.

The model is:

\[
CIF_{\text{total, 2006-2010}} = -1041.05 \times \text{RATA}_{\text{RON/EUR}} + 7860.39
\]  

Dependence of imports CIF (million euros) and average monthly RON / EUR is illustrated in Chart 8. Also, are presented graphically, the empirical values (Total Imports CIF) and those estimated using the mathematical model (equation 8).

In these circumstances, it can be concluded that a decrease of 0.1 RON/EUR exchange rate, imports CIF will have an increase between EUR 56.69 million and EUR 151.519 million. That meaning change is reversed (Chart 8) due to the negative sign of marginal indicator (marginal imports CIF relative to exchange rate RON / EUR).

**Chart 7** Regression equation of Imports CIF total, function of monthly average exchange rate RON / EUR

4. Conclusions

The perspectives of Romania’s economic development are linked to European Union trends referring to domestic and foreign trade. If the foreign direct investment will not rise in
2011, Romania will not be able to pass the actual crisis and will become a marketplace for the EU countries and China.

The limits imposed by the common custom tariff with respect to other countries will reduce the Romania’s independence in international commercial exchanges. On the other hand, the easy access of Romanian products to European market represents an opportunity for Romanian companies to increase their competitiveness on both regional and international level.

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