

Effects of International Financial Turbulences Extension on the Romanian Economy. Prevention Solutions

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***Abstract.** The world economy is under recession. The strong financial turbulences, the collapses of the main stock exchanges with global extension, the global real estate crises and alimentary problems represent the signs of a fundamental correction within the global economy. How did the global financial crisis appear? Are USA capable of minimizing the negative effects of the recession are facing with? How will the world financial crisis manifest in Romania? Which are the solutions to prevent the extension of the financial turbulences in Romania? These are the questions to which we are trying to give an answer within this work.*

Key words: global financial crisis; contagion; globalization; speculative attacks; external vulnerability.

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JEL Codes: F21, F33.
REL Codes: 10F, 10J.

The global extension of the financial turbulences, the perspectives of developing the “herd” effect in respect with the withdrawals of speculative funds from Romania, the Romanian stock exchange collapse, the inconsistency of the leu currency rate compared to the main currencies and the worsening of the main indicators which express Romania’s external vulnerability (the weight of the current account deficit in the GDP, the external debt service, the level of the NBR international reserves etc.) are phenomena which raise the risk of a financial crisis breaking in Romania.

The world financial crisis started in USA

The globalization of the world economy makes the economical evolutions in a country, such as USA, influence and be influenced by the economic evolutions from other countries. Because of the fact that USA continue to represent the world’s greatest economy, the fluctuations within this country may have a considerable effect on the rest of the world. During the last 20 years, USA were taken into consideration in the main engine of the economic growth, in the economy which, in case it “gets flu” it will transmit the “cold” to all the others. If, at the end of the 90s, the USA economy was growing fast, the American families and companies were buying more and more goods from abroad (USA was representing “the engine of the world economic growth”), at the end of 2000, more and more signals of a possible recession of the United States of America appeared. The foreign companies were worried about the fact that

the slowing down of the growth in USA will result in the diminishing of the sales towards this country, in the diminishing of the profits and in the occurrence of the bankruptcies. The main share prices suffered losses, the stock exchanges collapsed, the currencies suffered major depreciations.

The scenario repeated in 2007 and its effects are also felt in 2008. One year ago, the USA Federal Reserve Chairman, Ben Bernanke, warned about the fact that the debts of the bad payers from the sector of the loans on mortgage given to those with a doubtful payment history have reached the amount of 100 billion dollars. The American official insisted on the crisis situation in which the USA real estate market is at the present and on the increasing fears related to the effects of the raise in number of the Americans who are in inability of paying the mortgages, the result being the bankruptcy of 30 mortgagees. The investors proved to be very irritated by the losses suffered in the sector of the loans on mortgage given to those with a doubtful payment history, which could affect the demand for the shares offers. On the other hand, the economic analysts have forecast the imminent recession of the USA economy, warning about the fact that the economic uncertainty caused by the crisis of the loans on mortgage (sub-prime loans) could lead to a greater inconsistency on the financial markets in 2007 and 2008, including those in the emergent countries, among which there is also Romania.

This new type of crisis differs from the previous ones, as a result of the influence of the profound structural transformations suffered by the global economy. The growing liberalization of the financial markets and the

de-reglementation operations have determined an increased inconsistency and a chaotic movement of the capitals striving for profit. For this reason, the global financial stability (and especially that of the emergent countries) was affected, and the regional shocks accentuated within the last two decades. The American economy and the great American investment funds have benefited from these circumstances (see the Asian crisis of 1997), strengthening their global spheres of influence. The American investment funds were the first which outlined the direction and the way of action on the financial markets, the trend of the market being strongly influenced by the decisions taken on the financial market over the ocean. These were the ones which pumped in money and which substituted the investments deficit in the problem-areas, being also helped in this process by the global institutions which are greatly under their influence – The International Monetary Fund (IMF) and the World Bank (WB). The disparate crises occurring in different areas were adjusted with the help of the IMF recommendations, even though this organism had previously created the background favorable to the spreading of the crisis through the recommended policies. The direct investments controlled by the great financial giants have occurred within these areas together with the diminishing of the incertitude degree and with the raising of the rating per country supervised by the global institutions. The thesis, on which the IMF specialists were basing, will be helpful for the developing countries, but in most of the cases only the additional profits of the investment funds have hallucinatingly increased.

Unfortunately, the boomerang effect occurred, and the last years started to represent a new model of crisis somewhat atypical, having America as the main character and the great financial giants as secondary characters.

