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ASSET ALLOCATION POLICIES OF ROMANIAN PENSION FUNDS AND CAPITAL MARKET DEVELOPMENT

Abstract: *The paper addresses the issue of asset allocation policies of Romanian pension funds and the potential impact they may have in the development of local capital markets, through active involvement in terms of investing funds, capital market expertise and improvements in corporate governance practices in Romanian companies. We analyze the investment alternatives available to Romanian pension funds starting from the limits imposed by the law and we discuss the proposed asset allocation strategies presented in funds' issuance prospects.*

Keywords: *pension funds, capital market, Romania*

I. Introduction

In 2007, after years of discussion and planning, Romania introduced an innovative pension system, aimed at reducing the burden on the Romanian government caused by the country's fast-ageing population, raising the levels of both savings and investment and ensuring a decent standard of living for the country's citizens in old age. The so called, "Romanian problem" has been exacerbated by moves in the early 1990s to combat overstaffing in the public sector by allowing tens of thousands of state workers to take early retirement. In the meantime there was not enough funding from the government to provide for all the new retirees, leading to the collapse of the system and pushing some pensioners onto the streets. Official figures show that in the second semester of 2007 there were around 5.75 million pensioners in Romania, supported by a working population of just 4.75 million. While the problems of ageing populations and pensions are being discussed across the developed world, the urgency of the situation in Romania, coupled with pro-active economic management, has made the introduction of the three-pillar system a priority.

This system, pioneered by Chile in the 1990s, has become popular in developing economies as it offers simultaneous benefits to the state, pensioners and workers, as well as to the wider economy. Under the plan, there will be three pillars in Romania: the first represents a minimum state pension plan, under which all working residents pay into a state scheme and receive, upon retirement, a pension to cover basic needs; the second is a mandatory occupational pension with employers and employees contributing equally into a private-sector managed scheme which will payout either a regular pension or a lump sum at retirement; the third is a voluntary individual pension for those able to put aside more, again managed by the private sector. The system benefits the state, because it shifts most of the burden of saving for retirement onto the individual. Meanwhile the funds which are squirreled away in the new schemes are fed back into the economy. Yet the population benefits as well. People are being offered the chance to save for retirement tax-free and the opportunity to choose the sort of pension that suits their needs.

II. Romanian pension funds' asset allocation policies

The pension funds' assets at the global level have continuously grown in the past years, overcoming the downturn of the early 2000s, both in absolute terms and as share in countries' GDP. As shown in the OECD report *Pension Markets in Focus*, published in October 2006, the total pension fund assets in the OECD area amounted to USD 17.9 trillion in 2005, on a rise from USD 13.0 trillion in 2001, with an annual aggregate growth rate of 8.7% between 2001 and 2005. At the same time, total pension fund assets in the OECD area rose slightly from 86.7% in 2001 to 87.6% in 2005, but this small increase is due to the corresponding rise in the value of GDP in OECD countries[1]. Of all OECD countries, the Netherlands and Iceland have the largest pension fund markets relative to their economies: their pension fund assets to GDP ratios were 124.9% and

[1] It is interesting to note that pension funds experienced a major decline between 2000 and 2003, mainly caused by the recession in the equity market and the large equity holdings of pension funds in many OECD countries. In general, the higher the exposure of pension funds' assets to equity and equity-related products, the greater the changes in pension assets were during this time. This raises valid questions related to pension funds' investment policies that we will address later on in the paper.

123.2%, respectively, at the end of 2005, but this is mainly due to the relatively small size of their economies as compared to their developed financial and pension fund markets. At the other end of the spectrum we find Luxembourg, Turkey and Greece, with pension fund market in their initial stages of development – their importance in GDP was 0.3%, 0.3% and 0%, respectively. When compared to OECD countries, pension markets in non-OECD countries are at an early stage of development, with a weighted average ratio of their assets to GDP of just 34% at the end of 2005[1]. The largest non-OECD pension fund market was a Chile, with a ratio of pension assets to GDP of 64.9%, followed by Singapore (a ratio of 62.6%) and South Africa (a ratio of 33.9%). For all other economies, pension fund markets are at the beginning of their development, since total pension assets accounted for less than 30% of the respective GDP: Kenya – 23.0%, Hong Kong – 19.1%, Colombia – 15.3%, Uruguay – 12.8%, Peru – 12.0%.

For what concerns Romanian private pension funds, estimates of their size see them reaching 45.5 billions lei in 10 years after their launch, of which 11.5 billions lei will belong to the 3rd pillar funds (also enjoying a number of 1.2 million contributors), while the 2nd pillar funds will be able to assemble around 4 million contributors (Stefan, 2007). At present there are approximately 1.5 million employees below the age of 35 and another 1.5 million employees aged between 35 and 45 years in Romania. Of these, the estimates of the National House of Pensions and Other Social Insurance Rights indicate that approximately half of them will go for the 2nd pillar. Consequently, in the first year of pensions' operations, taking into account the average wage in Romania, a simple computation shows that roughly euro 150 million will enter the system, which represents 0.15% of Romanian GDP. At the same time, this amount will increase each year, as new employees enter the labor market, on one hand, and the participation quote will also go up. Also, an independent research developed by Unicredit New Europe Research Network in 2007 estimates the growth of Romanian pension funds to 53.9% over 2008-2009, fueled by the decline in interest rates and the changes in population's preferences over long-term investments.

The assets accumulated by pension funds will be put to work by investments made in financial market securities. When observing the

[1] A number of 27 non-OECD countries were taken into account [OECD, *Pension Markets in Focus*, October 2006, p.6].

Romanian pension funds legislation, the principles that pension funds need to comply with for what concerns their investment policy have been considerably changed from 2004 to 2007, in order to ensure a higher protection of the funds' members against deficient asset allocation practices of funds' managers. As such, the "prudent administration of the pension fund's assets" should be understood as a manner of investing the assets in the interest of the participants and beneficiaries, and the interest of members and beneficiaries is to be looked for by the fund's managers even in the case of a potential conflict of interests. At the same time, the pension fund' assets have to be invested in such a way as to ensure the safety, quality, liquidity and profitability, mainly on an organized market – investments in instruments that are not traded on such a market have to comply with the prudential investment rules. It is interesting to note that the 2007 Law provides the funds' managers with more options regarding these investments, since it opens the possibility of investing the funds' assets in securities listed on exchanges from Romania and other European Union states, compared to the 2004 Law that imposed limits on such securities purchases abroad. However, this gives rise to concerns related to the level of exposure to currency risk that pension funds will carry, as the managers may select securities traded in EU exchanges the sake of liquidity improvement and give up on securities traded on Romanian exchanges. It remains to be seen how the funds will manage this exposure, at least until the adoption of the euro, probably not sooner than 2013-2014.

The diversification of assets goes hand in hand with the limits imposed on the various types of assets that pension funds can invest in. As such, the investments may be made in the following instruments: (1) money market instruments, including bank deposits and certificates of deposit; (2) Treasury bills and bonds issued by the Romanian Ministry of Public Finance or by other similar bodies from European Union or European Economic Space member countries; (3) bonds and other securities issued by Romanian local public administration bodies or similar entities from European Union or European Economic Space member countries; (4) traded securities on organized and supervised markets in Romania or countries that are members of the European Union and the European Economic Space; (5) Treasury bills and other securities issued by third party countries; (6) bonds are other securities traded on organized and supervised markets, issued by local administrative bodies in third party countries; (7) bonds and other securities issued by non-governmental foreign bodies, under specific rating conditions; (8) participation units issued by collective investments bodies in Romania or abroad; and (9) other investments allowed by the law. In order to prevent the dependency on a specific type of asset, which might lead to an increase in the fund's degree of risk, investments in the securities issued by a single company cannot surpass 5% for each type of security, while not more than 10% of the fund's asset can be invested in the assets of a group of issuers and their affiliated persons. The investment policy is monitored by the Private Pension System Supervisory Commission, the main instrument being a statement issued by the fund's administrator that comprises the strategy for investing the assets, connected with the nature and duration of liabilities, the investment risk evaluation methods, the risk management procedures and the persons that are responsible for the decision-making and investments' accomplishment. Also, when important changes occur in the area of investment policy, they have to be notified to the Commission. In this respect, the Commission plays a role similar to the Securities and Exchange Commission, necessary in a country where the memories of financial scandals involving mutual funds such as SAFI, SOVINVEST or Caritas are still fresh.

From the limits above is obvious that the risk profile of the funds is moderate, since low risk instruments such as money market securities and governmental bonds may represent up to 90% of the total investments. Still, the funds' investments will have to provide reasonable rates of returns for the beneficiaries, therefore the managers will ponder the weight allocated to low risk instruments against the weight of higher risk instruments, such as equities and even foreign traded instruments, that come along with a currency risk attached to them. As one may observe from the issuance prospects of authorized pension funds, their investment policies do not differ to a large extent, with the maximum amount intended to be invested in equities, which are high risk instruments, varying from 20% (BRD) to 50% (BCR and ARIPI), and a majority of funds investing up to 35% in equities. In terms of specific investment instruments, three of the pension funds (AZT Viitorul tau, AVIVA and ING) do not offer a breakup of these investments, declaring that 30% of their assets will be invested in listed equities, money market instruments, bonds, mutual funds, while the remaining funds propose a division of their low risk instruments between listed equities and/or bonds – percentages varying from 5% to 38%, money market instruments - percentages from 4% to 15%, and mutual funds – with percentages from

2% to 5%. For what concerns investments in low risk instruments, the self-imposed limits vary from 85% to 90% (distributed equally among the various pension funds). Within these limits, the pension funds announce investments in Treasury bills or bonds issued by governmental bodies in Romania or European Union's countries – percentages vary from 51% (ARIPI) to 67.5% (AZT Viitorul tau), in Treasury bills or bonds issued in Japan, Canada, or United States – percentages from 1% (AZT Viitorul tau, ARIPI and ING) to 11% (Aviva Pensions), and in foreign corporate bonds – percentages from 1% (BRD) to 5% (most of the funds).

A comparison with the structure of assets of various OECD countries pension funds gives us interesting insights into the investment policies of Romanian pension funds. A great variety of investment policies is displayed in the table, which makes quite difficult the task of finding a resemblance between Romanian funds and the ones from OECD countries. Still, in terms of equity investing, Romanian funds seem close to Austrian, Finnish, German, Netherlander, Icelandic, Polish, British and American funds, while in terms of low risk instruments they seem more similar to Czech, French, Hungarian, Korean and Turkish funds. From the mutual funds' investments perspective, Romanian funds are close only to Icelandic funds (!). Given these, we would say that Romanian funds, although in an emerging market, are trying to provide the beneficiaries with an investment structure that is overall resembling to the funds from a developed country. This should not be surprising, given that these funds will be mostly managed by banks or insurance companies with expertise in pension fund management acquired in developed countries, which makes quite natural a takeover of their previous investment practices.

III. Pension funds' impact on capital market development

Given the proposed asset allocation schemes of Romanian pension funds, we believe that they can play a very important role in the development of the securities market and of the financial system in general. Pension funds are institutions that have long-term liabilities and, consequently, should try to match those by investing in long-term assets. As they do not normally have expertise in terms of evaluating real investment projects, they can either rely on the money market (e.g. by placing funds in bank deposits), or seek higher returns by investing directly in marketable securities, ranging from government and corporate bonds to equities. Therefore, pension funds are able to provide a large amount of investable resources that can stimulate the development of securities markets and can promote financial innovation. Romanian capital market may specifically benefit from the development of pension funds industry in two directions. First, the stock exchange can enjoy a higher number of listed companies that will push up its market capitalization and its importance in GDP[1]. In order to obtain the funds available at the level of pension funds, the companies will have to become listed on the exchange, since pension funds cannot invest in unlisted securities. Second, the high percentage allocated to low risk instruments, coupled with the low rates of return available in the money market will determine the pension funds to look for alternative low and medium risk instruments, represented by government Treasury-bills and bonds and corporate bonds. At present, the T-bills market has only an ad-hoc existence, prompted by the (quite) rare issuance of the Treasury. No second market for these instruments is operating. At the same time, the market for corporate bonds is slowly evolving: at the end of 2006, only 19 issuers were listed on the Bucharest Stock Exchange, for a total number of 3.917.457 traded bonds. As companies will understand the benefits of long-term financing provided by bonds this market will definitely grow, and pension funds can be of help in this respect.

Last, but not least, if pension funds are to become large institutional investors in Romania, they can play a key role in corporate governance practices. The experience of countries with large and active pension funds suggests that their investment policies represent a major factor from this perspective (see Asher, 2001; Claessens et al., 2002; Scatigna, 2001; Von Arx and Schafer, 2007). Pension funds' investments in binds and debt instruments would definitely put a limit on their role in corporate governance, in the sense that they are passive investors, involved in corporate control issues only when firms are faced with financial difficulties. But pension funds can also perform as active investors, through their equity holdings and a higher influence over the management of corporations in which they invest. Clark and Hebb (2004) use the concept of "corporate engagement" to define the power shift that takes place within the firm away from managers and toward shareholders and the pension funds that represent them. Corporate engagement, in their

[1] At end of 2006, a number of 58 companies were listed on Bucharest Stock Exchange, for a total market capitalization of only 21.4 billion euros. Also, RASDAQ listed 2,240 companies at the end of 2006, for a total market capitalization of 3.1 billion euros.

view, brings together four distinct underlying currents: first, the increased use of passive index funds; second, the corporate governance movement; third, the growing impact of socially responsible investing; and, finally, the impact of new global standards. At its best, corporate engagement may offer a long-term of value that promotes higher corporate, social and environmental standards and add market value, thus providing long-term benefits both to companies and future pension beneficiaries.

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ECONOMIC GROWTH IN CONDITIONS OF A KNOWLEDGE SOCIETY

Abstract: The economic growth is the most actual at each sector of social life. In conditions of building knowledge society, science development is the most important. Economic science especially, is in a great demand, struggling with other sciences are more and more getting involved in the mater. The stability, besides the growth, has become an objective of national policies. The goal of accelerating economic growth sometimes is raising question and controversies. Such as: What is the price of growth? Should government avoid accelerating economic growth in order to promote other social values? On the other hand the 21st century is considered a century when science determines economical and humanist development of the whole World. However, science development occurs completely irregularly. According to Science Citation Index (SCI), the USA share in the Global Informational Process is around 30%, but the share of the 20 developed countries makes 90 %, of which 70% belong to G8 (the most developed countries). This discrepancy between developed and less developed countries continues to grow.

Another aspect of this problem is Globalization, which is the creation of universal financial and information space based on new computer technologies. This process is developing on a spiral: from High- Tech to High- Hume. As consequence, this unique financial - information space makes a non-uniform social and economic development of various states and regions, resulting in a "gold billion" on one pole and a pronounced poverty on the other. This discrepancy grows in time. As we know, science has three main functions: social-cultural, knowledge and economical. It is known that if science financing makes less than 0,4 % from GDP, then it can carry out only the social-cultural function. Its real influence on economic development can be achieved when science financing is more than 1 % from GDP.

Science recognition has to be a national priority strategy. Science is a force, which catalyzes the country's sustainable development.

Key words: knowledge society, economical growth, science financing, science development, knowledge economy.

Introduction

The growth of an economy is the most powerful engine of social change in all sectors of social life. It is supplying means for satisfying ever rising aspirations of people to higher and more diversified material and cultural needs and desires. It is not realistic to hope that mankind will reach the upper limit of aspirations and reconcile with a stable and stagnant level of its well-being.

The economic problem in the history usually was considered in connection with the existence and development of nations, or similar communities of life. The organization of production, distribution and consumption was always socially shaped and uphold, and a modern state is primarily devoted to the regulation and direction of economic life of a nation, in order to assure economic growth and welfare. The national framework of economic life is not any more so rigid as it used to be, because of massive and increasing exchange of goods, services and information over national borders, as well as joint activities of actors from different nations, but sill the bulk of daily economic transactions is taking place within national environment and under control of national state. But in the conditions of an advanced economic integration in a large union, the national government cannot avoid worrying for how common policy affects the economic and well-being of its country.

The 21st century is considered a century when science determines economical and humanist development of the whole World. In present conditions, we can and we are edifying the World as a “knowledge society”.

The Correlation between National and International Science Development

Adam Smith, the most known representative of the liberal economic conception, spoke, in the first place, about economic growth as the source of national wealth. The stability, besides the growth, has become an objective of national policies. So, governments cannot ignore such disturbances, unless if convinced that they are temporary and weak, supposed to be solved by private actions. History show us that available knowledge and experience always helped to make appropriate evaluation of circumstances and possible actions. Economic science was of a great service to economic policy and administration of public affairs.

Speaking about science development, it can be noticed that it occurs completely irregularly. According to Science Citation Index (SCI), the USA share in the Global Informational Process is around 30%, but the share of the 20 developed countries makes 90 %, of which 70% belong to G8 (the most developed countries). This discrepancy between developed and less developed countries continues to grow.

This situation reflects drastic contradictions in the development of the world, "*… because the population of more than 120 less developed countries represents about ¾ (three fourth) of the whole world. Can we speak about "a global science", if these countries will not involve in the scientific activity?... (Materials from the International Conference on "Science for 21 century. New obligations." Budapest, 1999)*

As we know, the difference of the developed and less developed countries population number is growing. The current stage of civilization's development can be characterized from different sides. The first and the most specific feature is globalization. Globalization is the creation of universal financial and information space based on new computer technologies.

This process is developing on a spiral: from High- Tech to High-Hume.

As consequence of globalization, the unique financial - information space makes a non-uniform social and economic development of various states and regions, resulting in a "gold billion" on one pole and a pronounced poverty on the other. This discrepancy grows in time.

The other side of globalization represents the interaction between economical and research development of the society. Obviously, the growth of difference in the economic development of countries leads to degradation and destruction of regional and national science, particularly, in economically weak countries. This process generates the "brain drain", which is a serious problem for the less developed countries. It is necessary to emphasize, that globalization represents a natural, spontaneous process which is actually a consequence *of intensive* development. But intensive flows (financial, material, of industrial products, migratory, etc.) always generate gradients.

These gradients can threaten with explosions and instability. In other words, this process is resulting in entropy's increasing, that is why it is necessary to take measures in order to avoid risks and misbalances. *(Materials from the International Conference on "A Conference of the Academies of Eastern and South-Eastern Europe (ESEE)" Chisinau, Republic of Moldova, 4-5 May 2007*

At the Conference of the United Nations (Rio de Janeiro, 1992), ideas of sustainable development were suggested, because there is the threat of unpredictable explosions, chaos, and wars). As marked at this conference: "… The process of economic growth generated a big difference between the poor and the rich. This situation can lead to a human disaster, because this model of economic growth cannot be suitable either for the rich and the poor …" (Morris Strong, Materials from the Conference on "Environment and human development" UN, Rio de Janeiro, 1992) To a great extent, it concerns science development as well: *"The basic part of benefits provided by science is distributed non-uniformly as a result of structural asymmetry between countries, regions and social groups ... Scientific knowledge became a key- factor of material values production, and their distribution became more unfair."*

"There is a big difference between the poor and the rich (people or country), not only materially, but also that they also don't benefit of scientific results…" (Materials from the International Conference on "Science for 21 century. New obligations." Budapest, 1999)

As was mentioned, the basic feature of modern development is globalization. Along with positive aspects (for example, acceleration of information dissemination, trade development etc) there are some negative aspects as identity loss (ethnos, cultures, states), for example.

"...Each country must advance scientific knowledge in those fields, which are of priority for its development." (Materials from the International Conference on "Science for 21 century. New obligations." Budapest, 1999)

It is obvious, that "*Assistance to the creation of critical mass of national research in various areas of science through regional and international cooperation has a great value for the developed, and especially for less developed countries.*"

"As a matter of fact from it wins the whole world" (Materials from the International Conference on "Science for 21 century. New obligations." Budapest, 1999) But investing in regional science, in small and middle states, in separate regions of some countries etc. assumes some risks caused by the particularities of regional science, which is a part of global science. Perhaps, there is nothing more important for the development of regional and national science, than to stop the process of "rolling down" to "scientific provincialism".

There are several anti- and pseudo-scientific obstacles in promoting global science. But the regional science is poorly protected from such “corrosion of its roots”. And, probably, the unique way for solving these problems, is liquidation of "reefs" of a regional science. This may be achieved only if the regional science becomes a part of the global science.

On the other side, we can speak also, about the risk of fragmented knowledge in an economical society. There is a natural tendency for knowledge to fragment as it becomes subject to more in-depth division and dispersion. The division of knowledge stems from divisions of labor and increasing specialization. Its dispersion is the product of increasingly diffuse sources of innovation. The result is an extremely fragmented knowledge base, which makes it difficult to form a broad and integrated view of things. This can have disastrous consequences. At the level of global policy-making, knowledge that can help resolve a particular problem may exist without being visible. It can go unnoticed by the decision-maker. Knowledge of the greenhouse effect, for instance, has been in the public domain since 1886 thanks to the study by Svente Arrenhuis, but failed to capture the attention of the political system for another hundred years. There is a big difference between the existence of knowledge in some place or the other and its availability to the right people in the right place at the right time. It amounts to a matter of knowing how to integrate and organize fragmented, scattered and thinly-spread knowledge.1

The famous economist, Alfred Marshall, raised basically the same question, albeit with

respect to industrial activities: how can one organize and coordinate highly specialized activities within a context marked by an extreme social division of labor? The answer, according to Marshall, lay in two main factors: a reduction in transport costs and local concentrations of activity clusters, with each locality creating the right conditions for integrating knowledge.

So, the whole question revolves around the capacity of the new information technologies to enable better integration of knowledge through helping bring down the cost of transporting it and paving the way for local concentrations of virtual activities. The new technologies, under certain conditions clearly do favor the low-cost transmission of knowledge and the creation of virtual communities. But the maintenance of human organizations in which incompletely codified knowledge resides poses a variety of socially and politically delicate challenges, involving the establishment of procedural authority to decide contested cognitive questions and stabilize the knowledge held by the community, as well as to recruit new members and inculcate in them the cooperative mores that suppress destructive opportunistic behaviors.

Science financing. Economical aspects of development knowledge society

A lot of factors caused asymmetry in science development in various countries and regions. A primary factor is science financing. For instance, out of 160 countries, Moldova is rated 53rd, but according to financing indicator it is lower than the average of NIS countries from European Region. It is known that science has three main functions: social-cultural, knowledge and economical. It is known that if science financing makes less than 0, 4 % from GDP, then it can carry out only the social-cultural function. Its real influence on economic development can be achieved when science financing is more than 1 % from GDP.

Regarding economy, we can feel the impact of science only when its financing is minimum 1% from GDP.

Still, governmental financing of science is crucial. It can be allocated under various forms: through ministries and departments, foundations, as well as Academies of Sciences, which are typical for countries of Eastern and Southeastern Europe. For example, for ASM the State financing is done through grant programs. Non governmental financing is done through international projects, technological transfer, and economic agreements with the private sector.