It is obvious that the American economy is under recession, the crisis of the loan on mortgages leaving substantial losses behind. It is shocking only to quantify the losses suffered by the world famous banks on the American market within the last two years in order to understand that the age of the world „elite banks” – immune to the global financial crises – has passed (for example, only the UBS estimated losses from the loans on mortgage are around the amount of 20 billion dollars). This situation has created anxiety and uncertainty both for the great investors and for the decidents of the macro-economical policies. The extremely great liquidity on the financial markets has evaporated and the S&P500 index, which analyses the evolution of the shares in the companies acting in the important sectors of the American economy has suffered major corrections. In order to counter-balance this lack of liquidity on the market, which could negatively influence the economy, especially with reference to the aggregate demand, the American Congress has applied measures of fiscal facilitation in amount of 150 billion dollars, with the declared purpose of stimulating the consumption and of maintaining the climbing trend of the American economy. The political decidents' great fear consists of a strong diminishing of the aggregate demand, which could affect the real economy.

It is good to know that the American economy based its growth on a consumist

behavior, the aggregate demand being stimulated by the excessive growths of the aggregate demand, the new balance being achieved to a more and more increased potential GDP. Such a policy has also had negative externalities – reaching some raised budget deficits (or even the occurrence of the twin deficits) during the last years. Lately, the monetary policy promoted by FED (The American Federal Reserve System) had the same lax direction as the fiscal policy, the major diminishing of the reference interest rate determining the occurrence of a real negative interest rate. The final objective of the monetary policy was to stimulate the consumption and the private investments. Unfortunately, FED could not approach another consequence of this measure – the monetary excess pumped in the system through this diminishing of interest did not adjust the losses from the real economy. The banks used the pumped in excess of liquidity, adjusting their internal balances seriously affected by the crisis of the loans on mortgage. In April 2008, 55% of the commercial banks, which were acting on the American market, were making the crediting conditions heavier, fact which proves clearly that we could not speak about a crediting relaxation and a stimulation of the consumers' incomes. Thus, the hypothesis according to which the liquidity excess will adjust the real economy was erroneous. The relevance of these assessments can be easily checked, the dollar recording a major depreciation compared to the reference currencies (during the last 9 months, the dollar has depreciated, in comparison to the Euro, with 16% from 1E = 1.35\$ to 1E = 1.56\$), and the index expressing the consumers' confidence (Consumer Confidence Index)⁽¹⁾ has reached a historic

minimum unequalled during the last 16 years. The dramatic decrease of the consumers' confidence led to a negative effect on apprehending the American economy and to a significant loss in credibility of FED and of the other decisions of economic policy. The loss in credibility has been transferred almost immediately in greater inflationary anticipations and in a decrease of the private investments.

The global financial crisis has been anticipated

The increasing liberalization of the financial markets and its de-reglementation operations have determined an increased inconsistency and a chaotic movement of the capitals. The financial analysts and the international financial organisms were expecting a serious correction on the world financial markets.

The experts of the International Monetary Fund considered the collapse of the world stock exchanges (let us remember that the black week 01.03.2007-08.03.2007, when the New York Stock Exchange recorded the most serious collapse after September 2001, as an effect of the „earthquake” propagation on the Chinese financial market) as an expected and necessary correction, determined by a better appreciation of the risks by the investors. “The markets have recently adopted a better appreciation of the risks and we consider this thing to represent a necessary correction... At present, we are going towards a more neutral position regarding the monetary policy, which is a healthy thing because this position is more sustainable”, declared the General Manager of the International Monetary Fund (IMF), the Spanish Rodrigo Rato. The Manager of the

Fitch Rating Agency, David Riley, has also warned about the fact that “the increased inconsistency of the exchange rates and a continuous depreciation of the dollar will affect the emergent countries, which have a weak credibility of the policies and greater needs of external financing”.

Are USA capable of rapidly surpassing this recession?

Unfortunately, the global context has worsened more and more the forecasts for the American economy. During the last two years, the price of the oil doubled bringing a heavy burden on the shoulders of the world economy. The economists hurried to assert that this thing is not extremely serious, from a historical point of view each oil crisis caused by the successive price increases leading to a decrease in the oil demand influenced by the occurrence of a recession in the American economy. The decrease of the demand led almost every time to the price stabilization to a new balance level and to the absorption of the temporary shock.

Although, the current crisis experienced by USA is a “strange” one or at least a different one. The raise in price did not result in the adjusting of the demand at a lower level, even though the American economy is in a recession period. Is it possible that the global economy detached of the American one? The answer offered by the empirical analyses of this hypothesis is affirmative. The oil demand has maintained to a raised level because of the emergent economies (Russia, China, India, Brazil), and the price correction appeared later. This thing was also due to the fact that the offer at the world level is relatively rigid. The experts

consider that we can expect its strong increase during the future years. Even in the case of discovering a new “oasis” of oil, the offer will only be adjusted on a long term.

Based on the dollar depreciation and in the absence of other solutions which could generate the expected profits, the investors decided to protect themselves by using the supports on the market of derivatives – future contracts with support assets on oil and goods. A predictable process, under the terms that the American stock exchange cannot offer big profits any more, and the real estate market is in free fall (the Case-Shiller index, which analyses the American real estate sector, recorded a 14% decrease compared to the last year, and over 1% of the population is in a strange situation, the payment of a few loans on mortgage much over the market value of the owned buildings).

How do the future contracts influence the price of the oil in the real economy? There is a simple explanation. The concluding of a few future contracts on the capital market at raised prices intensifies the investors’ expectances of raising the oil price. This fact, corroborated with the world increase of the oil demand under the terms of an accentuated rigidity of the offer, generate a more raised price of the oil in economy. The excessive income gained by the sovereign funds, which administrate the petrodollars in the oil exploiting countries, are mainly returning on the American capital market, creating a vicious circle with a single major loser – USA.

The financial markets showed their dark faces, bringing decisions of economic policies in a limit situation. The fiscal facilitations practiced by the Congress only increased the fabulous incomes of the oil exporting

countries (Saudi Arabia, Venezuela, Iran etc.) and of the Chinese dealers from products industries, worsening more and more the current account deficit of USA.

An interesting fact. America's salvation may occur together with the accentuated raise of oil price. The producers from the Asian countries have not been affected until now by this raise of oil price because they are protected by subsidies to energy supported by the national governments. This led to a tempering of the production costs increase, an unimaginable fact in other circumstances related to the increase in the invoices for energy. In return, this thing cannot be supported on a long-term by the Asian governments, the energy subsidies will be either eliminated, or decreased, bringing an adjusting of the production costs and, implicitly, of the final prices of the products. Thus, the exports of the emergent countries will be affected and the pressure on the current account deficit of America would suffer a decrease.

Farrell and Lund (2008a) show that, in the case of a dollar depreciation with 26% compared to its value from 2000 or with 18% compared to the value from January 2007, USA could reach the equilibrium of the commercial balance within maximum 10 years. Although, there must be shown that the hypotheses of the study ignore the Houthakker-Magee effect, according to which "an increase of USA exports stimulated by a global GDP increase with one percent would be smaller than an increase of the USA imports stimulated by an increase with one percent of the USA GDP". To what this effect really refer? A country which records decreased elasticity, according to the incomes related to the partner countries from

a commercial point of view, must either have an economic growth more decreased in comparison to them, or suffer a worsening of the current account or currency depreciation. After the 90s, Krugman has found a new correlation between the incomes elasticity and the rates of economic growth, naming it "the rule at 45". By extrapolating this effect, we may continue to anticipate increased depreciations of the dollar and the worsening of the USA commercial balance (even though in a lower rhythm), excepting the situation in which the rates of the USA GDP increases would be smaller than the rates of increasing the global GDP.

Inserting this effect within our analysis, we may explain, in what follows, the continuous worsening of the USA current account deficit during the last years, fact which potentates the occurrence of the twin deficits of the American economy. The specialists' opinion is that, after 1996, the American boom was focused on the high-tech industry and on the services sector, practically ignoring the producing industries and those of staple products. The growth of the services sector and the economic development have amplified the retail development which, correlated with the American consumist appetite, led to the rapid growth of the imports. On the other hand, the USA current account deficit suffered from the raise in the oil price (if, during the last 6 years, the price of the „black gold” had remained unchanged, the cost of the USA imports would have been with 154 billion \$ smaller). In order to finance this lasting deficit, USA had to attract billions of dollars from the external markets, remaining vulnerable to the behavior changes of the

global investors (Sovereign Funds, Retirement Funds, Private-Equity Funds etc.). At present, USA have a great problem regarding the sustainable financing of the current account deficit. According to the studies performed by Farell and Lund (2008a), if the current trend of savings and of investments maintained at the same level, and the rate of exchange remained unchanged until 2012, the USA current account deficit would reach 1.6 trillion \$, approximately 9% of the GDP. Such a pronounced disequilibrium would lead to a tripling of the external public debt from 2.7 trillion \$ in 2006 to almost 8 trillion \$ in 2012.