Prof. Koers concluded that there are three types of academies: the learned society, the advisor to society and the manager of science. I think we can add another type that is Strategic Partner of the Government, which open opportunities to academies to actively involve in science management and society development. It is obvious, that for science and innovation development in the countries of Eastern and Southeastern Europe we need optimal forms and mechanisms of science management. In this context, how it mentioned the president of the Academy of Science of Moldova several questions appear, such as:

- *How should the state finance the science? For example, by 2020 China intends to allocate about 111 billions US dollars, which represent 2, 5% from the GDP.*
- *How can we implement the result of interaction between Science and industry, science and agriculture, Science and Business?*

- *How can we make science more attractive for business?*
- *How can we make researchers find suitable solutions for economic development?*

These are not the only existing problems. Certainly, it would be illogical to deprive those Academies of Sciences, which have asserted themselves, from active involvement in the development of society. Moldova for example, in a market economy environment the primary goal was to combine elements of self-organizing with the governmental management in research and development.

After the collapse of the Soviet Union the Moldavian science suffered many bad consequences.

Up to 2001 the science financing reduced to 0.18 % from GDP. It was evident that the situation was the worst and crucial for science. That is why, in collaboration with governmental structures and the Parliament, the reform of science organization in RM has begun its implementation.

Another strategic document is the Agreement on Partnership between the Government and the Academy of Sciences concluded for a four-year period. This Agreement stipulates for the following requirements:

- Science recognition as a national priority strategy.
- Science is a force, which catalyzes the country's sustainable development.
- Explore ways of strengthening the role of academies in management and scientific policy
- Use different forms of international division of labor, including research and expertise
- Attract business to innovational process
- Optimal correlation between
- State-science-production within the system.

Knowledge Economy

Other important phenomenon as a result of edifying knowledge society is knowledge economy. More and more often it is used the concept of knowledge economy which differs from the traditional economy in several key aspects:

- The economics is not of scarcity, but rather of abundance. Unlike most resources that deplete when used, information and knowledge can be shared, and actually grow through application.
- The effect of location is either such as:

- diminished, in some economic activities: using appropriate technology and methods, virtual marketplaces and virtual organizations that offer benefits of speed, agility, round the clock operation and global reach can be created.
- or, on the contrary, reinforced in some other economic fields, by the creation of business clusters around centers of knowledge, such as universities and research centers having reached world-wide excellence.

- Laws, barriers and taxes are difficult to apply on solely a national basis. Knowledge and information "leak" to where demand is highest and the barriers are lowest.
- Knowledge enhanced products or services can command price premiums over comparable products with low embedded knowledge or knowledge intensity.
- Pricing and value depends heavily on context. Thus the same information or knowledge can have vastly different value to different people or even to the same person at different times.
- Knowledge when locked into systems or processes has higher inherent value than when it can "walk out of the door" in people's heads.
- Human capital - competencies - are a key component of value in a knowledge-based company, yet few companies report competency levels in annual reports. In contrast, downsizing is often seen as a positive "cost cutting" measure.
- Communication is increasingly being seen as fundamental to knowledge flows. Social structures, cultural context and other factors influencing social relations are therefore of fundamental importance to knowledge economies.

These characteristics require new ideas and approaches from policy makers, managers and knowledge workers. The knowledge economy has manifold forms in which it may appear but there are predictions that the new economy will extend so radically as far as acknowledging a pattern in which even ideas will be recognized and even identified as a commodity. This certainly is not the best time to make any hasty judgment on this contention, but considering the very nature of 'knowledge' itself, added to the fact that it is the thrust of this new form of economy, there certainly is a clear way forward for this notion, though the particulars (i.e. the quantum of the revolutionary approach and its applicability and commercial value), remain in the speculative realm, as of now. So, appears some questions such as: Are new skills and abilities required for integration into today's knowledge economy? If so, what are they? Are they really as new as some might like to make out? Beyond the levels of proficiency needed for the use of information technologies, there do appear to be a number of set requirements: teamwork, communication and learning skills. But these sorts of soft skills can hardly be described as new. It is better to have a firm command of such abilities, than to be able to master a specific repertoire of technical skills.

Conclusions

The knowledge economy's growth into the knowledge society hinges on the proliferation of knowledge-intensive communities. These communities are basically linked to scientific, technical and some business professions or projects. As has been said, they are characterized by their strong knowledge production and reproduction capabilities, a public or semi-public space for learning and exchange and, the intensive use of information technologies. To function effectively, they must have overcome many, if not all of the challenges that this review has identified. Only when increasing numbers of communities displaying those very characteristics are formed across a wide array of cognitive fields, when professional experts, ordinary users of information, and uninitiated students are brought together by their shared interest in a given subject, will the knowledge society become a reality rather than a vision of a possible future.

What really needs to be done is to establish and develop interdisciplinary communities made up of a heterogeneous range of members. In such cases, the sound Marshallian properties of information technologies really can serve to support the integration of knowledge.

For Moldova for example, in a market economy environment the primary goal was to combine elements of self-organizing with the governmental management in scientific research and development.

After the collapse of the Soviet Union the Moldavian science suffered many bad consequences. Up to 2001 the science financing reduced to 0.18 % from GDP. It was evident that the situation was the worst and crucial for science. That is why, in collaboration with governmental structures and the Parliament, the reform of science organization in RM has begun its implementation.

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- Science recognition as a national priority strategy.
- Science is a force, which catalyzes the country's sustainable development.
- Explore ways of strengthening the role of academies in management and scientific policy
- Use different forms of international division of labour, including research and expertise
- Attract business to innovational process
- Optimal correlation between
- State-science-production within the system.

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EUROPEAN RECOVERY PROGRAM: PRINCIPLES OF SUCCESS

Abstract: *Articolul de față examinează programul de refacere a Europei devastate după al doilea război mondial, cunoscut sub denumirea "Planul Marshall". În articol sunt prezentate cîteva principii de succes care au stat la baza acestui plan de revigorare economică a Europei. Autorul consideră că aceste principii sunt actuale şi astăzi, şaizeci de ani după inițierea programului – prin urmare, pentru eficientizarea eforturilor de asistență acordată țărilor care se confruntă cu sărăcia, donorii internaționali trebuie să țină cont de aceste principii.*

Introduction

European recovery after the II World War would not be possible without European Recovery Program (EPR), widely known as the "Marshall Plan". In his speech delivered at the Harvard University on June 5, 1947, the Secretary of State George Catlett Marshall, invited America to stretch a hand of help to Europe. He accentuated that the US foreign policy should be "directed not against any country or doctrine but against hunger, poverty, desperation, and chaos". By the end of the Second World the War, economic, social, and political disintegration of Europe was almost imminent. Not only the physical infrastructure of almost every country in Europe was devastated, but the morale of people was extremely low.

On April 3, 1948, the US President Harry S.Truman signed the Foreign Assistance Act which launched the "Marshall Plan". The Program had clear goals: to boost European economy by promoting European production, strengthening European currency, and facilitating international trade. Over the next three years $13.3 billion USD (which would be the equivalent of $110 billion USD in 2007) were channeled into sixteen European countries covered by the Program. Countries that agreed to participate in the Marshall Plan were: Austria, Belgium, Denmark, France, Great Britain, Greece, Iceland, Ireland, Italy, Luxembourg, The Netherlands, Norway, Portugal, Sweden, Switzerland, and Turkey. Spain being under dictatorship of Franco was not invited to participate, while West Germany, which was under Allied occupation, received full participation only beginning with 1949. Soviet Union not only refused to participate in the Plan, but also prevented other countries from Eastern Europe which were under its control (such as Czechoslovakia) from taking part in this initiative.

Foreign aid was supplied predominantly in grants, being considered as an "investment in peace and prosperity". Of the total amount of financial resources channeled by mid-1951, \$3.4 billion had been spent on imports of raw materials and semi-manufactured products; \$3.2 billion on food, feed, and fertilizer; \$1.9 billion on machines, vehicles, and equipment; \$1.6 billion on fuel. The Organization for European Economic Cooperation took the leading role in allocating funds, and the Economic Cooperation Administration (ECA) arranged for the transfer of the goods. Countries recipients of aid contributed their share of funds in local currency through counterpart funds. Requested goods were paid in local currency, which was collected in the counterpart funds of the countries and used for further projects, while suppliers of goods received appropriate funds from the European Recovery Program.

Results

The European Recovery Program ended at the end of 1951. Results of the "Marshall Plan" implementation were visible and long-lasting.

First of all, it prevented serious economic depression of Europe, helping European countries to recover from the II World War. Economy of the European countries had a boost in both production and exports. According to Barry Machado, between 1947 and 1950, industrial production in western Europe leapt 45%. By March 1951 it was 39% above its prewar level. Agricultural output grew more slowly, but by the end of 1951 was nearly 10% above 1938 totals. In 1950, exports from "Marshall Plan" recipients were over 90% greater than in 1947, while intra-European trade in 1951 surpassed the 1938 baseline by 36%. Trade was no longer oriented toward the old European empires, being increasing most rapidly within Western Europe, among the countries participating in the Plan. Western Europe's aggregate GNP rose 32% during the Plan implementation. The Program also contributed for unification of the Europe in political and economic context, laying ground for European integration, which resulted in forming European Union.

The United States also gained benefits from implementation of the Plan. First of all, the USA developed reliable commerce partners in Europe. Many US patents were successfully applied in Europe. And not least, a lot of individual and collective relationships were developed between the United States and Europe. The "Marshall Plan" approach to foreign aid was considered a true success. In 1949 the USA initiated Point Four Program, oriented to less developed countries of the world, using the Marshall Plan as a model.

Key principles of the European Recovery Program

European Recovery Program proved to be a successful program of aid. What were the key principles that contributed to it?

Public support. Before committing financial and human resources, the "Marshall Plan" was widely presented to public, first of all in the USA and also abroad. The public campaign lasted almost six months, consisting of public speeches, interviews and other forms of presentation, and resulted in broad public acceptance of the European Recovery Plan. Being proposed by a Democratic president and being enacted into law by a Republican Congress, the "Marshall Plan" won the bipartisan support, achieved with citizens, mass-media, and authorities. Between 1949 and 1951 popular approval of the Plan in the United States ranged from 61% to 79%.

Efficiency. In order to implement the European Recovery Program, a new agency was created, separated from the State Department - Economic Cooperation Administration, that existed just for four years. It lacked the bureaucratic templates of the existing structures making it more efficient. Another strong point that led to efficiency of the ECA was its recruitment policy. Hiring process was based on meritocracy, attracting extremely professional and talented people. ECA employees turned later into two Nobel Prize winners, two future Pulitzer Prize winners, eight college deans or presidents, 12 ambassadors and executive director of UNICEF. One more important issue that contributed to operativity of ECA was efficient communication that existed between ECA and other bodies (such as Congress, missions abroad and other). ECA widely used the concept of the "theater command" that meant decentralizing of decision-making: decisions that could be made on the ground were taken without constant reference to the Washington administration.

Responsibility of aid recipients. General Marshall in his famous speech insisted that the European nations should take responsibility for preparing themselves a program for recovery, with United States approval and later assistance: “This is the business of the Europeans. The program should be a joint one, agreed to by a number, if not all, European nations”. “Marshall Plan” leaders were convinced that their role was not to direct the Europeans but “to help them to help themselves”. This principle of “helping others save themselves” did work well in the case of American aid for European reconstruction after the war. Such a condition definitely helped Europeans to learn “the habit of cooperation”. European were supposed to draft not many separate national plans, but a common program that would unite their needs. The fact that the number of European states have been able to agree how to use the aid was the best guarantee that it would be used effectively”.

Each country drafted its national program based on real and urgent needs. The Danes requested raw materials and energy supplies. In Italy and Greece the accent was put on rebuilding railways, roads, and power supplies. In France, industrial investment was a priority. Some zones appreciated most the food provided by the ERP. “Marshall Plan” set basis for regional cooperation in Europe that is widely applied today in other parts of the world.

Sharing of experience and know-how. In the frames of the European Recovery Program a bilateral flow of human resources took place: managers and experts from the USA were coming to Europe to share their experience and know-how in different areas. For example, at the Doboelman soap works in Holland, American experts showed the Dutch how to cut processing time from five days to two hours with new machinery. In Offenbach in West Germany, the leather handbag industry was revived; in Lille, a steel factory was in business; and in Roubaix, one of the world’s largest textile mills was maintained. At the same time over 3,000 European managers and civil servants traveled to the USA to learn during six-month visits advanced techniques used in the US industry; a similar program was administered for agriculture.

Transparency and lack of corruption. The European Recovery Program is considered as a model of incorruptibility in the practice of the foreign aid. United Kingdom Treasury official, R. W. B. Clarke, characterized the “Marshall Plan” as “a remarkable success in avoiding scandals”. The funds of the Plan were jointly administered by the governments of the countries and the ECA. The countries receiving aid were supposed to administer it transparently, with rigorous accounting controls. Each European country had a representative of ECA who served as an adviser. Representatives of different spheres gathered to examine situation and decide upon allocation of aid.

Sustainability. Marshall Plan laid a foundation of strong structures that are active on the international arena. Although the project of assistance ended in four years, institutions that were set up in the frames of the Marshall Plan exist until today. Conference on European Economic Cooperation (CEEC) was transformed into the permanent Organization for European Economic Cooperation (OEEC), and later became Organization for Economic Cooperation and Development (OCED). Desire to foster cultural and economic integration in Europe and to have collective defense system led to the founding of NATO by France, Great Britain and Benelux countries in April 1949. A European Union itself took its roots in the cooperative efforts to recover from the destruction, poverty and desperation in after-war Europe.

Conclusions

The European Recovery Program proved to be right assistance rendered at the critical moment in history. George C. Marshall was awarded Nobel Peace Prize in 1953 in recognition of his contribution to rebuilding Europe and promoting peace. Marshall Plan can be considered a short-term plan with long-lasting effects. “Marshall Plan” has become a synonym with an important program aimed at solving specific problems that succeeds. It had all the components of the successful project: clearly set goals and timeframe, committed resources and talented people. In addition to it, there were real needs of millions of people in Europe that could not be neglected.

There were several attempts to use European Recovery Program model applying it to solving problems in other parts of the world, such as Africa or Eastern Europe after the fall of communism. Gordon Brown, Chancellor of the Exchequer, UK, proposed “a modern Marshall Plan for the developing world – a new deal between the richest countries and the poorest countries”. A global initiative called Global Marshall Plan was found in 2003 to improve global economy.

At the same time there are numerous cases of donor organizations and aid initiatives that do not take into account lessons and successful principles used by the Marshall Plan. Unfortunately, it is not rare nowadays that after the donors leave, structures that they form cease to function and initiatives that they commence are no longer in place. For example, an International Initiative to Promote Poverty Reduction, Growth and Debt Sustainability in seven Low-Income CIS Countries (Armenia, Azerbaijan, Georgia, Kyrgyz Republic, Moldova, Tajikistan, Uzbekistan) that was launched in 2003, ended without achieving any significant results. Recently public became aware of several cases of lack of integrity of the personnel working in the foreign aid programs, such as accusations for mismanagement of funds in the UN Oil-for-Food Program in 2004 or accusations of the World Bank President for favoritism in 2007.

Even sixty years later, leaders and entire organizations can bring prosperity to certain parts of the world applying principles of the European Recovery Program.

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THE ESSENCE OF FISCAL MANAGEMENT

Abstract: *The existence of fiscal management determine the identification of the essential coordinates of it: the main objective; the sphere of action; essential characteristics; fundamental values; the main function; principles and legities. The essence of fiscal management represent its functions and on the basis of conceiving and exercising management from fiscality field resides an aggregate of principles. In this paper we will try to define the fiscal management, to identify the fundamental and specific objectives, to specify the content of specific functions and principles.*

Key words: *fiscal activity; fiscal management; functions, principles*

JEL Classification: *E62, H21, O23*

The management is present today in all the economical and social fields, so, implicitly in the fiscal field, its perfecting constitutes the main factor of increasing the efficiency of fiscal activity.

The multiple significations of the concept of management determined the specialists to define this concept, the settle the content and the specific traits. (see E. Petersen and E. Plowman, A. Mackensie, O. Gelinier, A.B. Robertson, K. Jaques, M. Dumitrescu, O. Nicolescu, I. Russu, I.Petrescu).

By analyzing all the definitions we may state that the management is [1][1]:

⇒ *a science* – because by the organized and coherent aggregate of concepts, principles, methods and techniques explains the processes and phenomenon which take place on the management of the organization;

[1] Dumitrescu L., "Managementul întreprinderii comerciale", Ed. "Lucian Blaga" University of sibiu, Sibiu, 2003, p. 14

⇒ *an art* – because it is always imposed the adapting to the realities of different situations, to the influence of exogenous and endogenous factors upon the organization in order to achieve efficiently and with efficacy the proposed objectives;

⇒ *a state of spirit* – because there appear different forms of wanting to change them , to search new methods and techniques, to accept the change, all these should lead to development and progress;

⇒ *a pragmatic measure* - because the scientific management of the organization determine the existence of a coherent aggregate of actions.

Although in the specialty literature, the concept of fiscal management or management of fiscal activity is not very well defined, we will try to define this concept, to identify the fundamental and specific objectives, to specify the content of specific functions and principles.

The essence of fiscal management represent its functions and on the basis of conceiving and exercising management from fiscality field resides an aggregate of principles.

Before specifying the functions and principles of fiscal management, we will try to define this concept, starting from the premises that this is an essential component of the public management.

Considered by some specialists a branch of public administration, the public management consists in integrating the managerial, political legal approaches in the process of accomplishing the mandate of legislative, executive and juridical authorities namely, providing services for society in its whole or for important segment of it.[2][1]

When is tackled the fiscality problem we search for answers such as: Which is the purpose of fiscality ?Who takes care of settling, perceiving and managing the fiscal obligations? Who settles the objectives of fiscal politics and who contributes to achieve these objectives? How is it and how should be organized, led and coordinated the fiscal activity? Which is the result obtained as a result of carrying on the fiscal activity? ...

The fiscal management is the one which can offer an answer to these questions because it represents the art and science of applying methods, techniques and procedures in order to substantiate programs, to organize and coordinate the processes of collecting the fiscal incomes, in

[1] Androniceanu A., "Noutăți în managementul public", Ed. Universitară, Bucharest. 2004, p.25

order to use efficiently the public money in order to satisfy the society's needs.

The essential request of the fiscal activity is the quality , because the projection and the construction of quality in this field will contribute to the orientation of the processes dynamics to the tax payers, taking into account the relation increasing- development – progress.

The existence of fiscal management determine the identification of the essential coordinates of it: the main objective; the sphere of action; essential characteristics; fundamental values; the main function; principles and legities.

The fundamental objective of fiscal management is the understanding and the enhancing of the role of the fiscality in the social economical life of a nation, in order to establish a real partnership between the state and tax payers in order to use and form the public financial resources. The outlining of the system of objectives in the fiscal field as well as its achievement, involves the use of principles and fiscal laws by the state with attributions in the fiscal field and by tax payers, natural and juridical persons in the sense of increasing the satisfaction of the general public interest and accepting the fiscality not as a burden but as a stimulator factor.

The action sphere of fiscal management must take into consideration the processes and management relations identified both at national and international organisms level with attributions in the fiscal domain and both at tax payers level. The fiscality analyses must be realized taking into account the local, national and international framework, this is why the mutations which take place in the fiscal management must offer coordinates of a real fiscal reform, set on values and fundamental principles.

The identification of ***fiscal management characteristics*** has on the basis: the specificity of fiscal obligations; the general principles of taxation; the specific of fiscal and budgetary activities; the tasks and functions which belong to fiscalilty the rights and obligations of tax payers natural and juridical persons.

All these elements determine the adaptation of methods and techniques generated by management so that fiscal management become a management oriented to the participative dimension, based on a coherent system of performance indicators which should promote efficiency and competitiveness.

The fundamental values which must be taken into consideration in determining the processes and the relations of fiscal management have on the basis:

- assuring a coherent functionality of the managerial process and the structures of the entities with attributions in the fiscal field;
- the analyses of the endogenous and exogenous factors which influence the relations of the fiscal institutions with the economical, social and political medium;
- identifying the best modalities of using the resources in the sense of maximizing the fundamental objective of the fiscal management;
- elaborating a realistic fiscal politics based on efficiency and efficacy.

Having in view the specificity of fiscal management, the fundamental values are structures a according to their belonging (internal and external values), being recognized values as ethics, moral and democracy.[3][1]

The process of management were first identified by Henry Fayol, who identified the main functions of management on the basis of an analysis, namely: prevision, organizing, command, coordination and control. Subsequently, many famous specialists (L.Gulick, H.Koontz, C.O'Donnel, W.J.Duncan, H.Churg, H.B. Maynard) proposed management functions: prevision, planning, evidence, operating, executing, control, etc.[4][2]

These things determine us to specify ***the main functions of fiscal management***: the prevision function, the organizing function, the coordination function, training function, control-evaluation function. These functions have the content, requirement and ways of achievement specific to the fiscal activity and due to the complementary character and the connexions between them; they must be treated in interdependency.

A. The prevision function

The economical prevision supposes the anticipation of the evolution of economical phenomenon and processes on the basis of a complex research, the economical prevision reveals the directions, the content of the economical phenomenon sans processes which will take place in the future.

[1] Androniceanu A., idem, pp. 68-70
[2] Russu C., "Management", Ed. Expert, Bucharest, 1996, p. 59

The fiscal prevision concretizes in quantitative and qualitative evaluations upon the possible and probable evolution of some aspects from the fiscal and budgetary domain.

The prevision function of the fiscal management consists in the ensemble of management processes carried on in the institutions with attributions in the fiscal domain in interdependency with the existent management processes at the level of other public institutions and according to the needs and general public resources.

The action of prevision function is based on: the specific of fiscal sector; the prevision methods used; the previsions' results.

Carrying on an activity in the conditions of efficiency supposes an ordination of all the material, human and financial resources an organization disposes in order to accomplish the objectives.

B. The organizing function

Organizing, as a managerial function can be regarded as a "determination, enumeration and grouping of the necessary activities which are summed up ion a complex of measures which aim to achieve the settled objective by using the material, financial and human resources as rational and efficient as possible".[5][1]

Exercising the organization function by the 2 main forms of organization (processual and structural organization) has as result at fiscal management level in outlining all management processes through are projected the components of the internal organizatorial framework at the fiscality level in accordance with the objectives established and the field they are acting.

The procesual organization result relies in establishing the functions as well the specific activities, tasks and attributions which belong to fiscality and the result of structural organization represent the organizatorial structure of the unity, services, offices, compartments.

To organise means, on one hand, *to establish from the quantitative and qualitative point of view, all the necessary elements in order to achieve the proposed elements*. On the other hand, *to organise means to establish the correlation between these elements so that they participate accordingly, to complete and activate reciprocally*.