It is interesting to analyze the transposition of the liquidity excess and how the world economy is affected by this fact. Farell et al. (2008) analyze the effects of this global financial reorganization. During the last 25 years, the financial assets have strongly increased despite the more difficult or unstable periods. In 2006, their value reached the amount of 167 trillion \$, a 17% raise compared to 2005 and double in comparison to the period 1995-2005 (when there was a raising rhythm of 8% per year). It is obvious that the de-reglementation of the financial markets and of the monetary policies in the developed countries – decrease in interests – has influenced this fact. The increase trend on the financial markets has surpassed the increase trend of the global GDP, leading to a financial deepening in almost all the regions (a strong increase of the financial markets followed by an increase of its weights in the national GDP). This development has allowed the more efficient dispersion of the risk, it has facilitated the financing of the investments at

lower interest rates and it has offered more liquidity to the markets (in the 90s, only 33 countries had financial assets which were surpassing in value the internal GDP, while in 2006 this figure had already reached 72 countries, more than double). Analyzing the ratio between the value of the financial assets and the GDP level, in 1990 only two countries were surpassing 300%, at present, the same calculated index surpasses 300% in 26 countries. A fact which was proven, the deepening of the financial markets was directly influenced by a series of factors: the development of the private-equity companies, the privatization of the national companies in the emergent countries, the liberalization of the capital account within most of the countries, the occurrence of the corporate bonds guaranteed with assets and transactioned on the capital markets. All these factors led to the increase in innovation and to the development of the financial markets, processes that generated, at the same time, a liquidity excess, which raised the price of many assets (see the global real estate boom and, recently, the accentuated raise in the oil barrel and in the price of the goods). The impressive growth of the financial markets from the emergent countries and the decrease in importance of the American market, at the world level, have been influenced by this fact. Together with the occurrence of the unique European currency, the strength of the dollar has significantly decreased.

The development trend of the emergent financial markets will continue to be maintained within the next years, especially because of the increase in the ratio between the assets' price and their efficiency (P/E ratio). This index doubled on the Russian and

Chinese equity market during the last 4 years and there are no signs that this direction will be affected on a short term.

Interesting, in spite of the increase in importance of the unique European currency or of the capital markets in countries such as China, Russia and Brazil, the American financial market has still maintained its domination. At present, it attracts more than one third of the global financial assets total, meaning approximately 56.1 trillion \$.

Where is this money coming from and how does it influence the American and the world economy? The financial power held by the developed countries starts being affected by the capital owned by the countries rich in oil and by the Central Asian countries. America's huge external debt correlated with the raise in the oil price made huge amounts of money available for these countries, and at the end of 2006 the total reached the amount of 8.5 trillion \$. This influx of capital arrived in the hands of a few funds, which were initiated on the global financial markets only 6 years ago, meaning a spectacular raise. The decrease in the American interests' rates during the last years has been affected by the capital invested by these corporations; approximately 0.75 percents of the interest rate decrease were the result of purchasing American public securities by the Central Asian banks and of the sovereign funds from the Arabian countries. Farrell and Lund (2008b) calculated the impact of the funds based on petrodollars on the financial markets. Even though the weight is still low compared to the mutual or retirement funds, these funds have recorded an average annual increase of over 20% during the last years. According

to the empirical results, at an average price of 70 \$ per barrel, the capitalization of these funds would be increased with 2 billion \$ per day, reaching the amount of 6.9 trillion \$ in 2012. Can the impact of a price of \$ 150, or even \$ 200 be easily analyzed?

As all these amounts of money are attracted within the global economy, we cannot wonder of raise in the price of the real estate assets at a global level or of the raise in the price of the goods during the last two years. All these amounts of money have impelled the market of the future contracts with the oil or other goods as an active support, acting as an inflationary spiral at the global level (reasonable expectances of raising the price of the oil through future contracts => raise in the price of the oil => raise in the funds incomes based on petrodollars => raise in the liquidities on the markets of the future contracts).

The specialists are not certain regarding the destination of investing this liquidity excess without releasing major world disequilibriums. During the last three decades, the real estate boom has been preceded by the stock exchange boom, so that the occurrence of another boom based on a different asset is inevitable. There is also the probability that these amounts of money could be invested in regions from the Middle East or from Africa, with the purpose of developing these areas. Their attracting within the global economy would lead to the creation of a significant internal market, especially the multi-national corporations benefiting from it. During the last years, the Saudi Arabia or the United Arab Emirates have started to invest internally important amounts of money but major conflicts from

these areas as well as from Africa are still slowing down the major direct investments. A raise of the stability degree in the area could also lead to a raise in the oil offer, and there are a series of African countries, which hold big resources, unexploited yet by the great oil companies around the world.