Organising the fiscal activity must take into account this organisational approach from the psychology point of view, so that this

[1] Petrescu I., Cismaru G., "Managerul în lumea afacerilor", Ed. tribuna, Sibiu, 1999, p.118

processual organisation and the structural organisation to become the main factor of a rational managing of the fiscal activity, to become an important lever for increasing the efficiency of the economical activity.

We consider that we should give a special attention to then stages and operations of the methodology of rationalising then organizatorial structure the fiscal territorial unites concretised in:

- Stages – determining the activities carried on at the fiscal unity level; delimiting the concrete content of the functions and positions for each activity; grouping the positions in departments, compartments services; establishing reports between departments, services, compartments; evaluating the organizatorial structured establishes the perfecting possibilities.
- Operations – analyses each activity which should carry on at the fiscal unity level; delimiting the volume of work and the number of persons which must be involved in each activity specific to the fiscal unity; registering in the organigram of the fiscal unity the directorates, the compartments, services, office and establishes the organizatorial relations between them; elaborated the regulations of organisation and functioning of the fiscal unity; job descriptions; eliminating the structure of fiscal unity by the principles of rational organisation.

C. The coordination function

The ensembles of working processes which harmonise the decisions and actions of the company' s staff and of its subsystems , in case of previsions and the organisational system carries on the function of co-ordination.[6][1]

By harmonising, synchronising , equilibrium , proportionality integration, collaborating, co-operating, cohesion, convergence, concordance, symmetry, guiding, removing and eliminating the conflict actions in the fiscal field, there can be realised:

- settling exactly the objectives of the fiscal unity; subordinating all the activities to the objectives proposed; mentioning the performances for each objective which must be achieved in a certain period of time;
- settling the attributions and tasks for each employer of the fiscal unity so that all the fields of activity are covered.

[1] Nicolescu O., Verboncu I., "Management", Ed. Economică, Bucharest, 1996, p. 26

- establishing the collaboration between the directorates, services and hierarchical compartments and the functioning of each fiscal unity.

Settling the concordance between the authority and responsibility, taking put the hierarchy principle of value, by regulating the reports between the leaders (manager, deputy manger, head of service, head of compartment, head office) and the lead (speciality inspector, referent).

D. The training function

The training function consists in the totality of activities of fiscal management, through which the clerks from the institutions with attributions in the fiscal medium are stimulated to participate and contribute to the achievement of the provisioned objectives in the basis of using the motivational factors.

Realising the management on the fiscal domain can not neglect the human resource, reason for which it is imposed:

- developing of some optimal work reports by distributing the staff on subsystems and forming the work groups;
- recognising and evaluating the characteristics and individual talents accordingly;
- existing the possibilities of manifesting so that it should attain the maximum potential by each person.

The characteristics of the fiscal activity take out the action of training function of the following relations;

⇒ the relation "fiscal manager – clerk in the fiscal field";

⇒ the relation "clerk in the fiscal domain – tax payer".

The elements which influence the fiscal manager activity are: attributions, responsibilities, authority, ethics, personality, style and behaviour, the strategic vision, the level of concentration, the success factors, conflict sources, cultivating the attention, anticipating the future value. All these mark the way it is managed and co-ordinated an activity, in order to achieve the objectives.

The motivating system applied depends on the factors followed in the initiation, guiding, or repeating a behaviour relating the problematic which appear, appealing to theories: hierarching the needs (updating needs, esteem needs, social needs, security needs, physiological needs); X theory (using the constraint for working, absence of responsibilities, the need of updating) -Y (pleasure for work, appreciating the responsibilities, the need of updating and esteem); the dual factors (of content or context, which determine satisfactions or dissatisfactions in work); ERG theory (the existential needs, the relational needs); the theory of expected performances (mixing the individual factors with organisational factors); the theory of equity (correct treatment equally in positive situations and negative ones) [7][1].

The second type of relation must appear under the form of partnership because obtaining the public financial resources is the main objective followed. The clerks from the fiscal field do not have to exercise the attributions thorough activities of control of the way of paying the fiscal obligations. The motivational factor is important for the taxpayer, he is waiting for motivations from the fiscal organ not only in the total exemptions of taxes or partial from the payment of the fiscal obligations but also the esteem and recognition.

By exercising the training function, the manager of the fiscal institution must follow:

⇒ identifying the motivational factors for the fiscal clerks and for tax payer which should contribute to the its stimulation in order to achieve the provisioned objectives;

⇒ settling a clear, coherent and equitable method of motivating the participants to the fiscal activity;

⇒ identifying the position which must be occupied by each clerk within the organisation according to the degree of realising the objectives and the level of obtained performances;

⇒ the existence of a competitive organisational climate and a grouped cohesion;

⇒ giving assistance to the staff and tax payers so that it is assured the respecting of the fiscal legislation;

⇒ informing the staff and tax payers of the modalities of sanctioning applied according to the way of achieving the objectives.

E. The function of evaluation and control

The function of evaluation and control of fiscal management consists in the ensemble of processes through which are measured and compared the performances of fiscal unity with the standards established initially in order to eliminate the deficiencies.

Control becomes an efficient instrument of management if it is characterised by determination, exigency and objectivity and if its exercising had on the basis substantiated principles and regulations.

[1] Mathis R.L., Nica P.C., Rusu C., "Managementul resurselor umane", Ed. Economică, Bucharest, 1997, pp, 37-49

Having in view the concept of general control as well as specific elements of fiscality, the fiscal control can be defined as an activity checking, supervising and analyses of the way of achieving the objectives referred to the establishing, perceiving and guiding towards the state of the legal obligations representing incomes, taxes and other contributions [8][1].

This way, through the fiscal control they will follow::

- Verifying the correctness of the declarations regarding the fiscal obligations, handed in by the tax payers;
- Verifying the way of calculus of the incomes, taxes and tax payers;
- Following the way there were made the payments regarding the fiscal obligations within the legal term;
- Taking the legal measures in order to recover the debts towards the state budget;
- Diminishing the phenomenon of fiscal evasion;
- Adapting the methods and techniques of fiscal control to each stage of fiscal policy.

The action of control function in the fiscal management has an impact on the way the strategic objectives of the fiscal control policy are achieved. These objectives refer to: increasing the degree of collecting the fiscal obligations by the volunteer action of the tax payers; consolidating the fiscal education; tracing out the eluded obligations; efficiency in cashing the eluded taxes; improving the fiscal financial discipline; sanctioning the tax dodger behaviour.

The results of evaluation and control in the fiscal field concretises in incomes increasing to the state budget so that the budgetary incomes register both in real and normal terms, an increasing as share of the gross natural product.

Carrying on the tasks and functions generated by evaluation and control in the fiscal management depends on the influence of the following factors:

⇒ the existence of clear, concrete laws which should not generate interpretations;

⇒ the staff involved in the control activity (number, structure, professional training, experience);

[1] Tara I. G., "Conceptul de control financiar", Review tribuna Economică, no. 6, june 2000, p.17

- ⇒ the tax payers submitted to control;
- ⇒ methods and techniques of control used (control categories, settling the control activities according to the informing sources).

The activity carried on in the fiscal control field by The National Agency of Fiscal Administration has on the basis the achievement of the tasks attributed by the law in the fiscal inspection field, the action strategy in the field of continuing the fiscal reform, preventing and fighting the fiscal evasion.

The results of the fiscal inspections realised by ANAF underline the identification and sanctioning of the situations of infringement of the fiscal-financial legislation in force, all these materialise in attracting additional incomes to the general consolidated budget.

The problems encountered a as result of the checking, which lead to the establishing of additional sums aimed not to pay the fiscal obligations by: not declaring on the whole or declaring partially the taxable incomes; registrations of some fictive expenses without the substantiate documents; or some expenses which have nothing to do with the object of activity; destroying the documents of accounting evidence etc.

Identifying positive and negative aspects as a result of carrying on the fiscal inspection actions, determines the settling of some perfecting measures of the fiscal control activity, the evaluating and control function of the fiscal management. The efficiency and efficacy of the fiscal activity does not have to be quantified by the attracted additional sums but by cashing the fiscal budgetary incomes provisioned through the national public budget and their increasing due to the extension of the taxation basis.

The functions of the fiscal management must be treated in interdependence due to their complementary character and the connections between them.

Respecting ***the general principles of fiscal management*** aim all those involved in the fiscal budgetary activity, and its exercising shows the level of performance of this activity, the knowing and applying these principles must be achieved by all those involved in the management of fiscal activity. From this point of view , we take into consideration the following:

1. The principle of defining and applying the unitary management according to the influence of the medium – the clear, unitary and commune vision upon the fiscal activity, must be achieved in correlation, adaptation with the management system to the existent situation at a certain moment, upon which economical, technical, technological factors, political factors, juridical and ecological factors.
2. The principle of legality – dimension and structure the processes , methods and relations of fiscal management must be realized on legal basis , the aim is not only to obtain fiscal incomes but also to satisfy the general public interest by using the proper public financial resources accordingly.
3. The principle of motivating all the factors involved in the fiscal activity – the moral and material stimulation of those involved in the fiscal activity lead to the achievement of the indicators of performance established to the increasing of fiscal efficiency.
4. The principle of efficiency – using the means and methods of management accordingly has a direct involvement in the way of managing all the categories of resources (financial, material, human, informational),aiming to maximize the satisfaction degree of social needs by fiscal levers used.

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EUROPEAN MONETARY UNION AND ROMANIA

Abstract: *Romania face the question of whether and in what time frame the economy will be capable of fulfilling the conditions for entering into the euro area. In general, those conditions can be understood as attaining such parameters in various fields of economic life that will ensure successful operation of the economy in the environment of the single monetary policy of the European Central Bank. This article analyzes the main issues of the euro adoption in Romania. In the medium term, an important challenge for Romania is to achieve real and nominal convergence. Within this framework, the Eurosystem emphasizes the need to perform real convergence in parallel with and not on the behalf of nominal convergence. The question of optimal timing of euro adoption has to be addressed.*

Key words: *euro adoption, convergence, Romania*

JEL Classification: *E31, E42, E60, F33*

After integration into the European Union, Romania have to decided the moment when to join the Exchange Rate Mechanism - ERM II and adopt the euro when all nominal convergence criteria set by the Maastricht Treaty are met. The main arguments to decide if it is a good idea to join a monetary union have been developed by Robert Mundell in many articles and books that have been published since the 1960s.

A clear and credible commitment to the euro that is shared in the public would have a stabilizing effect on expectations because investors would not fear a change in strategy even in hard times. Unfortunately, the euro enjoys less support than EU accession did and it is controversial in many of the old member states. For the new EU member states, euro adoption without a clear public and political commitment can be a risky strategy (Meyer and Jacobsen, 2005).

We consider that, today, the specialized literature in Romania is extremely scarce as regards works dealing with the problems of the European Monetary Union enlargement and its implications for the new members. Cerna (1997) tries to give a global image of the process of European monetary integration and to draw conclusions for Romania. Ignat (2002) underlines the complex processes of European monetary integration, analyzing the conditions of a monetary union, the evolution from a common market to a single market, the constraints related to the transition to the euro, the position and role of the euro as an international currency. Dăianu and Vrânceanu (2002) shows the directions of action for a number of economic phenomena in the Romanian transition: reducing inflation, consolidating the external balance, increasing foreign capital inflows to Romania. They also analyze problems such as the convergence of economies in the integration process and the impact of globalization on the international financial system and on economic growth. Dăianu (2004) identifies a series of indicators of real convergence – per-capita income, work productivity, relative price convergence – claiming that a too early adoption of the euro could affect the equalization process because the compromise between economic growth and inflation.

Moreover, when Dăianu proposed certain models and solutions for Romania, these were ignored (postponing the liberalization of the capital account until after 2005 and inflation targeting until conditions made it possible). This fact have as result Romania's impossibility to fit in a model of monetary integration set at the level of the new EU member states, and thus *the necessity to formulate a credible strategy for euro adoption in Romania.* Setting a clear and credible date for the final goal helps to sustain the effort in order to meet the qualification criteria and to stabilize market expectations.

In order to adopt the euro, Romania must satisfy the Maastricht **nominal convergence** criteria on inflation, long interest rate, public debt, budget deficit and exchange rate stability. A euro-candidate country must therefore demonstrate before adopting the euro that its inflation rate is not excessively out of line with the rest of the euro area members. The long-term interest rate criterion serves as a means to assess the sustainability of the low inflation rate. The two fiscal criteria are to prevent free riding and spill-over effects and to ensure that a country will not have to resort to distortionary taxes to service a high debt level which would set back growth. The exchange rate stability criterion can be looked at as a "catch all" test, demonstrating that a country can live with exchange rate stability.

An analyze of the short and medium term fulfillment of the Maastricht criteria in Romania shows that there are some indicators with positive developments (budget deficit, public debt) and another which have tended to be unfavorable for the Romania in the past, but which have improved in recent years (inflation rate, interest rate and exchange rate). Fulfilling only two criteria is not enough. Radical consolidation is necessary because the budget system will have to find sufficient resources to finance necessary infrastructure investments, which will in turn facilitate the process of real economic convergence.

Table 1: Indicators of Convergence in Romania

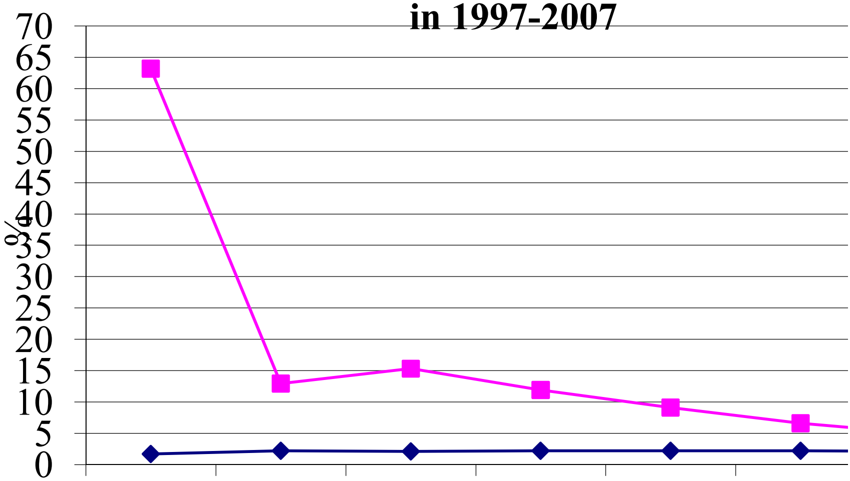
Indicators	2004	2005	2006	2007	2008	2009	2010
Budget deficit (% of GDP)	**-1.5**	**-1.4**	**-1.9**	**-2.7**	**-3.2**	**-3.9**	**n.a.**
Public debt (% of GDP, ESA 95)	**18.8**	**15.8**	**12.4**	**12.5**	**12.8**	**13.5**	**n.a.**
Index of consumer prices (%, annual average)	**11.9**	**9.1**	**6.6**	**4.8**	**7.0**	**4.5**	**3.6**
Long term interest rate (%, annual average)	**n.a.**	**6.5**	**7.2**	**7.7**	**n.a.**	**n.a.**	**n.a.**
Exchange rate (RON/EUR, annual average)	**4.05**	**3.62**	**3.53**	**3.31**	**3.55**	**3.45**	**3.38**

Source: European Commission - *Economic Forecast - autumn 2007*, European Economy no. 7/2007; National Forecast Commission - *Economic Forecast*, 2008

Although it is not easy to forecast the evolution of the ***budget deficit*** in Romania after January 2007, considering the experience of the other new EU member states we expect that budget income and expenses increase in the next few years. The budget deficit deteriorated from 1.9% of GDP in 2006 to 2.7% of GDP in 2007, mainly due to an increase in government consumption, in particular public wages and social transfers. Furthermore, under-spent public capital expenditure due to low execution of investment plans has been shifted to current spending through successive budget amendments. In 2008 and 2009, the deficit is expected to further widen to 3.2% and 3.9% of GDP respectively. Although the increase in budget deficit after accession is certain, its level depends largely upon the budget programs that will be adopted and upon the amount of funds transferred between Romania and the EU.

The analysis of the evolution of ***public debt*** in the last few years reveals a decreasing tendency, with values below the limits set by the Maastricht Treaty, i.e. of 60% of GDP. In 2005, this was at 15.8% of GDP, 11% less than in 2000, fact that proves Romania's position is better than that of the majority of the new EU member states. Any estimate on the evolution of Romania's public debt after accession should consider the fact that the public debt will still be an important factor of economic growth, as a source of funding for investment projects in priority areas of the Romanian economy. Even though in the first few years following accession, it is possible that public debt increase in absolute figures, within the framework of the expected economic growth it will decrease in relative figures, thus being maintained between the limits set by the Maastricht Treaty. The public debt to GDP ratio is projected to increase by 1% between 2007 and 2009 to around 13.5% mainly due to higher deficits.

Graph 1. Evolution of the Harmonised Index Consumer Prices in the Euro Area and Roma in 1997-2007



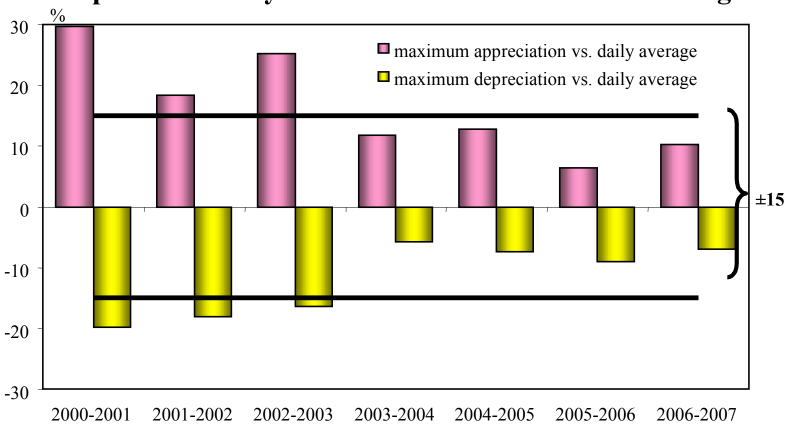
In Romania, the ***inflation rate*** in the year before accession was 6.6%, above the average of the Central and Eastern European new EU members before accession, of 2.8%. According to the estimates of the National Forecast Commission of Romania, the disinflation process started before accession will continue after Romania's integration. In 2010, the inflation rate will be below 3.6%, meeting the criteria of the Maastricht Treaty, which stipulate that the inflation rate should be maintained below 1.5% above the euro area average.

The National Bank of Romania's monetary policy operates under a regime of inflation targeting with inflation targets set in terms of the national Consumer Price Index (CPI), but is necessary to take into consideration any methodological, and therefore also quantitative, differences between the CPI and the Harmonized Index of Consumer Prices (HICP), with which the Maastricht criteria operates.

Between 2002 and 2005, the ***reference interest rate*** dropped to an extraordinary degree, from 34.6% in February 2002, to 7.5% in November 2005, a level that was maintained until February 2006. Even if afterwards there were certain increases to 8.75% in August 2006 and to 9.03% in April 2008, considering the inflation targets set by National Bank of Romania, we could state that the interest nominal rate will continue its ascending trend.

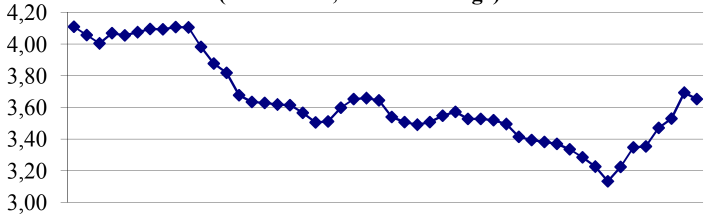
According to the data published by NBR, between 2000 and 2007 the leu/euro ***exchange rate*** experienced huge fluctuations.

Graph 2. Volatility of the Nominal RON/EUR Exchange Rate



Between 2000 and 2004, the leu depreciated from 1.99 RON/EUR, the average of 2000, to 4.05 RON/EUR, the average of 2004. In November 2004 was the starting point for the appreciation of the leu vis-à-vis the euro, the average of 2005 being of 3.62 RON/EUR. In December 2007 the domestic currency posted its first nominal depreciation versus the euro (3.3%) in the last four years, reflecting the decline in investor appetite for risk against the background of heightened concerns following the US sub-prime mortgage crisis and its spill-over effects on the international financial markets. The National Forecast Commission estimates that the Romanian domestic currency will continue to appreciate, although not significantly, so that in 2010 the rate will be 3.38 RON/EUR.

Graph 3. Exchange Rate Evolution in Romania 2004-2008 (RON/EUR, annual average)



As regards the direct impact of the exchange rate on inflation through import prices, the recent nominal depreciation implies that the RON no longer has the disinflationary impact it had in previous years. In the medium run, the real exchange rate is driven by medium-term capital inflows or the productivity differential against major trade partners. Considering the heightened risk aversion on international markets and the recent developments, a slowdown is expected in the average appreciation rate.

Until 2004, the NBR exchange rate policy was characterized by rather frequent market interventions and low flexibility of the exchange rate, accompanied by a high predictability and low depth of the market. Economic developments of the 2004 made the central bank to change its strategy of exchange rate policy, even though the official regime was that of managed floating. Its reasons for such an approach were mainly related to its objective to discourage speculative flows, attracted by the huge interest differential, by the new strategy of monetary policy, but also by the utilization of the leu nominal appreciation as a means of strengthening the monetary policy to support disinflation. In addition, it was necessary that NBR reduce its interventions in the market, thus limiting liquidity injections, which eventually would have had to be sterilized with significant costs.

Although the monetary independence of the NBR is currently limited to setting the key interest rates for RON, the lost of this possibility - through entering into the euro area - may have serious consequences. Impossibility to maintain different nominal interest rates in different EU countries causes serious problems as long as these countries experience different phases of the business cycle or different rates of inflation at the same time. Single ECB interest rate for EUR causes that countries which need a relatively higher real interest rate have relatively lower real interest rate instead, and vice versa. The only solution to this problem is the alignment of the business cycles and substantial reduction of currently divergent rates of inflation differentials within the eurozone countries. But in a monetary union the reduction of rates of inflation differentials is only possible after the price level gaps are substantially reduced, which in turn requires a higher level of the real convergence between EU countries.

Even if monetary policy strategy is internally consistent during the period of fulfillment of the convergence criteria, it might not necessarily be appropriate for the economy at that particular moment in time. For example, trying to keep inflation too low may result in an excessively restrictive monetary policy and a loss in the form of reduced economic growth. The opposite situation, an overheating of the economy, may occur if the exchange rate is fixed at too depreciated a level. A change of monetary policy regime entails considerable costs, especially if the previous regime has been in place for a long time and economic agents have adapted their behavior to it. For this reason, central banks usually resort to a change of regime only in situations where there is no other way out (Masson and Ruge-Murcia, 2005).

The National Bank of Romania's analyses suggest that speculative inflows of foreign capital had an important contribution to the rapid appreciation of leu. The real appreciation of the Romanian domestic currency combined with an increase in GDP would enable Romania to fill the gaps between its GDP per capita ratio and that of the EU average of the same ratio. On the other hand, excessive appreciation of the national currency could affect exports, with huge consequences upon the balance of payments.

The indicators of **real convergence** do not look fine: a weak convergence of the revenue level towards that in the euro area; a modest improvement in the conditions for business; many differences between the national financial market characteristics and euro area average. Insufficient alignment with the euro area economy could increase the costs arising from the loss of independent monetary policy. Greater labor market flexibility is thus still one of the key challenges going forward.

In the medium term, an important challenge for Romania is to achieve real and nominal convergence. Within this framework, the Eurosystem emphasizes the need to perform real convergence in parallel with and not on the behalf of nominal convergence. The advance of real convergence supports nominal convergence because the efficiency of monetary and fiscal policies is increasing when the causes of macroeconomic problems are reduced.

The question of optimal timing of euro adoption has to be addressed. The potentially most difficult nominal convergence criterion to satisfy is the inflation criterion. This is because the catching up itself means price level convergence that can be achieved by either higher inflation or exchange rate appreciation. The authorities' control in both of these areas is limited due to the unrestricted flow of capital and the associated constraints on domestic monetary policy. Giving up the tool of exchange rate policy can present problems.

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THE SUBJECTIVE DIMENSIONS OF THE HUMAN RESOURCES' EVALUATION IN EDUCATIONAL SYSTEM

Abstract: *About the problem of teacher's evaluation it is important to ask first what significance and effect has this phenomenon for the implicated persons. Discussing about the effect in the evaluation would allow not only to know what people do but why do they act (or do not act) as they act and what these actions do mean for them. So we can choose a broad approach of the evaluation which permits to be estimated as far as it is workable, total significant factors, without simplifying wrongly the complexity of the variables that interfere. From this perspective, the subjective dimensions, which gives a meaning of the evaluation process (the representations, attitudes, perceptions, believes, personal opinions implicated in the evaluation context) become decisive factors of the quality of this process.*

Key words:*human behavior, human patterns, attitude, represemtation*

JEL Classification:*A13, A14, A12*

The evaluation problem in the educational field is very complex and of vast proportion. The divers' approaches, beginning from evaluation – measurement till the evaluation as a meaning problem, have generated many notions, patterns and theories. The notion ***pattern*** is one of the most used in evaluation. Cardinet [1] defines **evaluation** as ***a study of patterns.***

When studying the evaluation problem it is very important to ask what it means, what sense has these phenomena for the implicated persons in this process. Therefore the approach of the sense in evaluation, would allow not only to know what people do but although why do they act (or do not act) in a certain way and what does it mean this action for them. So, we can choose for an extended approach of the evaluation which permits to estimate, as far as it is workable, the assembly of the significant factors, without simplifying the variable's complexity which could twist the results. From this perspective, ***the subjective dimensions*** which gives a meaning to the evaluation process (attitudes, perceptions, believes, personal opinions implicated in the evaluation process) become determinant elements of the quality of the evaluation process.

Although studied in physiology and pedagogy, the subjective dimensions mentioned above remains insufficient delimited, the existing interference areas between them make difficult to define the aimed concepts. So the subjective dimension analyze of the teacher's evaluation we have in view two basically ***notions:*** the attitude and representation notions.

1. The attitude notion

The result of the person's experience, the attitudes are integrated, kept and stabilized in the internal universe of each person. The person can not live only by retirement in itself. The environment involves many changes, different demands, making him to react according to all this. Trying to adapt to the external environment, the person becomes the agent of his own changes of attitude. The changes are done more or less according to the person's receptivity and by the processes which demand the change.

The notion of attitude has been given a definition for many times, the meaning of this term became the object of research. Trying to define the notion of attitude the psychologists talk about a mental state which predispose to take action in a certain way when the situation involves the real or symbolic presence of the object toward which this action goes. Knowing the teacher's attitude regarding everything that means the educational process, it is possible to predict his attitude towards the students, but also toward other situations which implies different aspects of the process. From this point of view the attitude notion it is a hypothetical construction and not a given fact that can not be observed. It is an integrated conceptual instrument for explaining the stabile structure of the teacher's personality. This structure includes three fundamental components that interact very strongly:

- ***the cognitive component*** is about what the teacher knows or thinks he knows about the educational process, that is the characteristics that he attributes to it;

- ***the emotional component*** it is built by the attraction or repulsion that the teacher feels about the object. This allows to put the object on a scale which goes from desirable to undesirable, from good to bad;
- ***the behavioral component*** is about the intentions or the decisions about the action and it is ***"a priori"*** bonded by the first two.

Some authors who emphasize the relation between the attitude and behavior and assert that the attitudes "release behavior of approach if they are positive and behavior of avoidance if they are negative." [2].

Burelle [3] and Gadbois [4] had presented an analysis of the development of the theoretical built of attitude organized around the problems of explaining the human behavior starting from the attitudes. The major works in this field resort to a global view of the relation attitude and behavior, according to it the person's behavior about a given objective would be the function of his attitude toward this objective.

Ajzen and Fishbein's [5] theory, named the theory of rational action, is based upon theory that in general the people are rational beings who use the information that they have. Because of this it is possible to prevent and to explain the teacher's behavior if the factors which determine this behavior are known.

So we can take into consideration many theories about the changes of attitude and also about the factors which could have a certain value of prediction of the changes which take place at the internal dynamic level and the external attitude system like:

- *The theory of behavior inspiration.* A persuasive communication can start a learning process which can be translated as acquiring new attitudes (answer). The teacher's opinion has the tendency to persist as long as a new learning process is not launched. For an opinion to replace another to the same teacher it is necessary that the opinion to look profitable. The profitability depends of the social desirability of the teacher. As long as the opinion serves to the teacher's assert according to his group this opinion will arouse the teacher's devotion.
- *F. Heider's theory of balance.* The cognitive psychology theorists suggest that the usual way of thinking influence the feelings. Heider consider that the individuals have the tendency to organize the perception of the objects and persons in units are linked through feelings or positive attitudes. When a lack of balance appears the spontaneous tendency is to bring the relations at a balanced state. The

unbalanced attitudes will force him to change and to restore a positive balance.

- *The theory of cognitive dissonance.* Festinger's theory is elaborated for appointing the physical indisposition due to the breaking between the two or more contradictory ideas. A serial of fundamental situations can create at a teacher dissonance: taking a decision, forced submission, to expose a voluntary or involuntary expose of information, to accomplish an effort poor remunerated, and the disagreement with someone else.

About the factors of change we can make the difference between the external and internal factors:

***a. Internal Factors**:*

- *Assimilation- contrast.* We can see that it is very difficult to change the extremist attitudes of the teacher. It is necessary to invest a lot of time for "converting" someone who has convictions found at the base of extreme opinions.
- *The consistency of the attitude system.* A system of attitudes is consistent when the three components of the attitudes (cognitive, emotional, behavior) are convergent reported to the given situation.
- *The consonant of the system of attitudes.* This represents the tendency of the attitude system toward homeostasis. The attitudes are interdependent and have the tendency to look for a mutual state of harmony that offers to the teacher a certain internal comfort. The compatibility between the teacher's attitudes can guarantee his internal consonance.
- *The functional usefulness of the attitude.* The existence of a specific system of attitudes creates an adaptable response to the environment's multiple pressures along the way. The attitudes represent the starting point for satisfying the needs. The context can evolve and certain attitudes become functional.

b. External factors

- *The credibility and the origin of the messages.* It is demonstrated that the change of opinion is as vast as the source has a power full credibility. The credibility of a source depends of the trust which the receiver inspires.
- *The message's importance.* To modify the teacher's attitude or of a group by persuading it supposes to choose the right means for achieving the objective.

- *The fear and the anxiety as a mean of change.* The fast detection of the tolerance at anxiety of one or another teacher presents many difficulties. The stress can block someone but sometimes it is proved to be useful for overcoming an indispensable level of psychic comfort for changing an attitude.

If intelligence makes the teachers to be more or less receptive to certain forms of arguing there is an inter individual variation of attitudes having in view of what psychologists name the self esteem.

2. The concept of representation

Moscovici [6] proposes a conception of attitudes taking Durkheim's sociological tradition who gives a great importance to the phenomena called "social representation" in the individual change offering a new force and a new identity.

Emphasizing the complex and systemic nature of the social representation, Moscovici considers a structural assembly of values notions and practices relative at the object, aspects or dimensions of the social environment, system which permits the individual to survive in the society, to direct the behavior and communication, to select the answers at the environmental stimulus.

The concepts with which the social representation theory interfere stronger are the opinions and the attitudes. The public opinion is a social phenomenon expressing the community's mentality. It is a social manifestation, a common cognitive construction regarding to this objects and situations with which the groups come into contact. A person's opinion represents a verbal manifestation expressing his reaction toward a certain object. The opinion is in general, more rational, more processed by the conscience's filter then other ***cognitive structures*** as *attitude* or the *stereotype.* The attitude is built in a complex structure and more profound in comparison to the opinion.

So we can note two major moments:

- the social representations are conceived at a superior level of attitudes and opinions ; they serve as organising background or environments for developing attitudes and opinions ;

- the social representation not only organize, but they also precede, in a way, attitudes and opinions, the last ones feeding themselves with the first ones.

We can say that the researches are pointed toward the representation defining as a ***way of thinking, to understand the every day***

reality.[7] This are forms of social knowledge which overcome the simple cognition, because includes attitudes, beliefs, values, opinions and everything that makes this world.

The representations, in their quality of interpretation system, is determining our relation with the world directs and organises the conduct and its social rapports. "We act as the stimulus are coming from the social environment, is not reported with the subjective information, but this is depending of our image about reality" [8].

Inside the educational system environment, of the learning process, the subject can create an image about itself and about the society in which it lives in. It is very important to know how to build this image, how the subject (the student) uses the educational relation for developing himself, to explore its potentials creating new representations and new conducts. When the teacher readjusts the representations, he finds himself, on the one hand, to confront the social rules and on the other hand with the intuitive image which he has formed about the forming subject.

Starting from these two poles, it is developed the teacher's representations. For remaining objective, the teacher must articulate the forming subject's products and the attitudes through a systemic and dynamic approach.

The change of the teacher's educational practices mean to modify the representations which sustain these practices. In accordance with the results obtained by some specialist of the field [9], the purpose of the representations is determined by the formative optimization and pedagogical efficiency.

From this point of view, in their quality of perceptive instruments of the reality, as a conduct guide, the representations could be considered to be ***nucleus*** from which begins to structure teaching/learning behaviors. [10]

The main actors of the teaching- educating system (teachers, students, administrators, etc.) have certain ideas about variables which create this system, about their own function in the teaching process, but not the objective characteristics of a situation determine the individuals behavior found interacting, but their representation which the individuals have about this situation. [11]

Because the term representation is used in the social psychology for naming the way of perception a social object given by a subject or a group, the specific representation is not about the elements which compose it but of these organization elements.

Such an approach of the representation's study allows to establish „patterns" or themes for clearing the evolution significance.

The evaluation practices are imagined as the product of the rapport between the knowledge, skills and attitudes.

The knowledge (savoir) and the skills (savoir-faire) generate a certain number of patterns at which the teacher relates for guiding his evaluation's practices and for modeling the attitudes, behaviors and the products of these behaviors (savoir-etre).

The representation is not only a simple reflection of reality, is an organisation having in view the circumstances (the social and ideological context, the situation's characteristics, immediate finalisation). Therefore if the members of a compact group share a theory this gets the characteristic of a prototype, of organization type (cf. Flament, 1994) and becomes the action guide, guiding the social relations, the social actors' actions. It is a system of pre decoding the reality because it is determining an anticipation and expectation assembly. The significance of the social representations is fed by the context, first of all through the nature of the conditions which produce the speech and which allow to formulate ideas, to discover some theories.

The speech is always situated in space and time and it supposes to have certain reports, interactions (Mugny, Carugati). It is fed by an ideological field, by the place taken by an individual or by a group in the social system. The cultural and ideological environment, the collectivity way of thinking anchors the individual, shapes it and than sends it in the world. The individual through its biography is the prisoner of its cultural environment.

So the teacher's *system of representation* it is characterised by the next lines:

- the evaluation is a complex phenomena which can be defined as a *process of treeting the information, to diagnose , decision and communication* between formator and the subject to be formed ;
- the teacher's evaluation practices *reflect* his idea about education which comes from *its cultural heritage***;**
- the teacher's *representation system is built* on his *knowledge, skills and attitudes* (savoir, savoir-faire, savoir-etre) and comes from his *social structure,* which sends us to his environment;
- teacher's representations of the evaluation become conscience when they are part of the work activity.

Interacting with the context, making different product, developing the ability, the social actor changes, transform, and build. The subject takes decisions and positions, relates to others, and gives his action a cognitive significance that can have the differentiating role in building the representation. Amerio and De Piccoli (1991) had proved that the action activates the cognitions (and the representations), identitary constructions which make the actor to differentiate himself of the context and other actors. The assembly of comparisons and differences induced through actions contributes either to elaborate some commune representations of the individuals grouped by the commune action or to enrich or to dilute this representations.

This two found that the representation process can not be detached by the activity in which the social actors are engaged. The representations take and structure the cognitive elements which are the result of concrete relations with the social context. The relations between individuals are not neutral; they are determined by taking an action which engages the acting competence. And the competence develops, as we know, through activity.

So conceived as a system the evaluation in the teaching system supposes to have a global vision of the domains and levels. It can be produced a reorientation to approach the evaluation as a problem of sense/ significance focused on the process. The science it is forced to reintroduce the subjectivity, sense giving, interpretation in the world's patterns.

The contribution to give a solution to this problem is in the foundation of the teacher's extended evaluation concept, based on a systemically view of evaluation, dealt as a general way, of measuring and interpretation of the product's value, procedure, process.

From this perspective, the subjective variables (representation, attitudes, believes), became fundamental elements of the evaluation process which needs an attentive analysis: to define the concepts, to identify the relations between them, to understand the interaction mechanism with the purpose of identifying their role and the importance in the evaluation process.

The evaluation system operates in the context of an educational policy which contributes to the evaluation patterns, adequate methods, and forming strategies.

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PROJECT RISK MANAGEMENT

Abstract: *Risk management is recognized as an essential contributor to business and project success, since it focuses on addressing uncertainties in a proactive manner in order to minimize threats, maximize opportunities, and optimize achievement of objectives. The most significant critical success factor for an effective risk management is the selection of the most appropriate strategy for every type of risk, classified according the potential impact.*

Key words: *risk management, risk strategy, opportunity, risk monitoring*

Every project is important and every project has risk. Every hour and every dollar are the keys to each successful project. Making good decisions that take account of real-world uncertainties can provide a margin of safety and profit. Project risk analysis is the identification and quantification of the likelihood and impact of events that may damage the project.

The Investopedia dictionary definition says "risk is the chance that an investment's actual return will be different than expected". This includes the possibility of losing some or all of the original investment.

Risk Avoidance: Investment planning is almost impossible without a thorough understanding of risk. There is a risk/return trade-off. That is, the greater risk accepted, the greater must be the potential return as reward for committing one's funds to an uncertain outcome. Generally, as the level of risk rises, the rate of return should also rise, and vice versa. Before we discuss risk in detail, we should first explain that risk can be perceived, defined and handled in a multitude of ways. One way to handle risk is to avoid it. Risk avoidance occurs when one chooses to completely avoid the activity the risk is associated with. An example would be the risk of being injured while driving an automobile. By choosing not to drive a person could avoid that risk altogether. Obviously, life presents some risks that cannot be avoided. One may view a risk in eating food that might be toxic. Complete avoidance, by refusing to eat at all, would create the inevitable outcome of death, so in this case, avoidance is not a viable choice. In the investment world, avoidance of some risk is deemed to be possible through the act of investing in "risk-free" investments. Short-term maturity United States government bonds are usually equated with a "risk-free" rate of return. Stock market risk can be completely avoided by one choosing to have no exposure to it by not investing in equity securities.

Risk Transfer: Another way to handle risk is to transfer the risk. An easy to understand example of risk transfer is the concept of insurance. If one has the risk of becoming severely ill (and unfortunately we all do), then health insurance is advisable. An insurance company will allow you to transfer the risk of large medical bills to them in exchange for a fee called an insurance premium. The company knows that statistically, if they collect enough premiums and have a large enough pool of insured's, they can pay the costs of the minority who will require extensive medical treatment and have enough left over to record a profit. Risk transfer can also occur in investing. One may choose to purchase a municipal bond that is insured. One may purchase a put option on a stock which allows that person to "put to" or sell to someone their stock at a set price, regardless of how much lower the stock may drop. There are many examples of risk transfer in the area of investing.

Risk Mitigation is a general term for reducing probability and/or consequences of an adverse risk event. In the extreme case, this can lead to eliminating the risk entirely (as seen in "avoidance"). However, in mitigation, it is not sufficient to consider only the resultant expected value, because, if the otential impact is above a certain threshold – established by risk management term – the risk remains unacceptable.]n this case, one of the other approaches will have to be adopted.

Risk acceptance entails planning for ways in which to deal with the event if it occurs, rather than attempting to influence its probability or impact. From the point of view of the project, this will be the strategy of choice in cases where the effect of the risk is known to be sufficiently contained for it to be acceptable (i.e. below the defined "pain threshold"). Acceptance can be "passive" when the impact is of minor importance (e.g. in the utility "dead" zone): in this case, no prior plans are put in place. Acceptance is "active" when the impact, if the event occurs, will need to be reduced: in this case a "contingency" plan plus cost of the risk event) to an acceptable level.

Investors deal with risk by choosing (implicitly or explicitly) the amount of risk they are willing to incur. Some investors choose to incur high levels of risk with the expectation of high levels of return. Other investors are unwilling to assume much risk, and they should not expect to earn large returns. We have said that investors would like to maximize their returns. Can we also say that investors, in general, will choose to minimize their risks? No! The reason is that there are costs to minimizing the risk, specifically a lower expected return. Taken to its logical conclusion, the minimization of risk would result in everyone holding risk-free assets such as savings accounts and Treasury bills. Thus, we need to think in terms of the expected return/risk trade-off that results from the direct relationship between the risk and the expected return of the investment.

Every project involves some degree of risk ("nothing ventured, nothing gained...."), but that risk can be controlled with a bit of careful analysis, planning and communication. As a project manager (or a manager dealing with projects), it is your job to anticipate project risks, and then to devise the means for controlling those risk before they can get out of hand.

Risk is a combination of the probability of a negative event and its consequences. If an event is inevitable but inconsequential, it does not represent a risk, because it has no impact. Alternatively, an improbable event with significant consequences may not be a high risk. These two factors are combined in what we experience as the possibility of loss, failure, danger or peril.

$$\text{Project Risk} = \sum (\text{Events} * \text{Probabilities} * \text{Consequences})$$

An easy way to reduce risk is to have less ambitious goals. After evaluating risks, one can choose a path of risk avoidance or risk mitigation and management. If we understand the risks on a project, we can decide which risks are acceptable and take actions to mitigate or forestall those risks. If our project risk assessment determines risks are excessive, we may want to consider restructuring the project to within acceptable levels of risk.

Risks that do not offer the potential for gain (profit?) should be avoided. Risks associated with achieving challenging and worthwhile goals should be managed. One way to reduce risk is to gather information about relevant issues to lower the level of uncertainty. Then we can look for ways to reduce probabilities of failures or to reduce their consequences.

What may look like an unacceptable risk to one person might rightly appear as an attractive opportunity to another. The difference is the vision.

Items in the project plan that are important and that are uncertain of success should be considered risk areas and given special attention. Risk should be associated with areas where the scope is not well defined or is subject to change. An unproven or immature technical approach, or known technical difficulty or complexity will increase project risk. Ambitious goals always result in risk. Unfamiliarity with the process, or inexperienced personnel, constitute project risks, if for no other reason than being unknowns. Exterior interfaces cause risks because they can change and, even if they don't change, their descriptions or specifications may be inaccurate. Exterior organizational dependencies create project risks. Incomplete planning or optimistic cost or schedule goals create risk. If the customer is involved in schedule dependencies for document review and approval or for delivering process information, this creates project risks. Conversely, project risks are created if the customer is not involved in periodic review of the system design and project plans.

Any area over which the project manager does not have control can be project risks. Anything that is not well understood, anything that is not well documented, and anything that can change, these all create project risks. Things that haven't been tested are always at a risk.

An organizational culture that has previously had problems executing projects will be likely to repeat the same mistakes. These problem areas should be understood and managed as significant project risks. They must be counteracted by specific bold mitigating management initiatives or repeated failures guaranteed.

The known unknowns are more likely to be project risks than the unknown unknowns. This means you should trust your instincts and pay attention to what seems risky to you. It is more likely you will have problems from known risk areas than be surprised by things completely unforeseen.

Project managers who assess the risk that the project will overrun its cost estimate or schedule, or will fail to meet performance objectives or specifications often improve their likelihood of a successful project.

Project Risk Management involves conducting risk management planning, engaging in risk identification, completing risk analysis, creating a risk response action plan, and monitoring and controlling risk on a project. Project Risk Management is a continuous process to be engaged in through out the entire project. A key point to remember is that risk is not always bad. There are opportunities and there are threats. The opportunities are the good risks. The treats are the bad risks. The purpose of project risk management is to increase the likelihood and impact of positive events and to decrease the probability and impact or negative events. The steps of risk management process are (see Figure 1):

Risk Management Planning – Risk Management Planning is the process where decisions are made on how to approach, plan, and execute risk management activities. This is completed as a part of the planning process group.

Risk Identification – Risk Identification determines the risk which can affect the project's objectives, and identifies the characteristics of those risks. Risk Identification is commonly first engaged in the planning process group. **Qualitative Risk Analysis** – Qualitative Risk Analysis prioritizes risk for future analysis by analyzing the probability of occurrence and impact. Qualitative Risk

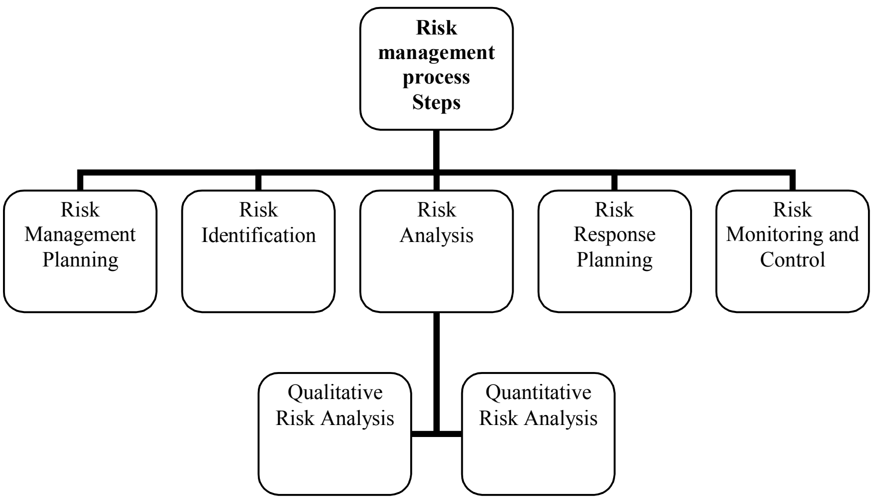

Figure 1. The steps of risk management process

Analysis is commonly first engaged within the planning process group.