Manifesting of the global financial crisis in Romania

On April 22nd 2008, the Standard & Poor's Agency published an analysis according to which Romania – besides Lebanon and Turkey – are among the countries which are the most vulnerable to the effects of the real estate crisis from USA. In addition, we must recognize that there are signals warning about the possible occurrence of a financial crisis in Romania, especially because of the contagion of the global financial crisis, of the fast advance of the loan and of the worrying level of the current account deficit. The level of the current account deficit recorded in our country (14% of the GDP in 2007 and a forecast of 15% of the GDP in 2008, according to IMF), the increased inconsistency of the Bucharest Stock Exchange, the massive entries of speculative funds, the low sustainability of the public finances, the increased rhythm of raise for the external debt service can determine the release of a financial crisis in Romania on a medium term.

The extension of the global financial crisis on the Romanian economy is based on three effects. The contagion effect – propagation of dis-equilibriums from one region to another – becomes more and more acute in a globalized world. The increase in similarity of the business cycles of the great commercial powers confers substance to the idea of global economy.

China, one of the greatest markets, which absorbs charge stocks and one of the greatest markets for the capital goods and for the long use goods, is more and more connected to USA, which are, maybe, the world's greatest consumer of goods, the European Union and Japan, other two great important markets for goods and charge stocks.

We can imagine 4 giants (USA, EU, China, Japan) holding the “weight” of the world economy above the raised arms. When one of them cannot stand it any more and leaves the hands down, the other three will try to keep their balance. In case the one who abandoned the fight recovers and supports again the world economy, the shock is temporary and it is naturally absorbed by the market mechanisms. If the second giant “falls” too, the weight is strongly pressing the shoulders of the remaining ones, and, very probably, the shock is recurrent. It cannot be absorbed but through global reglementation, this thing being difficult to achieve under the terms of inexistence of some institutions with global extension, as it is the present situation.

The contagion effect is usually accompanied by the cumulative causality effect – situation in which the dis-equilibrium occurred in one area overlaps the dis-equilibriums from other areas – creating major impact shocks. Let us think that, in 2007, when USA announced that they slow down the rhythm of the economic growth and the Chinese stock exchange give signs of fatigue, the suppliers of raw materials and of goods from all over the world was panicked. For them, this meant lower profits, decreased orders, more demanding markets etc. Thus, in case one of the stock exchanges

from USA, China, EU and Japan give signs of over heating, “the reaction cells” from all over the world seek for “insularizing” solutions of economies for the global shock.

Moreover, China has developed for 10 years with an annual rhythm of over 10 percents, swallowing huge quantities of raw materials, being a market, which initiates the global economic growth. The investors in the capital markets understand this movement as a decrease in the demand of products and raw materials from behalf of China, so a decrease in the demand for most of the world’s companies. The effect is propagated in the technological chain, specific to each industry, because a decrease in the demand represents a decrease in the company’s incomes, so lower dividends and decreases in the price of the shares on the market.

In addition, the “herd” effect must not be neglected under the terms of globalizing the financial markets. The managers of the speculative investment funds are simultaneously conquering the best territories from the point of view of the profit opportunities but, at the same time, they simultaneously leave the territory when the profit possibilities are narrowing. They act as a herd.

The international financial turbulences are affecting and will continue to affect the Romanian economy. The channel through which the shock wave will be transmitted on the capital market from Romania is linked with the activity of the foreign investment funds. The high interests and the economic boom from Romania attracted important investors at the Romanian stock exchange, the excess money feeding the consumer credits. The economic crisis can be released when the interest rates are increased in the

developed countries – as it happens at present – the investors transferring money at home. The negative variant for Romania would be that in which there will be materialized the massive withdrawals of the speculative investors’ funds (of portfolio), which would further lead to the strong depreciation of the leu, to increased inflation, to difficulties regarding the financing of the external debt financing etc. In contrast with the developed countries, this happens when capital injections reappear immediately after the passing of the negative wave. However, it is obvious that, largely, the apprehension of the great investment funds on the emergent capital markets can decipher the temporary or the recurrent nature of the shocks produced on the emergent financial markets, as it is the case of Romania.