Quantitative Risk Analysis – Quantitative Risk Analysis assigns a number to risks as a part of determining the impact on overall project objectives. Quantitative Risk Analysis is commonly engaged within the planning process group.

Risk Response Planning – Risk Response Planning ascertains the options and action plans to enhance the opportunities and mitigate the threats. Risk Response planning is normally first started in the Risk Response Planning Group.

Risk Monitoring and Control – Risk Monitoring and Controlling is an ongoing process. It involves overseeing the effectiveness of risk responses, monitoring residual risks, identifying and documenting new risks, and assuring that risk management processes are followed. This is done throughout Monitoring and controlling process group.

These steps can be applied to an enterprise, to a part of the organization or to a specific project. The fourth phase entails developing options and determining strategies to enhance opportunities and reduce threats to the business's objectives.

Risk analysis is an opportunity to help solve problems and to enhance communications within the project for a more effective team effort. The expertise and knowledge about the project resides in the client's personnel. The added ingredient needed in experience in:

- Structuring the project risk problem
- Disciplined, proven methodologies needed to analyze the risk
- Developing information and data needed to resolve the problem

Risk analysis improves the accuracy of traditional scheduling, cost estimation, spreadsheet financial models, and systems engineering skills.

It injects more realism (and sometimes honesty) than can be accommodated in these deterministic techniques. Risk analysis and management is a complete system including:

- Techniques, methods, concepts and available software needed to do the analysis, and
- Tools to address issues including a corporate culture that may not welcome an honest appraisal of risk ("risk is bad news") and people who feel they cannot use judgment to make statements about the future.

A complete system of risk management includes people, attitudes and institutions as well as theory, concepts, hardware and software. An approach that has been effective in helping companies and governmental agencies deal with project risk includes:

- Consulting, usually as a member of the team
- Training in risk concepts and implementation
- Information exchange

Risk and opportunity are values on a continuum or variation, and the optimum decision ensures that risk is commensurate with the expected reward. The goal of risk management is to support company development in order to achieve its objectives in the most effective way. It is necessary to explain the notion of risk management "effectiveness" in order to clarify the differences between this term and efficiency and efficacy. The effectiveness is related to the others two terms, but has a greater range of meanings. Efficiency describes the application of resources to inputs in order to generate outputs with minimal waste. Effectiveness on the other hand is not just about the ratio of input to output, but instead relates to the extent to which a measurable result is obtained. A third related measure can also be defined, namely efficacy, describing the power to achieve the desired result, measured against defined objectives.

The risk literature discusses a number of critical success factors which have the potential to influence risk management effectiveness. The critical success factors for successful development and implementation of a comprehensive risk management program include: gaining executive support, integrating risk management into decision-making process, demonstrating value to the organization by creating efficiencies in procedures and controls, creating a common risk language. The assessment of risk involves an individual bringing his own characteristics to the situation and apprised of risk. The background and experience or the risk manager, senior management's expectations about risk and the corporate culture and attitudes toward accountability influence also the effectiveness of risk management.

Each Risk Management process results in a specific deliverable which is used as the foundations for the subsequent process. Combined the risk management processes provide a best practice pattern for managing risk on a project.

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IMPROVEMENT WAYS AND DIRECTIONS OF RE-STRUCTURING AND TRANSFORMATIONS OF THE FINANCING SYSTEM OF PUBLIC HEALTH SERVICES

Abstract In this article, there are developed the main directions of transformations in the financing system of public health services. Solving condition of overcoming of social and political barriers of re-structuring is the exit on qualitatively other level of coordination of the policy of public authorities across (first of all bodies of public health services, social protection and the finance, obligatory medical insurance funds) and on verticals and maintenance of its integrated approach and sequence.

Keywords: public health services, obligatory medical insurance system, public funds, budgetary financing

DIRECTIONS OF TRANSFORMATIONS IN SYSTEM OF FINANCING OF PUBLIC HEALTH SERVICES

As directions of transformations in system of financing of public health services it is offered to consider the following.

1. *More accurate definition of obligations of the state on rendering of free medical aid in system obligatory medical insurance is necessary.* It is necessary to establish volumes of medical aid not only as a whole on the country, but also to define concrete structure of medical services and the medicinal maintenance, which free granting the state guarantees to citizens in case of different kinds of diseases. It should be the medical-economic standards defined on each case and reflecting not wished, and economically possible for state at the real sizes of financing of public health services level of rendering of medical aid.

2. *It is necessary to define accurately structure of medical aid* which the state can really render for free now to all population within the limits of obligatory medical insurance system. This package deal should be balanced with and allocated with the state on its performance. The structure of the medical aid, included in base obligatory medical insurance

program, can appear narrower in comparison with the existing program. But it will be the program completely balanced with financial resources.

In our opinion, as other directions of necessary modernisation of obligatory medical insurance system:

- the establishment of personal specifications of payments on obligatory medical insurance to citizens from regional, municipal and republican budgets;
- Use of funds from the republican budget for subsidising of payments for the population;
- Concentration in republican obligatory medical insurance fund of more powerful part of resources of the obligatory medical insurance to create possibility on alignment of financial conditions of realisation of obligatory medical insurance in different areas;
- Elimination of an existing duality of channels of financing of medical institutions for the same activity; all funds intended for financing of medical aid, provided obligatory medical insurance program, should be concentrated in obligatory medical insurance system and be used for payment by insurers of volumes of the help rendered to citizens by medical institutions;
- Considerable strengthening of the state requirements to activity of insurers in obligatory medical insurance system to transform them from passive intermediaries in movement of financial assets into active buyers optimum for the population of volumes of medical aid in treatment-and-prophylactic establishments;
- Granting guaranteed options of insurers;

Under these conditions and at strengthening of the control over order of rendering of free and paid medical services availability of a package of medical services guaranteed in the obligatory medical insurance system and the medicinal help to all citizens can be provided. The medical aid included in the obligatory medical insurance program, it becomes valid to be given to the population free of charge and on a comprehensible degree of quality.

Guarantees of medical aid over the obligatory medical insurance program, i.e. the Program of the state guarantees as a whole to change it is inexpedient, as political costs of it are too high. However, it is necessary to legalize a law according to which the help is given in turn, or it is paid by citizens, and to develop the uniform laws regulating such turn and conditions of rendering of medical services on a paid basis.

SOME WAYS OF IMPROVEMENT OF RE-STRUCTURING OF THE SYSTEM OF FINANCING OF SYSTEM OF PUBLIC HEALTH SERVICES

It is expedient to legalize and develop mechanisms of an alternative choice of conditions of reception of the medical aid, providing increase of availability of the high quality medical services for the families, ready to spend for it additional money from their budget. Among such mechanisms it is necessary to specify first of all in the permission of a voluntary exit from system obligatory medical insurance with a part of payments under condition of the conclusion of the voluntary medical insurance contracts.

Solving condition of overcoming of social and political barriers of re-structuring is *the exit on qualitatively other level of coordination of the a policy of public authorities across (first of all bodies of public health services, social protection and the finance, obligatory medical insurance funds) and on verticals and maintenance of its integrated approach and sequence*. Creation of the comprehensive planning system of public health services is necessary.

If pressure of the political management upon other subjects of financing of the public health services, directed on reforming of this system is weak even acceptance of the acts initiating reform, will not be accompanied by its adequate execution. But even at strong pressure it is more rational to be guided by the realization of strategy of the consecutive transformations having more likely evolutionary character. The major principles of this strategy should become experimental working off the innovations pilot some areas where subjects are more interested in their realization.

The revealed differentiation of positions between areas will allow finding intention to incur function of a pilot platform. And the fulfilled mechanisms will be easier for transferring then to other areas. Such order will lower degree of possible resistance and possibility using references to crudity of innovations to refuse realization of the last.

And so, our research has shown that a key problem of the Moldavian system of public health services is considerable rupture between the state guarantees of free granting of medical aid to the population and their financial maintenance.

Three basic strategies of the decision of this problem are possible.

The first strategy assumes increase in state financing of public health services.

The second strategy focuses on the growth of efficiency of use of the available resources, reached first of all at the expense of re-structuring of the developed network of treatment-and-prophylactic establishments (including hospitalization replacement by the out-patient-polyclinic).

The third strategy assumes partial revision of the state guarantees and gradual legalization of a part of informal payments of the population for medical and accompanying services.

As a result of the analysis of influence of various strategy of the resolving of the problem of financial neediness of the state guarantees of health services to the population on availability of medical aid and development of legal and shadow forms of payment for medical services based on the unresolved problems:

- Changes in economic availability of health services for the population in cases of gradual increase in state financing of public health services, re-structuring of health maintenance facility network, partial legalization of informal payments for medical aid.
- Changes in territorial availability of health maintenance services and in the employment in public health services system at carrying out of its re-structuring; the analysis of possibilities and costs of employment of the laid off medical workers.
- Distribution and maintenances of informal institutes of payment for medical aid by the population, their dependences on formal rules of granting of medical services; the analysis of informal internal laws and the installations regulating behavior of employees of the public health service organizations in connection with shadow payments of the population.
- The prospects of transformation of the informal institutes regulating economic conditions of rendering medical aid to the population.
- Ways of achieving of the equation of the state guarantees of health maintenance services to the population with their financial maintenance, minimizing economic and social costs.

Analyses have shown, that at preservation of the existing level of expenses of the state on the public health services, expressed in percentage terms to gross national product, and absence of structural shifts in health services system the state guarantees in public health services will remain unbalanced with financial resources up to 2010.

If to spend structural changes, the state guarantees of maintenance of citizens free medical aid (to lower volumes less cost effective hospital care and to transfer them to out-patient sector) it is unconditional, it will reduce requirement for the public health services state financing. Thus, financial equation of the state guarantees can be reached in 2010.

To achieve more powerful conditional economy of public funds it is necessary to carry out wider scale restructure. From the medical point of view, there are considerable possibilities of reduction of volumes of the stationary care at the expense of the reduced number of hospitalisation and reduced average duration of stay of patients in hospitals.

Insufficiency of state financing of public health services is filled with the money of patients. According to research, direct dependence between the sizes of state financing of public health services and the share of the patients, compelled to get at own expense medicines for treatment in the state and municipal hospitals is observed.

Shadow forms of payment essentially are less often made for treatment of the patients receiving medical aid under programs of voluntary insurance, or paid through cash desk the services rendered to it. But the share of such patients does not exceed several percent, and all the same in variety of cases patients pay atop officially brought money.

Research has revealed weak interest of medical workers in granting of paid services in existing legal forms. Therefore, legal payment of medical aid in itself is not a guarantee of absence of the subsequent informal payments.

At preservation of the existing rules regulating conditions of reception by the population of medical aid and a condition of a payment of medical workers, practice of informal payments for medical services also will develop further as population financial resources will grow. No realistic growth of state financing of public health services will exist sufficiently to prevent increase in their sizes.

The analysis of possible variants of legalization of payments of the population for medical aid shows, that the realization of any of them is fraught with serious negative social and economic and political consequences. However, the preservation of existing conditions of granting of medical aid without changes also will inevitably lead to the growth of social intensity.

CONCLUSIONS AND RECOMMENDATIONS

Results of the carried out research allow to formulate the following main recommendations. In long-term prospect it is necessary to realize the strategy of a large scale re-structuring of system of public health services.

Productive carrying out of re-structuring demands, first of all, changes in the mechanism of financing of public health services:

- Elimination of an existing duality channels of financing of medical institutions for the same activity. All funds allocated for financing of medical aid, the provided program of obligatory medical insurance, should be concentrated in the obligatory medical insurance system and will be used for placing orders for payment of volumes of medical aid guaranteed by the obligatory medical insurance program.
- Changes of the order of budgetary financing of the medical institutions rendering medical aid, guaranteed over the obligatory medical insurance program: transition from budget financing of the maintenance of these establishments for payment for the coordinated volumes of services rendered by them is necessary.

Creation of system of comprehensive planning of public health services is necessary.

The solution of the problem of financial neediness of the state guarantees of health services to the population demands specification of the existing obligatory medical insurance program. It is necessary to define accurately the structure of medical aid which the state can provide for free to all population within the limits of the obligatory medical insurance system. This package deal should be balanced with the funds expended by the state and the performance of the funds.

Thus, there must be increased measures to control the rendered free and paid medical services availability of a package of medical services guaranteed in the system of obligatory medical insurance and the medicinal help to all citizens that can be provided.

Guarantees of free reception of medical aid over reconsidered program obligatory medical insurance to change in foreseeable prospect it is inexpedient. Within the long time inevitably will remain unbalanced with the sizes of their state financing. Access to corresponding medical services should be given in turn, or be paid by citizens.

It is inexpedient to try to struggle with informal payments for services under the obligatory medical insurance program reconsidered by the above-stated image based exclusively on the administrative and criminal measures.

It is more realistic to try to regulate this shadow market indirectly: *to keep development of legal paid sector of public health services and to regulate in it the prices for exclusively rendered medical services using* *new and exclusive technologies so that the legal prices served as the terminator for the prices of the shadow market*

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THE HISTORY OF COMPETITION POLICY IN EUROPE

Abstract: *Competition in the economy supports growth through the incentive to improve productivity, introduces technological improvements and innovation, which subsequently lessens production costs and leads to enhanced competitiveness in domestic and international markets. The first step towards a favorable competition environment, with equal rules of the business game for everyone, is an adequate legal framework and a strong competition policy. Nowadays, the competition policy of European Union is widely recognized as one of the best models. But it had a long history until it has reached the present state of being. The evolution of competition policy in Europe is described in the paper bellow and it emphasizes the positive results that it has during current times.*

The roots of competition policy on the international level can be found in the XIX-th century, when the Sherman Act was introduced in the United States of America as the first legislative act, which was intending to regulate the monopolistic behavior of the companies, as well as attempts to restrain commercial activity of some competitors. The Clayton Act followed in 1914. It was the first American law which introduced some rules in the mergers of companies. Later on, the so-called Webb-Pomerance Act exempted cartel agreements related to export activities from the competition legislation domain, with the condition that those do not affect the internal market.

If in the United States of America regulation of competition environment began early in time through the above-mentioned acts, in Europe there was no specific competition legislation until the I-st World War. Thus, the British Common Law from that period sometimes was conditioning a cartel agreement, and the Penal Code of France, even if it was threatening with punishment certain anticompetition behaviors, in the real economy cartel agreements between economic agents were frequently organized, which were difficult to regulate without the necessary tools and an adequate legal framework. In the Austro-Hungarian Empire the same situation was prevailing. In Germany the situation was even more difficult, price agreements being allowed and recognized by the courts of justice as being legal. Measures against cartels were taken in the extreme cases, for example when these could condition the establishment of exploitation of consumers.

Thus, after the I-st World War, there was a critical situation in Europe. Germany was the centre of cartel agreements, in the year 1910 the number of these being approximately 700. In the Austro-Hungarian Empire a number of 200 cartels existed until the I-st World War. Cartelization as a widely spread phenomenon, was conditioned by the establishment of some International Associations, for example that of the railways manufacturers, created in 1884, serving as an incentive for companies to involve themselves in different kind of agreements regarding the price or territory for trading their manufacture, in order to increase profits. The phenomenon characteristic for Europe until the I-st World War is known as the so-called „monopolistic capitalism", or „organized capitalism".

The period of competition infringements followed for a while after the war, being supported by the economy's fragility, as well as by the convincement promoted especially by politicians and French economists, telling that international agreements in the industrial domain represent a remedy for revitalization of production and international trade.

Generally speaking, cartels achieved their highest peak in 1930, when 50% of the international trade was affected by international agreements in the industrial sectors, a related effect of this being a limited entrance of new participants on the market. A kind of situation aroused when the trade of a group of countries was favored, but this was unfavorable for the development of a sound competition environment for all the economic agents.

After the I-st World War, the United States of America planned to transfer the antitrust concept in Europe, and the first attempt was done through the Postdam Agreement in July 1945, which was providing measures to eliminate cartels in Germany. Americans were looking at the German cartels as at dangerous economic weapons. In 1947 specific laws oriented to the decartelization of German economy appeared, first of all in the „American area", after that in the „British American area". But Europeans were not so enthusiastic about the American style of regulating competition environment.

Another American strategy which intended to influence the competition policy of European states, was the Program of European Reconstruction, but the attempt failed. In the same time, around 1950, few antitrust laws appeared in the states participants to the Marshall Plan. But in many cases these laws were adopted just formally, in order to avoid contradictions with Americans.

The real history of competition law and policy in Europe begins in 1957, when the Rome Treaty was signed. Art. 85 of the Treaty prohibited cartels of any kind, as well as restrictive practices which could harm competition. The provisions of art. 90 regulated state monopoly. Art. 92 prohibited state aid which could harm competition. Thus, a process of equilibrating competition environment in Europe began. The institution which was enforcing the competition legislation in Europe was and continue to be the European Commission. It was attributed with all the adequate powers and instruments, like investigation power, right to impose fines, down-raids, etc. The common competition policy of the Economic European Community led to the adjustment of national competition policies of member states. After signing the Rome Treaty, each member state adopted its competition law, or modified the existent acts. The second wave of adopting competition laws in Europe, took place in the 70s, the third wave coming in the 90s.

During the last decades of the XX-th century, competition environment in Europe suffered essential changes under the impact of globalization process, appearance of new technologies, development of internal market of the European Union, establishment of the Monetary European Union and, not the least, the extension of the European Union. All these generated new requirements for the European Competition policy.

In the first half of the 80s, a crisis of the old industries, such as wheel, chemical and textile, aroused. The restructuring process became unavoidable. Some of the governments immediately offered help to these industries through a huge flow of subsidies, as a temporary encouragement. Because the distorsioning effect on competition was felt immediately, in the second half of the 80s the subsidies have been essentially reduced and oriented to the promotion of research and development. The state aid has been reduced in general.

The privatization of state enterprises and liberalization of the international financial market influenced the structure of the capital market in Europe, thus the number of mergers being increased. In 1989 a Merger Regulation was adopted, the last allowing the European Commission to deal with merger cases only when these were exceeding a certain market share or a certain profit level.

Once with the changes in the economic environment, the number of cases that the Commission had to deal with, was increasing. The most important reform of the competition legislation in Europe took place in April 1995 when the so-called „White Paper" was issued by the European Commission. Proposals of the Commission have been approved by the European Council in December, 2002. The modification referred to the fact that the European Commission follow to concentrate on the investigation of the big international cases. The small cases were the problem of states where infringement took place. The authors of the reform were convinced that this will allow to the European competition regulator to make „Muscles for the Big Cases" [1].

In Europe, the common competition legislation was a strong generator of the market economy development. According to this tradition, European Union is currently an active „promotion agent" of the competition policy on the international level. Thus the European Commission is actively involved in discussions with the World Trade Organization, International Competition Network, Conference of the United Nations for Trade and Development, etc., in the goal of developing a favorable competition environment at the international level.

Presently the legal competition framework of the European Union is regulated by the Trata Act, a successor of the Rome Treaty, and namely by the art. 81 and 82, which regulate anticompetition agreements, concerted practices and abuse of dominant position, as well as by the art. 87-89, which refer to the regulation of state aid. The institution responsible for the control on the observance of competition legislation in Europe is the European Commission. In the same time, each member state has its own competition authority, which is responsible for enforcing competition legislation at the national level.

Competition authorities in the European countries differ from country to country, this being related to the independence degree, powers, number of personnel, etc. For example, competition authorities of Italy, Czech Republic, Romania, France, Hungary, Poland, Slovenia, Bulgaria, Great Britain, etc, are independent public bodies, their administration being appointed by the president of the state, by the prime-minister, or is elected by the Parliament. Other countries like Estonia, Latvia, Greece, etc, have competition departments within or subordinated to some ministries, thus being much smaller.

1 "The Wall Street Journal Europe", 29 April, 2004.

No matter the type and structure of the competition authorities of European states, principles of their activity are the same: transparency, non-discrimination, procedural fairness.

The long European practice argues the necessity of competition authorities for the economy, the activity of the last offering more trust and safety to the economic agents in the protection of their rights, which leads to the national economic development. And the competition policy in Europe is a very good model for the less experienced states in the competition area. This refers to the Republic of Moldova too, where competition is something completely new for the society, because of the delay of competition phenomenon until 2007, when the National Agency for the Protection of Competition was established, as an independent central public authority, attributed with the function of enforcing competition legislation and exercising control on its observance, as well as promoting the state policy in the competition field.

Looking at the above-mentioned, we can say that the benefic aspect of this delay for Moldova, is the possibility to learn from the European experience in the field of competition law and policy, which, no matter the long and not so easy evolution, is nowadays world-wide recognized as one of the most successful models.

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SOME ASPECTS CONCERNING THE DYNAMIC OF HOUSEHOLD WEALTH AND DEBT IN EUROPEAN UNION AND ROMANIA

Abstract: *The paper discusses the global trends in the dynamic of household wealth and debt concentrate on the main developed countries, namely the US, Canada, Western Europe, Japan and Australia plus the CEE countries, which, overall, represent 88 % of global household wealth. There are also presents on overview of the composition of wealth by region of the household financial wealth in European Union, Western Europe & CEE 2006 and of the household portfolio structure. We looking on the structural indicators of the household sector and on the CEE and Romanian households' financial behaviour. This paper intends to make a presentation of the portfolio composition of households' wealth in CEE countries and Romania and of the current trends in this sector. The paper discusses the actual state of the Romanian household wealth versus household financial wealth in European Union, Western Europe & CEE countries and the futures trends.*

Key words: *household wealth, household debt, financial, portfolio composition, wealth trends.*

JEL Classification:*N30*

INTRODUCTION

Two of the most important defining factors of economic status in the European Union and United States are household wealth, income and net wealth. Households are increasingly taking direct financial responsibility for their present and future well-being in response to the relative decline of public retirement provisions and other features of the welfare system. Thus, the growth of net household wealth and the quality of asset diversification play a key role in the social and economic equilibrium in both developed countries and developing countries. Consequently, the role of financial intermediaries and asset managers is also extremely important. The recent "credit crunch" has raised fears that household debt might be overstretched in some countries and that the future growth of household wealth may be unsustainable. While financial markets are typically subject to cyclical swings and excesses, we believe there is a good basis for continued sustainable growth in the medium term. The level and the structure of the population's wealth and debts are of crucial importance for the future development of the financial markets both on medium and long term. Taking into consideration this premises, we will try in the present paper to identify which is the current structure of the populations' wealth in the main developed countries from the European Community by comparison with Romania.

We will also try to present the level and the structure of de debt of the population by looking at the net wealth. The net wealth is very important when we estimate the future trends of the action of households on the financial markets and the trend of the household's wealth. Before having a closer look on these issues and for a better understanding of these problems, we will enunciate the definitions of the terms used in this paper.

Key Definitions and Explanations

Householder. Survey procedures call for listing first the person (or one of the people) in whose name the home is owned or rented as of the interview date. If the house is owned jointly by a married couple, either the husband or the wife may be listed first, thereby becoming the reference person, or householder, to whom the relationship of the other household members is recorded. One person in each household is designated as the "householder." The number of householders, therefore, is equal to the number of households.

Household . A household consists of all people who occupy a housing unit. A house, an apartment or other group of rooms, or a single room is regarded as a housing unit when it is occupied or intended for occupancy as separate living quarters; that is, when the occupants do not live and eat with any other people in the structure and there is either (1) direct access from the outside or through a common hall or (2) a kitchen or cooking equipment for the exclusive use of the occupants. A household includes the related family members and all the unrelated people, if any, such as lodgers, foster children, wards, or employees who share the housing unit. A person living alone in a housing unit or a group of unrelated people sharing a housing unit as partners is also counted as a household. The count of households excludes group quarters. Examples of group quarters include rooming and boarding houses, college dormitories, and convents and monasteries.

Net Wealth. The household net wealth estimates shown in this report are based on the sum of the market value of assets owned by every member of the household minus liabilities owned by household members. The estimates represent the net worth of households at the end of the appropriate reference period. The net wealth concept is based on the value of all assets minus all liabilities listed on page.

In the United States **Assets and Liabilities Included in Net Wealth** are provide in table no 1.

Table no 1 Assets and Liabilities Included in Net Wealth in the USA

Assets and Liabilities Included in Net Worth

I. Assets

- Interest-earning assets held at financial institutions
  - Passbook savings account
  - Money market deposit accounts
  - Certificate of deposit
  - Interest-earning checking accounts
- Other interest-earning assets
  - U.S. Government securities
  - Municipal or corporate bonds
- Stocks and mutual fund shares
- Rental property
- Mortgages held for sale of real estate
- Amount due from sale of business or property
- Regular checking accounts
- U.S. savings bonds
- Home ownership
- Vacation homes and other real estate
- IRA and Keogh accounts
- 401K and thrift savings plans
- Motor vehicles
- Other financial assets

II. Liabilities

- Secured liabilities
  - Margin and broker accounts
  - Mortgages on own home
  - Mortgages on rental property
  - Mortgages on other homes or real estate
  - Debt on business or profession
  - Vehicle loans
- Unsecured liabilities
  - Credit card and store bills
  - Doctor, dentist, hospital, and nursing home bills
  - Loans from individuals
  - Loans from financial institutions
  - Educational loans
  - Other unsecured liabilities

Source; U.S. Census Bureau

In the European Union **Assets and Liabilities Included in Net Wealt** are provide in table no 2

Table no 2 Assets and Liabilities Included in Net Wealt in Eurpean Union

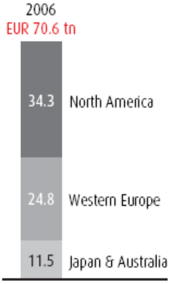
Assets	Liabilities
Currency	Housing loans
Bank deposits	Consumer loans
Securities other than shares	*Consumer loans of other MFI*

Listed shares	*Consumer loans of OFI*
Mutual funds	Overdraft
Insurance reserves	Other loans
Pension funds	Revolving credit cards
	Financial leasing

Global Trends in the Dynamic of Households' Wealth and Debt

Household financial wealth reached approximately EUR 70.6 tn in 2006 in developed markets[1], which, overall, represents 88 % of global household wealth. Almost half of this wealth is located in the North American markets, 16 % in Japan and Australia and 35 % in Western Europe. Over the last 12 years, household financial assets in developed markets have increased, although not uniformly, by around 6 % CAGR[2]. Generally, the 1995 – 2000 period is considered the "high growth period" (with the exclusion of Japan), when strong equity markets sustained the dynamic performance of assets and made households more confident about risky investments.

Household Financial Assets in Developed Markets 1995–2009E



Household Assets Growth

(CAGR)		North America	Western Europe	Japan & Australia	Developed Countries	MSCI World
1995–2000	The growth phase	8.9 %	8.9 %	2.5 %	7.3 %	13 %
2001–2002	The bubble bursts	–5.6 %	–2.1 %	–1.6 %	–3.8 %	–20 %
2003–2006	The bounce back	9.6 %	7.4 %	3.9 %	7.7 %	15 %
2007–2009E	The trend ahead	6.7 %	6.5 %	3.7 %	6.5 %	8 %

Source: Pioneer Investments – PGAM Economic Research

[1] PGAM estimation based on OECD and Central Banks statistics. Developed markets include North America (US and Canada), Western Europe (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and UK), Japan and Australia.

[2] CAGR –Compound Annual Growth Rate

Stimulated by a 15 % annual growth rate for the MSCI[1] world index, total house-hold financial assets showed a 7.7 % CAGR, compared to 7.3 % in 1995 – 2000. North America strongly contributed to this result, posting a 9.6 % CAGR, thanks to the higher level of household equity investment (either directly or indirectly through mutual funds, 401K plans and other pension and insurance instruments). Thanks to strong new inflows, Western Europe also saw vigorous growth (7.4 %), which can be broken down into a 4 % increase due to the growth of household financial assets and a 3.4 % increase due to market performance. However, Japan was the bigger surprise, showing 3.3 % growth in 2003 – 2006, as households finally started showing signs of a change in their behaviour and started moving money out of deposits (from 55 % of Household Financial Assets (HFA) to 47 %) and into mutual funds and managed instruments. Despite the much lower capitalisation level, financial wealth creation has also increased in the CEE region[2] since the beginning of the decade, largely outpacing the level of growth observed in other regions of the world, increasing by an average of 15 % a year over the last 6 years. Looking ahead, a study of Bank Austria Creditanstalt, expect the accumulation of financial wealth to cool down, with North America and Western Europe showing 6.7 % and 6.5 % CAGR's in 2007 – 2009, respectively. Thus, they expect similar growth levels for the U.S. and Western Europe, but for different reasons. Under normal circumstances, the higher exposure to equities should allow the U.S. markets to benefit from the equity risk premium. Moreover, the new U.S. Pension Protection Act should help new households enter the savings market.

In Western Europe, on the other hand, investment portfolios are more conservative while savings rates are higher and expected to remain high. Western Europe should also benefit from the increasing participation of households in financial markets, thanks to the growth of defined contribution savings schemes. They expect Japan and Australia to grow at a 3.7 % CAGR, with Japanese households continuing to make their investment portfolios more sophisticated. Despite a more volatile external

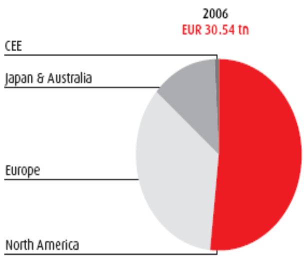
[1] MSCI –Morgan Stanley Capital International index

[2] Unless otherwise stated, CEE aggregate includes Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Slovakia, Slovenia and Turkey

environment, good economic prospects and quickly developing financial markets in the CEE region are expected to hold the accumulation of financial wealth at a sustained level. The growth of household wealth will accelerate compared to the recent past, increasing by an average of 21 % a year in 2007 – 2009. Concerning asset allocation, we expect the share of managed assets to continue rising, thanks to the growth of defined contribution pension schemes, life insurance policies (especially in the unit-linked area), hedge funds and private equity funds. Thus, the growth rate for this segment will continue to be impressive.

In 2007 – 2009E, the total managed assets in developed markets should see a 8 % CAGR, thanks to a 4 – 6 % market performance, new financial savings at 2 – 2.5 % on AUM and a 1 – 2 % switch effect from unmanaged to managed assets.

Managed Assets[1] in Developed and Emerging Markets 1995-2009E



Managed Assets Growth (CAGR)[2]

		North America	Western Europe	Japan & Australia	CEE[3]	MSCI World
1995-2000	The growth phase	11.2%	13.2%	4.1%	na	13%
2001-2002	The bubble bursts	-5.2%	-2.1%	-0.5%	60.8%	-20%
2003-2006	The bounce back	12%	9%	5.8%	35.6%	15%
2007-2009E	The trend ahead	8.2%	8.2%	8.7%	23.2%	8%

Note: (1) Mutual funds, life insurance and pension funds; (2) Growth rates are measured in local currency terms (weighted by the relevant of each country on total wealth at the beginning of the observing period); (3) Excluding Estonia and Latvia
Source: Pioneer Investments – PGAM Economic Research and UniCredit Group New Europe Research Network

Still, important differences between countries persist in the composition of financial wealth. Despite the common trend of decreasing the level of investment in low-risk assets in favour of managed and long-term assets, there are important structural differences among the countries under analysis:

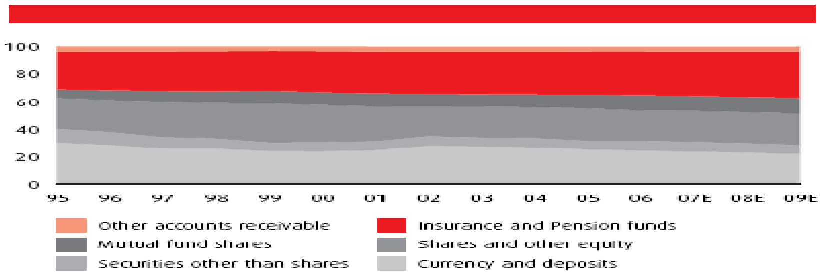
• Low-risk instruments (i.e. currency and deposits) still make up around 65 percent of total household financial wealth in CEE markets.

• North America and Australia are characterised by a significant level of direct investments in shares and other equity products.

• West European households seem to show a high level of diversification on average, even though most of the long-term investments in Western Europe are in the UK and the Netherlands.

- In Japan, households are strongly oriented towards liquid assets, although this is rapidly changing.

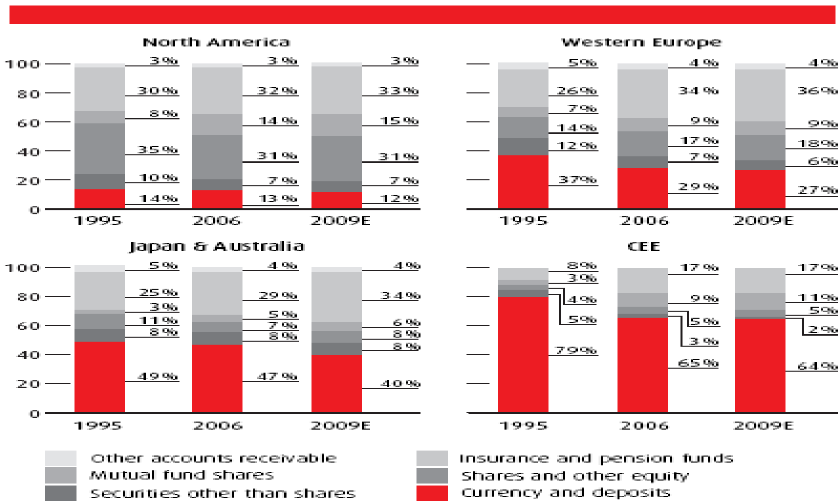
World-Wide Financial Wealth Allocation[1]



Note: (1) North America, Western Europe, Japan and Australia
Source: Pioneer Investments – PGAM Economic Research

Generally, the sustained vitality of financial wealth creation in the last decade has been accompanied by the even faster accumulation of debt in the household sector, although considerable differences have emerged across regions.

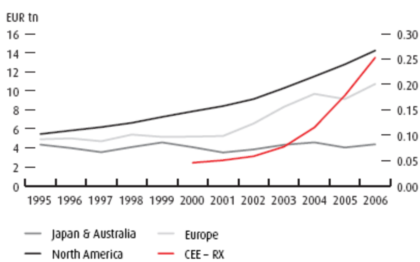
Composition of Wealth by Region (% of total)[1]



Note: (1) Financial wealth in CEE countries excludes unquoted shares, other equity and other accounts receivable
Source: Pioneer Investments – PGAM Economic Research and UniCredit Group New Europe Research Network

While household debt has remained relatively stable in Japan, it has been consistently rising in the U.S. over the last 12 years. Starting at the end of the 1990s, the acceleration of debt accumulation was also seen in Western Europe and especially in the CEE region, stimulated by declining interest rates and improving household financial conditions. Greater leverage among household portfolios due to the increased use of mortgages and, more generally, the securitization of real wealth have probably also helped to sustain financial wealth flows and holdings. We expect this source of growth in household financial wealth and consumption to come to a stop, at least briefly, as a consequence of the "sub-prime crisis".In this respect, it may be helpful to consider things over a longer period of time. Household financial liabilities relative to GDP have indeed reached an unprecedented level in countries like the U.S. and the UK. In the case of the U.S., the resulting real estate "bubble" can clearly be seen when one considers the long-term evolution of the respective shares of household liabilities to GDP, providing evidence that the recent years might have seen some excesses.

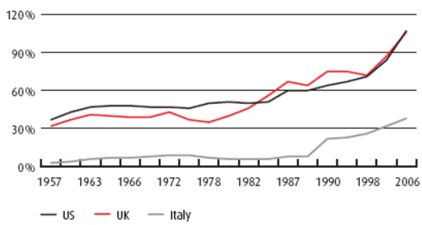
Household Debt in Developed Markets 1995–2009E



Source: Pioneer Investment – PGAM Economic Research

Household Debt in Italy, the U.S. and the UK 1957–2006

(% of GDP)



Source: Pioneer Investments – PGAM Economic Research

CEE Household Financial Behaviour: Current Trends and Outlook for 2007 –2009

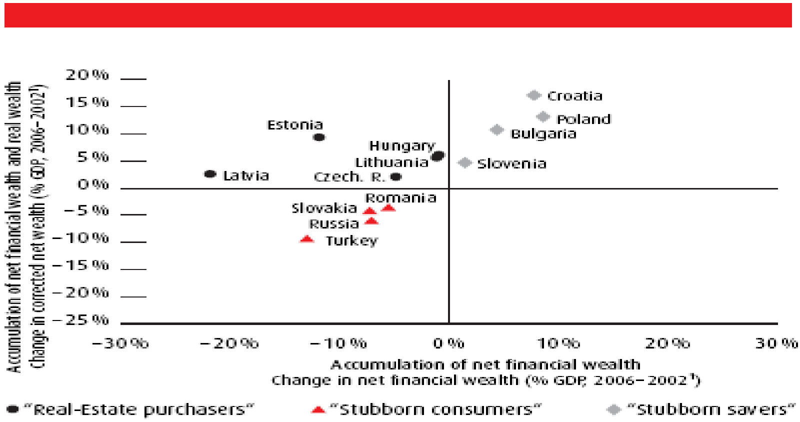
At the end of 2006 CEE[1] household financial wealth reached almost EUR 600 bn (up by 15 % yoy), posting double-digit growth for the third year in a row. Although CEE wealth and euro area wealth are converging at a very fast clip, a significant gap still remains. In 2006,

[1] CEE aggregate refers to Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia and Turkey; Russia is excluded

household financial wealth over GDP equalled 56 % in CEE, versus 205 % in the euro area (in CEE, the same ratio was 54 % in 2005 and 43 % in 2000). Significant cross-country differences linger on. The largest increases relative to GDP were, indeed, observed in Croatia, Poland and Slovenia (up by 11 p.p., 8 p.p. and 7 p.p., respectively, in just one year). In absolute terms, growth also remained solid in quickly converging SEE countries like Bulgaria and Romania, the Baltic states and Russia (with yearly increases ranging from 25 % to 32 % in

2006). The main driving forces behind the strong performance of household financial wealth include accelerating macroeconomic indicators, quickly developing financial markets and dynamic growth in pension fund schemes. Average regional economic growth of 6.5 % and increasing wages and declining unemployment rates all over the region are causing significant improvements in household financial conditions, stimulating new savings flows. Soaring prices in domestic financial markets have also provided a strong boost to financial wealth creation in the region. Market capitalisation grew rapidly in most CEE countries, driven by strong corporate profits, IPO activity and ongoing foreign investment. A significant contribution to the observed increase in financial wealth also came from new savings accumulated in mandatory and supplementary pension schemes, which accounted for roughly 20 % of the increase in total wealth observed between 2005 and 2006. Good economic conditions continued to spur increases in the level of household debt, which climbed by 35 % yoy at the end of last year. Household debt still appears to be relatively low compared to GDP, reaching 18 % in 2006 compared to 55 % observed in the euro area, although these levels are converging at a fast pace. The credit boom was connected to the household sector's desire to acquire durable goods and housing and to the improved access to the credit market. Quickly developing real estate markets also contributed to an increase in the household sector's willingness to borrow. As a result of the robust expansion in household liabilities, accumulation of net wealth as a share of GDP started to decline in 2006, reaching the level of 38 % (down by 1 p.p. compared to 2005) after a consistent upward trend in the previous two years. This is mainly a reflection of the increasing preference among households for real estate investments rather than lower savings rates. If we focus on the development of the corrected measure of wealth creation compared to GDP – one way to account for the flows of household savings going towards the real estate market – a clear upward trend is observed (the ratio reached 45 % at the end of last year, up from 35 % in 2000). Important regional differences linger when the developments are considered over time. Chart 1 compares the growth rate of net financial savings as a percentage of GDP to that of corrected net wealth over the last four years in different countries.

Chart 1: Household Behaviour in CEE (2002–2006)



Note: (1) Estonia 2006–2003, while Lithuania and Slovenia 2006–2004.
Source: UniCredit Group New Europe Research Network

Outlook 2007 – 2009

As anticipated, 2007 has another record year in terms of economic growth. In H1, GDP growth increased by almost 7.0 % driven by high levels of consumption and booming construction and investment activity and we now forecast an overall growth rate of 6.5 % for all of 2007. The recent turbulence triggered by the credit and liquidity crisis in the U.S. sub-prime market has only had a moderate impact on CEE economies so far. However, the re-absorption of the excess liquidity in international financial markets has brought a temporary correction in most of the regional stock markets, with increasing risk aversion and discrimination in many countries.

Widening credit spreads are likely to remain in the medium to long term enhancing risks. However, with the underlying prospects for world growth remaining positive (despite an anticipated slowdown in U.S. growth), we expect the very sound macroeconomic fundamentals in CEE to continue to be a strong stabilising factor.

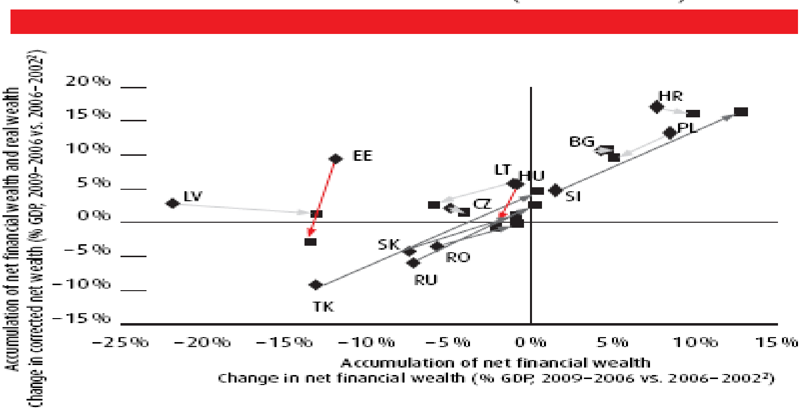
Under this assumption, the conditions of strong growth and moderate (albeit rising) risk are anticipated to hold for the region in the years to come. In this context, we still expect financial wealth in the CEE region to reach EUR 718 bn this year, increasing by around 20 % yoy (compared to 15 % yoy in 2006). We anticipate some level of slowdown in the following years, with growth rates still in thedouble-digits, averaging 14 % a year in 2008 – 2009.

In most CEE countries, the growth of financial wealth will continue to greatly exceed that of the real economy, with the exception of Latvia and Estonia. In these countries, the anticipated 'soft landing' of the economy, based upon tighter macro policies, and a stabilization of the growth of market prices will probably affect the household sector's saving capacity.

This will result in only marginal increases in the ratio of financial wealth over GDP (by 0.3 p.p. and 1.8 p.p., respectively) in 2007 – 2009. Overall, CEE financial wealth over GDP is expected to top out at 64 % by the end of 2009 (totalling some EUR 935 bn).

If one takes a closer look at cross-country developments, some important differences emerge compared to the pattern observed in the recent past. Chart 2 presents the expected evolution in the accumulation of net financial and corrected wealth relativeto GDP as compared to the one observed in the 2002 – 2006 period.

Chart 2: Household Behaviour in CEE (2007–2009)1



Note: (1) The starting point for all countries indicates the correspondent percentage change of both ratios between 2006 and 2002. (2) Estonia 2006–2003, while Lithuania and Slovenia 2006–2004. / Source: UniCredit Group New Europe Research Network

As shown in chart 2, some marginal improvements compared to the past years are anticipated in both Romania and Slovakia for corrected net wealth over GDP and, to a lesser extent, for net wealth over GDP (still expected to maintain its downward trend). In Romania, despite the continued propensity for real estate investments and the acquisition of durables, the favourable economic prospects and the boost in wealth creation arising from the launch of pension reform are anticipated to cause some improvements in the savings ratio, which will still remain well below the regional average.

Portfolio Investments and Indebtedness of CEE Households: Current Trends and Outlook 2007 – 2009

The tendency for deepening in the level of portfolio diversification away from cash and deposits and towards more sophisticated forms of savings and a greater share of savings flows inter - mediated through institutional investors will continue in the upcoming period.