The signals of the international financial crisis contagion upon the Romanian economy started to be visible. During the last year, the leu appreciated/depreciated in comparison to the main currencies, the rate of exchange being characterized by a more and more increased inconsistency. The Bucharest Stock Exchange has been more “red” than “green” during the last year.

The information regarding the 28% increase of the Romanian external debt on a medium and long term in 2007 compared to 2006 (up to 36.7 billion Euro) and the decrease of the degree of covering the official reserve of currencies and gold of NBR (from 6.4 months of import on December 31st 2006, to 6 months of import at the end of 2007) do not have the characteristics to diminish the economic analysts’ worries but to intensify them. Similarly, the 66% increase of the current account deficit in 2007 (compared to 2006),

based on the strong deterioration of the commercial balance and on the decrease of the direct foreign investments in Romania (with 21% in 2007 compared to 2006), simultaneously with the decrease in the degree of covering of the current account deficit in the foreign investments from 91% in 2006 to 42% in 2007, accentuate the increase in the external vulnerability of the Romanian economy.

The modality of minimizing the effects of the financial crisis in Romania

By materializing the pessimistic variant, in which the foreign speculative investment funds will withdraw the capitals from Romania, the Romanian authorities will face choices difficult to achieve. One of the possibilities would be to let the leu depreciate. Nevertheless, under the terms in which the Romanian banks borrowed much from abroad, the solution would be inefficient because the leu depreciation would make more and more difficult to return these loans. Thus, the depreciation would threaten the reliability of the Romanian bank sector (in March this year, Standard & Poor's has degraded the rating perspective of the Romanian bank sector, considering this sector as being vulnerable). The second solution through which there can be tried to prevent the strong leu depreciation would be the increase of the interest rates, so that the amplitude of the capital outputs could be reduced. And this is what NBR has done, successively increasing the interest rate of the monetary policy up to 10%. However, such an option would seriously affect the investments, it would decrease the aggregate expenses and the economic growth and it would lead to the increase of the unemployment.

However, many economists are pessimistic regarding the authorities' capacity to stabilize the rates of exchange on a short term. In case the market anticipates the leu depreciation, it will be useless that the Romanian financial authorities try to maintain the current rate of exchange on a short-term. The Romanian and the foreign investors are aware that, through the leu depreciation, together with the buying of currency and its subsequent conversion, they will obtain high profits. This will determine the escape of lei, and the NBR action will be inefficient, because there will be more private investors who wish to sell lei and buy currency than the authorities' capacity to support this process. Therefore, the Romanian financial authorities will be successful in thwarting the leu depreciation only for a few days period, but the price paid for this process will be sufficiently raised. The profit will reach in the private investors' hands. Moreover, it is difficult to estimate the level of the balance rate of exchange, which NBR would like to stabilize and, similarly, because of the difficult international financial cooperation, it is difficult to obstruct the manifesting of the contagion effects.

An increased efficiency is proven by the structural solutions. The increase in competition of the Romanian exports and the strict conditions imposed by the European Union to the member countries will not "allow" the outbreak of a disastrous crisis within the Romanian financial system. Through early warning, The European Commission will impose the rationalization of the public expenses, restrictive fiscal and monetary policies in order to stabilize the macro-economy on a short-term.

The strict relementation, performed by The National Securities Commission (CNVM), of the investment funds' activity, which acts in the Romanian stock exchanges, will intensify the discipline on the financial market.

The increase of the National Bank of Romania's currency reserves is imperatively necessary in case of a possible intervention on the market for a major dis-equilibrium. Moreover, NBR must promote a restrictive monetary policy, especially under the terms of the increase in the overheating risk of the Romanian economy. NBR must carefully monitor the activity of the banks in the system,

by strictly implementing the prudential norms, in order to maintain the financial stability at a high level. Finally yet importantly, it is necessary that the Ministry of Finances implement an anti-cyclic fiscal policy and it will intensify the sustainability of the public finances.

In order to cope with the increased inconsistencies of the leu – dollar (or leu - euro) rate of exchange, the Romanian companies can conclude a contract (either with a bank, or with a dealer on the currency market), for the future euro delivery or sale at an agreed rate of exchange, so that they could avoid the risks associated to the conversion (currency hedging).

Note

⁽¹⁾ Consumer Confidence Index (CCI) is a composite index, created both on the basis of the current expectations (40% of the CCI) and

on the basis of the future expectations (60% of the CCI) of the consumers.

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