Financial wealth by instruments: recent trends and outlook 2007-2009[1]

LC CAGR	Bulgaria		Croatia		Czech R.		Estonia		Hungary		Latvia	
	'04-'06	'07-'09	'04-'06	'07-'09	'04-'06	'07-'09	'04-'06	'07-'09	'04-'06	'07-'09	'04-'06	'07-'09
Currency	17%	12%	8%	6%	10%	8%	24%	20%	12%	2%	20%	10%
Bank deposits	28%	22%	11%	7%	7%	9%	-	-	9%	5%	41%	22%
Securities other than shares	64%	4%	47%	15%	18%	17%	56%	21%	6%	4%	9%	50%
Listed shares	68%	25%	59%	42%	10%	6%	20%	2%	25%	4%	13%	4%
Mutual funds	187%	57%	140%	27%	21%	14%	-	-	37%	17%	-	-
Insurance reserves	44%	36%	23%	15%	11%	10%	71%	23%	19%	15%	31%	48%
Pension funds	44%	37%	52%	29%	21%	18%	-	-	32%	17%	104%	56%
Total financial assets	30%	23%	19%	15%	10%	10%	26%	14%	15%	9%	26%	17%

Note: (1) For Estonia, the aggregate currency includes also deposits, listed shares includes also other equity, unquoted shares and mutual funds (as in Latvia), while insurance reserves also pension funds. / Source: UniCredit Group New Europe Research Network

Lithuania		Poland		Romania		Slovakia		Slovenia		Turkey		CEE		Russia	
'04-'06	'07-'09	'04-'06	'07-'09	'04-'06	'07-'09	'04-'06	'07-'09	'04-'06	'07-'09	'04-'06	'07-'09	'04-'06	'07-'09	'04-'06	'07-'09
20%	13%	12%	9%	33%	17%	13%	7%	23%	13%	36%	14%	21%	11%	-11%	9%
29%	21%	5%	6%	29%	27%	4%	9%	7%	8%	22%	21%	16%	14%	36%	37%
-	40%	-15%	4%	-15%	-1%	-	-	-5%	6%	-9%	-4%	-5%	2%	-	-
37%	8%	57%	17%	61%	14%	-	-	24%	37%	19%	18%	36%	19%	-	-
328%	38%	46%	29%	79%	62%	48%	18%	34%	22%	3%	17%	32%	24%	77%	45%
38%	21%	18%	21%	38%	23%	19%	11%	18%	19%	20%	15%	23%	18%	25%	23%
-	52%	38%	22%	-	-	60%	47%	40%	22%	22%	24%	40%	24%	55%	17%
33%	22%	16%	15%	34%	23%	13%	13%	14%	16%	17%	18%	20%	16%	25%	32%

Household indebtedness: recent trends and outlook 2007-2009

LC CAGR	Bulgaria		Croatia		Czech R.		Estonia		Hungary		Latvia	
	'04-'06	'07-'09	'04-'06	'07-'09	'04-'06	'07-'09	'04-'06	'07-'09	'04-'06	'07-'09	'04-'06	'07-'09
Housing loans	107 %	37 %	34 %	20 %	34 %	24 %	65 %	25 %	21 %	12 %	88 %	32 %
Consumer loans	35 %	20 %	10 %	12 %	24 %	18 %	78 %	29 %	43 %	20 %	62 %	6 %
Consumer loans of other MFI	*33 %*	*18 %*	*10 %*	*12 %*	*28 %*	*20 %*	*78 %*	*29 %*	*46 %*	*21 %*	*62 %*	*6 %*
Consumer loans of OFI	*139%*	*43 %*	-	-	*17%*	*12%*	-	-	*7%*	*2%*	-	-
Overdraft	118%	36%	19%	7%	4%	7%	-	-	42%	33%	-	-
Other loans	34%	17%	-	-	26%	18%	27%	29%	1%	13%	49%	27%
Revolving credit cards	5%	25%	-	18%	62%	33%	-	-	-	-	-	-
Financial leasing	92%	41%	34%	41%	10%	14%	3%	15%	22%	7%	55%	27%
Total financial liabilities	55%	29%	21%	16%	29%	22%	53%	25%	25%	14%	77%	29%

Source: UniCredit Group New Europe Research Network

Lithuania		Poland		Romania		Slovakia		Slovenia		Turkey		CEE		Russia	
'04-'06	'07-'09	'04-'06	'07-'09	'04-'06	'07-'09	'04-'06	'07-'09	'04-'06	'07-'09	'04-'06	'07-'09	'04-'06	'07-'09	'04-'06	'07-'09
-	34 %	38 %	27 %	67 %	23 %	26 %	19 %	-	26 %	182 %	41 %	53 %	28 %	-	69 %
-	34 %	17 %	20 %	77 %	37 %	42 %	15 %	-	12 %	50 %	8 %	36 %	22 %	-	48 %
-	*34 %*	*17 %*	*20 %*	*76 %*	*37 %*	*59 %*	*17%*	-	*12 %*	*44 %*	*5%*	*36 %*	*22 %*	-	*48 %*
-	-	-	-	*212 %*	*36 %*	*22 %*	*11%*	-	-	*80 %*	*15%*	*37 %*	*15 %*	-	-
-	-	4%	6%	-	-	62%	17%	-	-	-	-	19%	14%	-	-
-	47%	49%	6%	-	-	50%	37%	-	20%	80%	49%	56%	40%	-	-
-	-	41%	31%	-	-	-	17%	-	-	44%	17%	46%	20%	-	-
-	19%	30%	4%	23%	15%	27%	10%	-	22%	55%	36%	25%	13%	-	-
82%	36%	23%	22%	71%	34%	35%	22%	31%	20%	73%	34%	41%	25%	90 %	52%

Overall, growth in household liabilities in the region is expected to almost halve in the 2008 – 2009 period, falling to an annual average rate of around 22 %, which will bring the ratio of liabilities to GDP to 26 % by 2009. Mortgages will see further growth, increasing by 23 % in the next two years on average and continuing to account for most of the growth in total household indebtedness for the region as a whole. In Turkey, the new mortgage law approved by the Parliament at the end of last February, together with the positive effect of declining interest rates, is expected to provide some further stimulus to the market, although its effect will be more visible in the medium to long term. Positive economic prospects and expectations of further convergence in household income will sustain demand for personal / consumer loans at a high level in the years to come, backed by households' desire for fast convergence in living standards and still low endowment of durables. The strongest expansion is anticipated in Russia, Lithuania and Romania, with average annual growth in the range of 25 % to 40 % for the 2008 – 2009 period. At the regional level, risks remain, however, more skewed on the downside, given the expected prevalence of tight monetary conditions, the rising cost of refinancing for banks and the increasing risk of saturation in this segment caused by the already high level of cumulated debt.

Romania Household Financial Behaviour: Current Trends and Outlook for 2007 –2009

The accumulation of financial assets continued to increase and financial assets are expected to reach 26 % of GDP at the end of 2007. The main driving factors of this year's increase in financial assets were the improved conditions in the local labour market as reflected by the record low unemployment rate (3.9 % in September 2007), and the rapid increase in nominal wages (up by 22.5 % yoy, net) combined with higher remittances from Romanians working abroad (25 % yoy till July 2007). Household debt continued to climb at a much faster pace than financial savings

Table 1: Household Financial Indicators[1,2]

	2005	2006	2007e	2008f	2009f
Financial assets (% of GDP)	21%	23%	26%	29%	31%
Financial liabilities (% of GDP)	8%	12%	16%	19%	21%
Net wealth (% of GDP)	13%	11%	10%	10%	10%
Corrected net wealth (% of GDP)	15%	13%	13%	13%	13%

Note: (1) Corrected net wealth is calculated as gross financial wealth minus the non-mortgage part of household debt / (2) Sector S.14 according to ESA 95 classification
Source: BNR, UniCredit Group New Europe Research Network – UniCredit Romania Economic Research

Loans to households decelerated only marginally from last year, increasing by over 60 % yoy in H1. The high vitality of lending activity will push the level of household debt to 16 % of GDP at the end of this year compared to 12 % a year ago. On the one hand, rising household debt was driven by the strong need to improve the standard of living with durable goods and housing, lower interest rates and more intense competition on the credit market. On the other hand, the improving financial conditions in the household sector resulting from the continued rapid growth in wages and the wealth effect driven by quickly rising house prices made the credit market more accessible. Although the domestic financial market has proved to be quite resilient to the recent turmoil following the U.S. sub-prime crisis, the markets might still feel some negative effects in the short / mid term, especially the credit market. Rising risk aversion and the liquidity shortage at the international level are expected to trigger an increase in the cost of refinancing for banks. This, coupled with the continued tight monetary conditions required to counterbalance increasing inflationary risks, may result in a gradual credit squeeze starting next year. Overall, accumulation of net financial wealth is expected to further decline as a percentage of GDP to 10 % in 2007 and stay relatively stable in the following two years. Moreover, despite the higher inclination of households toward real estate investment and the growing level of mortgage penetration, corrected net wealth as a share of GDP is expected to stabilize at around 13 % in the forthcoming period. net wealth is expected to stabilize around 13 % of GDP. Overall, these developments confirm that Romanian households are generally reluctant to save, despite some slight improvements anticipated in the years to come. The voluntary private pension scheme (3rd pillar) was launched in May 2007. More importantly, registration for the mandatory pension system (operative since January 2008) was also launched in September. The expected pension reform provides hope for bright developments in the industry of long-term vehicles in Romania.

Table 2: Financial Assets

	Stock in 2006		Yoy % growth (LC)			
	€ mn	(% on total)	2006	2007e	2008f	2009f
Currency	2,908	12.5 %	27.0 %	23.0 %	15.0 %	12.0 %
Bank deposits retail[1]	13,048	56.0 %	28.9 %	39.5 %	24.2 %	19.2 %
LC currency	*8,331*	*35.7 %*	*28.0 %*	*47.0 %*	*28.0 %*	*20.5 %*
FX currency	*4,716*	*20.2 %*	*30.6 %*	*26.3 %*	*16.4 %*	*16.3 %*
Securities other than shares	354	1.5 %	–13.5 %	19.3 %	–11.4 %	–7.7 %
Listed shares	6,019	25.8 %	30.8 %	15.0 %	14.0 %	12.0 %
Mutual funds	106	0.5 %	76.0 %	112.3 %	45.0 %	37.3 %
Open-end	*88*	*0.4 %*	*98.4 %*	*89.0 %*	*50.0 %*	*42.0 %*
Closed-end	*18*	*0.1 %*	*14.6 %*	*222.4 %*	*31.2 %*	*22.3 %*
Registered abroad	–	–	–	–	–	–
Insurance technical reserves	878	3.8 %	23.7 %	21.3 %	23.4 %	24.6 %
Life insurance	*647*	*2.8 %*	*21.5 %*	*20.0 %*	*23.5 %*	*25.5 %*
Non-life insurance	*231*	*1.0 %*	*30.5 %*	*25.0 %*	*23.0 %*	*22.0 %*
Pension funds assets[2]	–	–	–	–	7026.1 %	53.9 %
Total	23,313	–	28.1 %	30.5 %	21.5 %	17.2 %

Note: (1) Backward adjustment of retail deposits: certificates of deposits in the amount of EUR 36 mn previously included under corporate deposits were reclassified to retail deposits in 2006; (2) Newly reformed pension system to be effective starting 2008
Source: BNR, UNOPC, UniCredit Group New Europe Research Network – UniCredit Romania Economic Research

The year 2007 was another year of vigorous growth in household financial assets (up by 31 % yoy). Among the main driving factors was the fact that traditional bank deposits have continued to strengthen their dominance in total wealth since the beginning of the year due to the higher penetration of banking services. This has been stimulated by the quickly rising income level and improving real returns sustained by receding inflation. Growth was particularly strong in the LC component (up by 48 % yoy in H1), mainly because of the strong appreciation of the RON through June. Growth also continued in the FX sector, although at a lower pace. The growth in FX was backed by the high level of remittances by emigrants (up by 25 % yoy in January – July). Given the relatively large share of cash in household portfolios (12 % compared to around 3 % in the euro area) we expect the wider use of electronic payment methods and the increased penetration of banking services to provide a further boost to savings accumulation in bank deposits. Overall, we expect bank deposits to increase by 27 % in the 2007 – 2009 period. Although the impact of the recent turmoil on the international markets has remained very limited so far, rising risk aversion following a loss of investor confidence in emerging markets may negatively affect the trends in listed shares and mutual funds in the near future. Against this backdrop, we still anticipate internal market factors to prevail, resulting in a dynamic level of performance, especially among mutual funds, that will peak in 2007 (also due to the introduction of new funds onto the market) and only slightly decrease in the next few years. The most promising segment definitely remains the long-term investment vehicle segment, particularly pension funds. Starting in the beginning of 2008, a fully-funded mandatory pension system will start operating in addition to the recently reformed voluntary pension scheme (in place since May 2007). Employees aged up to 35 are obligated to contribute to one of the private mandatory pension funds.

Table 3: Financial Liabilities

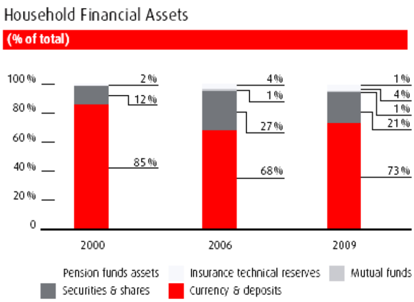
	Stock in 2006		Yoy % growth (LC)			
	€ mn	(% on total)	2006	2007e	2008f	2009f
Housing loans	2,475	20.2 %	55.9 %	32.6 %	20.1 %	17.5 %
Consumer loans	9,379	76.7 %	91.8 %	60.1 %	32.3 %	20.6 %
Consumer loans of other MFIs	*9,178*	*75.0 %*	*93.0 %*	*60.5 %*	*32.2 %*	*20.5 %*
Consumer loans of OFIs	*201*	*1.6 %*	*49.4 %*	*45.0 %*	*40.0 %*	*25.0 %*
Financial leasing	376	3.1 %	30.2 %	17.0 %	15.7 %	13.0 %
Total	12,230	-	80.7 %	53.2 %	29.8 %	19.9 %

Source: BNR, ASLR, official statements of other financial intermediaries, UniCredit Group New Europe Research Network – UniCredit Romania Economic Research

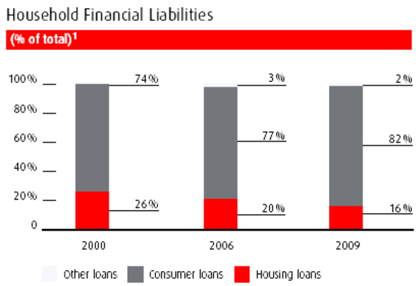
The mandatory minimum contribution to the fund is set at 2 % for the first year, increasing by 0.5 % per year to reach 6 % in eight years. Both individuals and companies (as an additional benefit for their employees) can contribute up to a maximum of 15 % of gross salary, with the additional benefit of tax deductibility. Due to the rather late start of the new schemes, the investment in voluntary private pension funds is expected to remain marginal through the rest of the year, with more rapid growth starting in 2008. Overall, we expect assets managed by pension funds (both 2nd and 3rd pillars) to increase by 54 % in 2009 from around EUR 0.3 bn in 2008. Retail loans have seen an impressive level of growth in the last

two years, rising by more than 150 % in absolute terms. In H1 2007, lowering interest rates resulting from aggressive rate cuts and tighter competition among the leading financial institutions led to a substantial increase in household debt (up by 62 % yoy). The attractiveness of loans denominated in foreign currencies remained high throughout the first half of 2007 (up by 78 % yoy) sustained by the strong appreciation of the RON. This resulted in the increase of the share of FX denominated loans to 45 % from 41 % at the end of last year. Despite the high increase in mortgages (up by around 44 % yoy in H1), Romanian households are expected to show a higher propensity toward consumer loans in the short term as durable good consumption increases. As a result, the growth of consumer loans will continue to strongly outpace the growth of mortgages in 2007 (60 % yoy versus 33 %), while we expect it to slow down to an average yearly rate of 26 % in the following two years. Some factors that will cause lending activity to decelerate are likely to surface in the near future. The significant liquidity shortage and surging risk aversion on the global markets following the U.S. sub-prime crisis are expected to trigger an increase in the cost of refinancing for banks. This, combined with the continued tight monetary conditions prevailing at the national level and the rising share of domestic credit being financed from abroad (due to the increasing financing gap), make it impossible to rule out a gradual credit squeeze starting next year.

Despite the high level of lending activity among the non-bank financial institutions and expanding leasing activity (mostly in the car segment), banking loans still represent 95 % of total household debt. In the years to come, we do not expect significant changes in this respect as the newly introduced NBR regulation will force other financial intermediaries (OFIs) to fulfil the same regulatory requirements as banks, which may limit the opportunities in this segment of the market. Overall, we project household debt growth to slow down, from an anticipated 53 % increase this year to around 20 % at the endof the forecasting period.



Source: BNR, UNOPC, UniCredit Group New Europe Research Network – UniCredit Romania Economic Research



Note: (1) Other loans refer to financial leasing
Source: BNR, ASLR, official statements of other financial intermediaries, UniCredit Group New Europe Research Network – UniCredit Romania Economic Research

Some conclusions

In the global economie:

- Households are increasingly taking direct financial responsibility for their present and future well-being in response to the relative decline of public retirement provisions and other features of the welfare system. Thus, the growth of net household wealth and the quality of asset diversification play a key role in the social and economic equilibrium in both developed countries and developing countries. Consequently, the role of financial intermediaries and asset managers is also extremely important.

- The recent "credit crunch" has raised fears that household debt might be overstretched in some countriesand that the future growth of household wealth may be unsustainable. While financial markets are typically subject to cyclical swings and excesses, we believe there is a good basis for continued sustainable growth in the medium term.

In the CEE countries:

- Strong economic growth and quickly developing financial markets are driving the accumulation of financial wealth
- High levels of consumption and high demand for new houses and renovation continue to spur the growth on the level of household debt at a higher level than that of financial assets, resulting in the stabilisation of net financial wealth relative to GDP
- Households are however continuing to save, increasingly shifting towards the real estate market
- Households' portfolios are expected to become gradually more sophisticated throughout the CEE region, supported by the sustained good performance of the local capital markets in conjunction with the rapid development of the industry for long-term investment vehicles, and in spite of rising volatility
- Financial penetration on the assets side will continue to be matched by increasing financial deepening on the liabilities side, with strong demand for both mortgages and consumer credit, despite the growing risk of a gradual credit squeeze, especially in SEE and Baltic countries

In Romania:

- The accumulation of household financial wealth was accelerate in 2007, reaching 26 % of GDP, driven by a strong upsurge in household bank deposits. This increase has been stimulated by improving real returns and the very dynamic performance of the stock market. But the stock market has strongly impacted by the recent turmoil on the international markets.

- Despite the sustained accumulation of financial wealth, the high demand for both consumer and mortgage loans will cause a further decrease in net wealth over GDP from 11 % in 2006 to 10 % in 2007, while corrected net wealth is expected to stabilize around 13 % of GDP. Overall, these developments confirm that Romanian households are generally reluctant to save, despite some slight improvements anticipated in the years to come.
- The voluntary private pension scheme (3rd pillar) was launched in May 2007. More importantly, registration for the mandatory pension system (operative since January 2008) was also launched in September.The expected pension reform provides hope for bright developments in the industry of long-term vehicles in Romania.

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INFLUENCES ON FINANCING DECISIONS AT COMPANY LEVEL BY MACROECONOMIC FACTORS

Abstract: *The highly important issue by which a company ensures its required capitals, both as volume, and as structure in due time and at low costs renders the financing decision an essential role in the administration and management process. Selecting the capital structure at company level implies both setting the extent of financing from own, respectively loaned resources, and considering the procurement costs of these resources.*
The weak financing of Romanian companies is one of the major causes of the deficient use of the owned production resources, therefore financial resources at accessible costs become essential to the respective economic agents.
Considering that the financing decision may be influenced by the manner the economic mechanisms operate on national level, in this report, we emphasize that financing resources must not be analyzed individually, but in relation to the macroeconomic variables, e.g. inflation or the interest rate on the market.
In order to see how the evolution of the interest rates have influenced the trend of loans granted by the loan establishments, this report represents a structural and dynamic analysis of the evolution of the overall loans with an emphasis on the non-governmental loans.
The swift transition to a new economic mechanism at the beginning of the 90s occurred as Romanian enterprises were completely unprepared, whilst the continuance of most companies was conditioned by non-payment of debts and accumulation of arrears. Therefore, the final part of this report deals with the arrears, a sensitive issue in Romanian economics.

Key words*: financing decision, inflation, interest rates, loans, arrears*

JEL classification*: G3*

In the process of substantiating the decisions to demand an external capital stream, including the contribution of the owners, the financial indicator of the capital cost regarded as an essential restriction becomes increasingly important. In the process of financing, companies use both own and loaned capital, equally representing a source of costs for companies. Optimization of capital structure is a profitable activity only if it is designed, organized and conducted properly. Thus, it is important to determine the amounts of these costs due to the following reasons:

- ◇ to optimize the activity, the costs must be as low as possible;
- ◇ to select the optimum company structure, namely the optimum rapport between own and loaned capitals.

The structure and average costs of the capital represent a source of profit for companies, thus this is a profit arising from this specific source and not originating from exploitation, from financial or exceptionally traditional sources. Consequently, the cost of capital must be predicted and the company must design an appropriate strategy and tactical procedures in order to attain this desiderate.

The cost of capital represents the profitability ratios required by capital bearers, either shareholders, or creditors, namely the cost of capital is the financial effort undertaken by the company in order to obtain capital. As a last resort, the capital is the minimum profitability obtained by the investors, which is able to guarantee a profit to shareholders comparable to the one obtained on the market on the same risk level. In any case, the cost of a finance source, either owned, or loaned capital, cannot be accepted unless it is below or equal to the profitability ratios required by the entrepreneur.

The **inflation** has been a permanent reality of the Romanian economy after 1990. The development of a company within an inflationist environment is more difficult because it prevents a political stability to be achieved in due time. During the first part of the aforementioned period (1994 – 1994 or the year 1997), the inflationist phenomenon has grown to huge dimensions (exceeding by far the value of 100%). During the past years, the target has been an inflation rate below 10%.

The **interest rate** of the economy has also been a reference indicator for companies. The indicator is useful in estimating the costs of debts, and also as reference for shareholders who will compare the company's profitability with the interest rate on deposits.

Table 1[1] displays the evolution of the interest rates offered by banks and of the inflation rate during the period 2001 – 2007:

[1] Source: Annual BNR reports; monthly BNR bulletins No. 12/2005 (pg. 15); No. 12/2006; No. 1/2008 (pg. 17)

Table 1. Medium interest rates offered by the loan institutions (for operations in RON – non-bank non-governmental customers)

Year	Average active interest (%)	Average passive interest (%)	Inflation rate (%)[1]
2001	45,74	26,16	34,5
2002	36,65	18,39	22,5
2003	26,19	10,78	15,3
2004	25,81	11,34	11,9
2005	19,19	8,22	9,0
2006	13,90	6,51	6,56
2007	13,32	6,70	4,84

It is obvious that both the active and passive average interest rates, as well as the inflation rate have had a descending evolution during this period. It is only in 2004 and last year that the interest rates (active and passive) covered the annual inflation rate, and only the active one during the rest of the years. Due to the negative financial profitability rates obtained from bank deposits, from the perspective of the Romanian investor and on average basis, the deposit of temporarily available funds into banks during this period was not an investment more attractive than the purchase of stock.

In order to see to what extent the interest rate and the inflation influenced the trend of loans granted by banks to non-financial companies and to the population, we shall use the data provided by the Romanian National Bank (BNR) in statistics[2]. In this concern, the non-governmental loan in Romania during 2004 – 2008 (January), short, medium and long term loans in RON have evolved as follows: (Table 2 and Figures 1, 2, 3):

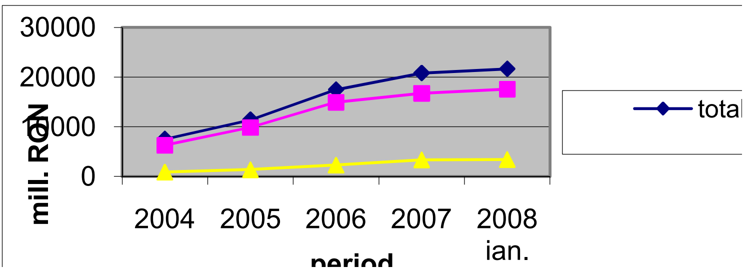

Figure 1. The evolution of non-governmental short-term loans in RON

[1] Source: Data provided by the National Institute of Statistics, www.insse.ro
[2] Source: BNR statistics sections, excerpts from monthly bulletins No. 12/2007 (pg. 31); No. 1/2008, www.bnro.ro

Table 2. The evolution of non-governmental loans in RON
(million RON; end of period)

Year	Total	Short term			Medium term			Long term		
		Total	*of which* Non-financial companies	*of which* Population households	Total	*of which* Non-financial companies	*of which* Furnished to the population	Total	*of which* Non-financial companies	*of which* Population households
2004	15683.4	7531.9	6264.2	870.1	7368.4	2021.6	5221.9	783.1	388.0	329.8
2005	27091.6	11379.0	9849.3	1361.5	10483.9	2952.1	7273.8	5228.7	1516.4	3312.9
2006	48637.3	17463.2	14920.1	2264.2	14015.3	5430.4	8233.4	17158.8	3500.9	12587.3
2007	67713.0	20804.4	16723.6	3327.0	19109.5	9378.4	9049.6	27799.1	6474.8	21196.2
2008 Jan.	69335.6	21664.4	17575.1	3381.6	19296.5	9677.2	8944.9	28374.7	6625.3	21617.8

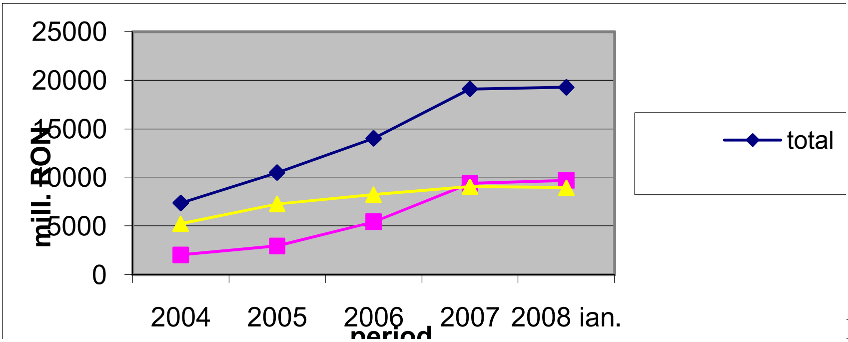

Figure 2. The evolution of non-governmental medium-term loans in RON

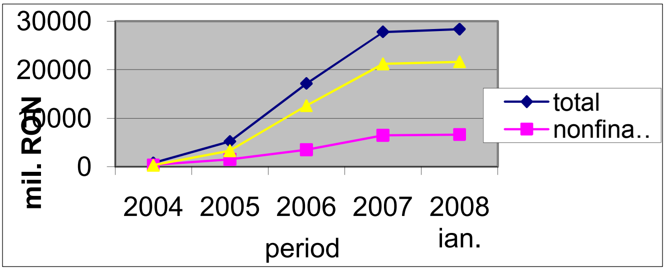

Figure 3. The evolution of non-governmental long-term loans in RON

The analysis of non-governmental loans in RON over the 2004 – Jan. 2008 period leads the following important conclusions:

◇ the yearly ascending evolution is clearly visible for loans granted in RON, especially after 2004 – following an analysis of the prior situation – and this evolution applies to all three types of the aforementioned loans. This fact may be interpreted as a sign of "recovery" of the Romanian economic environment;

◇ if the non-financial companies have benefited from the overwhelming majority of non-governmental short-term loans, the situation changes when referring to the long-term loans offered by banks to a greater extent to the population;

◇ from the structural perspective of loans obtained by non-financial companies, it is visible that these finance their exploitation activity mostly by means short-term loans, while the obtained long-term loans of these companies represent a lesser part from the total of loans.

We may also analyse the situation of loans furnished by loan establishments according to the beneficiaries' form of property, which had the following evolution during 2004 – Jan. 2008 (Table 3 and Figure 4):

Table 3 – Loans furnished by loan institutions according to the beneficiaries' form of property (million RON)[1]

Year	Total	Beneficiary's form of property						
		Private	State owned	Mixed		Cooperative	Individual persons	Public
				Company with foreign capital	Company with private and Romanian state-owned capital			
2004	46918	35246	4629	1192	1003	81	4012	755
	100%	75.12%	9.87%	2.54%	2.14%	0.17%	8.55%	1.61%
2005	65577	46393	5885	1313	1284	95	10298	309
	100%	70.75%	8.97%	2.00%	1.96%	0.14%	15.70%	0.47%
2006	105271	69811	8463	957	1841	151	23561	487
	100%	66.32%	8.04%	0.91%	1.75%	0.14%	22.38%	0.46%
2007	167958	102330	10474	1594	1957	198	50566	839
	100%	60.93%	6.24%	0.95%	1.17%	0.12%	30.11%	0.50%
2008 ian.	171030	103794	10514	1340	1893	198	52454	837
	100%	60.69%	6.15%	0.78%	1.11%	0.12%	30.67%	0.49%

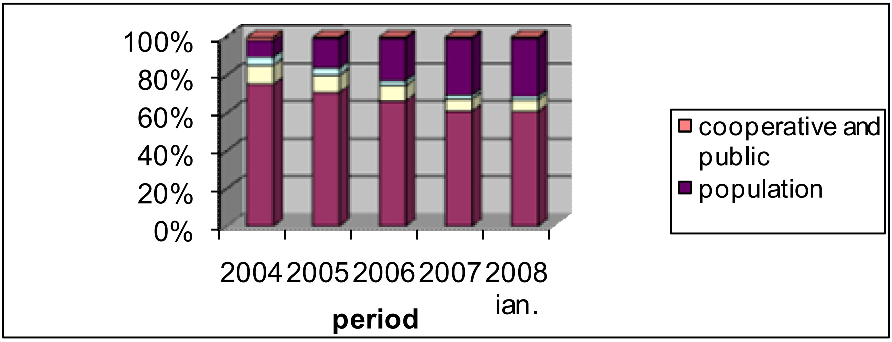

Figure 4 – Loans furnished by loan institutions according to the beneficiaries' form of property

[1] Monthly bulletin issued by BNR No. 1/2007 and No. 1/2008

It is obvious that the loans furnished by loan institutions were addressed especially to private beneficiaries. Therefore, the value of loans furnished to private economic agents exceeds by far the value of loans furnished to companies with state-owned capital (as expected).

The volume of loans furnished to private beneficiaries is ascending, from the structural point of view these are in total in a downward tendency in relation with the growth of loans obtained by natural persons. As far as the loan beneficiaries with state-owned capital, the loans in RON have had an almost constant evolution, slightly descending.

The structure of loans offered by loan institutions according to the activity sector of the beneficiary, Table 4 and Figure 5 indicate their evolution during the 2004 – Jan. 2008 period:

Table 4 – Loans furnished by loan institutions according to the beneficiaries' sector of activity (million RON)[1]

An	Total	Activity sector						
		S1	S2	S3	S4	S5	S6	S7
2004	46918	17572	16704	2197	1160	2763	2510	4012
	100%	37.45%	35.60%	4.68%	2.47%	5.89%	5.35%	8.55%
2005	65577	19055	22226	3336	1518	4943	4202	10298
	100%	29.06%	33.89%	5.09%	2.31%	7.54%	6.41%	15.70%
2006	105271	25138	35072	6245	2770	6623	5862	23561
	100%	23.88%	33.32%	5.93%	2.63%	6.29%	5.57%	22.38%
2007	167958	32745	56480	9777	3783	6912	7696	50566
	100%	19.50%	33.63%	5.82%	2.25%	4.12%	4.58%	30.11%
2008 ian.	171030	34870	52634	13288	4095	7712	5977	52454
	100%	20.39%	30.77%	7.77%	2.39%	4.51%	3.49%	30.67%

Note: S1=Industry; S2=Services; S3=Constructions; S4=Agriculture, forestry, pisciculture; S5=Financial mediation and insurances; S6=Public administration and defence, social insurance in the public system education, health and social assistance; S7=Natural persons and personal households

From the structural point of view and according to the aforementioned criterion, the service and industry sectors have had the largest percentages from the total of loans. As indicated by Figure 5, the situation changes from one year to another with the following tendencies:

- the percentage of loan beneficiaries from the service sector is relatively constant during this period;

[1] Monthly bulletin issued by BNR No. 1/2007 and No. 1/2008

- the percentage of the industrial sector indicates a descending tendency towards the analysed period;
- at the same time, the loan beneficiaries represented by natural persons is in a clear ascending tendency from one year to another, thus by 2007 and the first month of 2008, the percentage has grown to be equal to the percentage of loan beneficiaries from the service sector. The evolution is obvious, if we consider that in 2004 the natural persons have benefited from 8.55% from the total of loans, by January 2008 this percentage has grown to 30.67% from the total of granted loans.

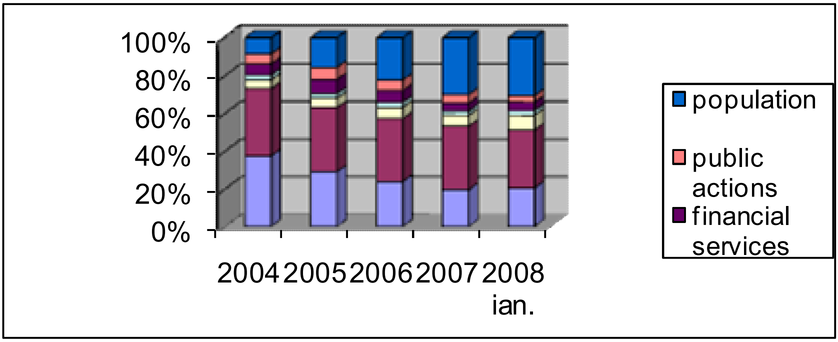

Figure 5. Loans furnished by loan institutions according to the beneficiaries' sector of activity

According to the granting criterion, the loans offered by loan institutions during the analysed period have had the following evolution, indicated in Table 5 and Figure 6 :

Table 5 – Loans provided by loan institutions according to the duration (million RON)[1]

Year	Short-term	Medium-term	Long-term
2004	19577	17904	9437
2005	23800	20470	21307
2006	32752	29484	43035
2007	43325	40600	84033
2008 – Jan.	43469	41773	85788

[1] Monthly bulletin issued by BNR No. 1/2007 and No. 1/2008

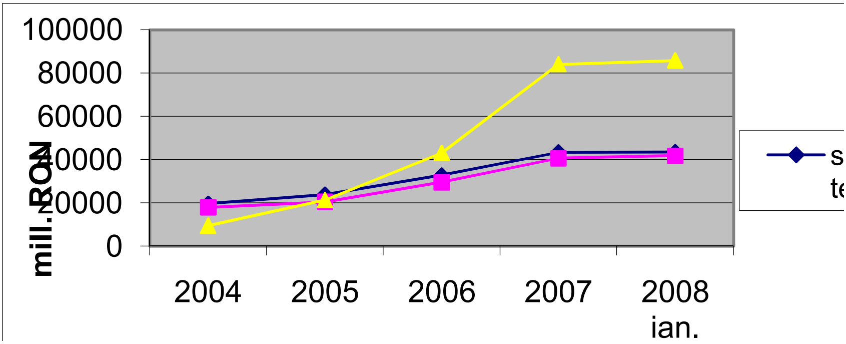

Figure 6. Evolution of loans provided to beneficiaries according to the loan duration

According to the analysed data, at the beginning of the analysed period, the three types of loans have been used in the same amount. We may assert that before 2005 the short-term bank loan has been the most important external financing source. Starting with 2005, the percentage of medium and long term loans are in a visible ascending trend. Therefore, medium and long term bank loans have become a more frequently used financing source for companies, fact that better corresponds to the financing objective of profitable investment projects.

We cannot finalise this report without emphasising the **arrears** issue, a sensitive problem of Romanian economy, though the descending tendency indicated during the last years stands as proof that the Romanian economy is restructuring and enterprises become more and more adapted to the market.

The swift transition to a new economic mechanism at the beginning of the 90s occurred as Romanian enterprises were completely unprepared, whilst the continuance of most companies was conditioned by non-payment of debts and accumulation of arrears. The evolution of arrears has also had subjective causes originating either in the quality of management, or due to the decision-makers' oscillations in applying an appropriate economic policy.

Even if these amounts thus accumulated have had a descending tendency, from 33.4% of the GNP in 2003, to 25.8% in 2004, 18.8% in 2005, 15.5% in 2006, slightly ascending in 2007 to 16.6% of the GNP, these still indicate high values. The frequent use of debt rescheduling and debt write-off have lead to a stock reduction, though with little effect on the improvement of financial discipline. The current efforts to speed-up the restructuring of enterprises that fail to pay, introducing a more strict obligation of payment of fiscal debts, as well as the decision of suppliers cu cut-off the supply to the enterprises that fail to pay have had results in the past period.

The structure of arrears on private sector level, based on the available data provided by balance sheets centralised by the Ministry of Economy and analysed by the National Statistics Commission, indicate that the arrears for suppliers are still maintained at a high level, followed by other back payments (Table 6 and Figure 7):

Table 6. The structure of arrears on private sector level (%)[1]

	2005	2006	2007
Total back payments *of which:*	100	100	100
Debts towards suppliers	56.8	62	61.4
Back payments owed to the state	11.0	8.7	8.4
Back payments owed to the bank sector (loans, interests)	3.3	1.8	2.4
Other back payments	28.9	27.5	27.8

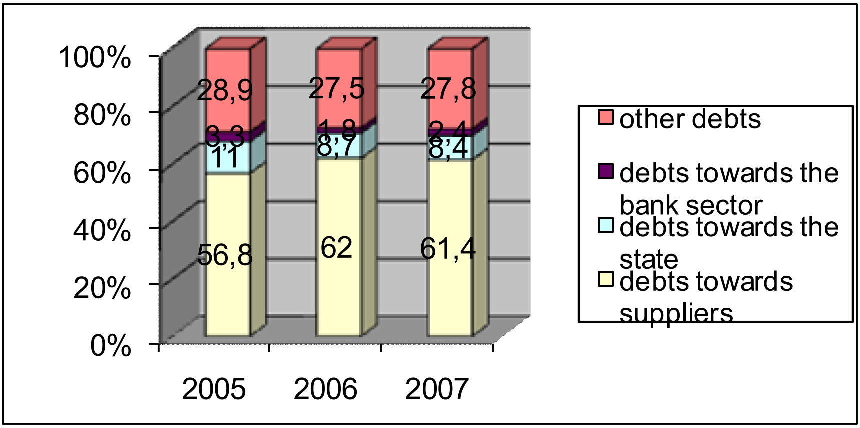

Figure 7. The structure of arrears on private sector level

The percentage of debts owed to the state and banks has had a slight decrease during the analysed period, to the disadvantage of arrears

[1] Source: National Statistics Commission, revisions of the National Statistics Commission of data from the balance sheets centralised by MEF

between companies. However, the debts owed to suppliers (commercial loans) represents more than half of the total of arrears. Nevertheless, the ascending tendency of arrears during 2007 is distressing, if we consider that a significant part of the companies function by accumulating debts owed either to the budget, or to suppliers.

If these data are interrelated with the structure of non-governmental loans granted on short, medium and long term, the descending tendency of arrears towards banks is accompanied by the ascending evolution of loans granted to economic agents operating with private capital.

Consequently, the reduction of the inflation rate, supplemented by the decrease of the average interest rate of the banks during the last years have risen the debt levels of Romanian companies. A negative interrelation with the inflation rate may be observed, thus the rise of the inflation rate would cause the decrease of the financing percentage through bank loans with interest (in Romania, during 1991 – 1994 and 1997, when the inflation rate has significantly surpassed the active and passive bank interests). As a negative aspect, arrears represent an important financing source mounting to 35%[1] of the financing sources of Romanian companies, of which more than half are caused by delay of payment of fiscal debts and debts affiliated to salaries. The diminished rhythm of implementation of legislative and administrative measures to reduce arrears will not prevent arrears from representing a risk for the Romanian economy by maintaining a constant pressure on the aggregate request, inflation and checking account.

[1] Dragotă, Mihaela, Article: *Politica de finanțare a companiilor româneşti listate la BVB în conexiune cu modificarea unor variabile macroeconomice*, Vol. Piața de capital, nr. 1(4)/2006, Ed. Univ. de Vest, Timişoara, 2006, pg. 223

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BANKING INNOVATIONS RISK – PROFITABILITY RELATIONSHIP IN THE BANKING SYSTEM OF THE REPUBLIC OF MOLDOVA

***Abstract**: The level of information technologies development in modern banks represents an essential factor in maintenance and consolidation of the position on the market. In this respect all Moldovan banks develop risk management policies with regard to banking IT's and e-products and services, which they consider as the main part of banking innovations at the moment.*

The purpose of this article is to analyze each innovation (Information Security Services, Business Systems Controls, Business Continuity Management, IT Outsourcing, Information Systems Governance, IT Performance, Project Risk Management, IT Internal Audit) in terms of risks and benefits when these risks are managed properly.

By analyzing the innovations Moldovan banks have implemented in the last 10 years, like ATMs, different types of banking cards, international transfer systems, performing banking software, e-services and many other, we may confident state that no matter how much risk they inherit, banks still consider them the road to profitability and leadership.

Nowadays, the level of information technologies development in modern banks represents an essential factor in maintenance and consolidation of the position on the market. The volume of information exchange and current requirements for the speed of transactions has made implementation and development of high information technologies a primary necessity. In this respect all Moldovan banks develop risk management policies with regard to banking IT's and e-products and services, which they consider as the main part of banking innovations at the moment.

The errors of conception or fulfillment, slow implementation process of technologies, poor new systems management represent more and more important risks that have a direct influence upon the banking services' quality and profitability. The Moldovan banks usually deal with the following risk aspects regarding new software, new products and services, innovations:

-The first aspect comprises the category of risks related to the IT knowledge. It represents the possibility of some errors in computing the banking programs and it is also called the risk of logical security. The exposure to this aspect of risk can be huge and difficult to measure. It can be calculated only in the terms of new IT development cost in order to derive an efficient system or it can be estimated indirectly as the losses due to an inadequate services and products management.

-The second one is related to the difficulty of systems' applications functioning. It is also called system risk and affects both, the traditional data base management and information actualization. The potential loss equals to funds' decreases or medium instead of maximum attained profitability.

-The third aspect regards telecommunications. It is concerning to the probability of sending information over the phone, telex, mail that contains mistakes, losses or misleading parts. An error in destination, a wrong interpretation of the information received from the client, as well as illegal use of a banking channel may lead to important losses for the bank that can not be calculated in fix terms as the up mentioned risk aspects, too.

One another major problem represent the personnel knowledge with regard to new software or a new product/ service characteristics. Usually the banking personnel are familiarized earlier with the new banking system; the bank organizes special trainings. Moldovan banks very often meet a holdup in this case, because trainings encompass additional costs. Sometimes by saving on personnel trainings, Moldovan banks experience higher costs in comparison with the initial ones. More than that, when a new soft is implemented, the old one is not removed immediately. The employees must perform the operations in 2 systems concomitantly for a period till the old one is replaced. This takes additional effort, time and diminishes the efficiency and productivity of services provided.

Banks can exposure themselves to a major risk if they develop an inadequate strategy. Some of them take up costly projects without having a real capacity of financing them. A new product/ service imply a marketing strategy, which comprises design, launch and implementation stages. Thus it is very important to choose for each stage the best time.

When we talk about managing the bank risks is critical to understand that one risk derives another one, that is why banks should be aware that innovations bring up new aspects most of the times unknown and unpredictable for the bank that raise new risks. Even if a bank survives major losses due to a wrong strategy, the bank's credibility is affected directly, fact that will result in a weaker authority among other financial institutions, which will take a negative effect on the cost of the capital the bank will attract in the future.

With banks constantly extending their use of technology into new areas to derive and provide strategic benefits, the world is getting increasingly interconnected. Information is now centralized and we see Moldovan banks, too pushed to the edge of the networks. In order to race to the market, security for and controls over such critical information tends to get overlooked. This translates into issues related to confidentiality, integrity and availability of information - key controls in the information economy. Effective information risk management therefore assumes critical importance and provides competitive advantage.

Use of information technology by banks is fraught with risk. By applying a multi-disciplinary approach to projects and formulate a more comprehensive and effective strategy, Moldovan banks should pay attention to: ***Information Security Services, Business Systems Controls, Business Continuity Management, IT Outsourcing, Information Systems Governance, IT Performance, Project Risk Management, IT Internal Audit.***

The purpose of this article is to analyze each of them in terms of risks and benefits when these risks are managed properly.

INFORMATION SECURITY SERVICES

Security failures can cost dearly, either directly through lost business, loss of goods or services and costs of recovery or indirectly through damage to reputation. Significant risk accompanies the opportunities that e-businesses offer. Information and information systems are exposed to theft and attack anywhere. To retain competitive advantage and meet basic business requirements, banks must: enhance integrity and reliability of the information held on their computer systems; preserve both privacy of customer information and confidentiality of data; enhance availability of their information systems.

However, technology is only one element of any security solution. An effective approach needs to involve people to make them work and processes to foster consistent and effective operations:

• Security assessment through risk analysis including: information threat and impact analysis, identification of vulnerabilities, security architecture assessment, evaluation of controls and gap analysis to identify areas where risks outweigh controls.

• Design of the bank security architecture to address the gap identified during the assessment phase.

• Implementation of security strategies and its integration within the business

• Monitoring of incidents, measurement of security key performance, and periodic audit to enhance the effectiveness of the security strategies.

Bank's benefits:

- increasing revenue by securely harnessing the commercial potential of information technology;
- reducing overall cost by getting information security right the first time;
- reducing the number of costly incidents to recover from;
- lowering the risk of damage to reputation.

BANKS SYSTEMS CONTROLS

In an era of e-commerce and the Internet, organizations face issues of internal systems and development of efficient, automated controls and processes. Competition has left many our banks with a combination of several IT systems to support their business processes. Downsizing and outsourcing have broken down traditional business controls.

Business System Controls covers the audit, risk, control and security aspects of any IT system supporting a bank's business processes.

Generic tools:

• Business Process Analysis - risk-based approach to evaluation and design of systematic controls over business processes.

• Systems Integration Controls - addresses the full implementation lifecycle for controls from review and evaluation through design, implementation and on-going monitoring.

Bank's benefits:

- efficient control procedures, which cost less to operate and reduce the costs of error correction;
- reduced risk of value destruction through control failure;
- increased benefit in integrated systems;

- systems and processes to enable information technology opportunities.

BUSINESS CONTINUITY MANAGEMENT

Banks and business partners must provide fault-free, instantaneous service 100 per cent of the time. These more exacting customer requirements have firmly positioned high availability as a critical success factor for any business. It is a key competitive benchmark for all banks and other financial organizations with an online channel to market, or with high dependence on information technology. This is creating a widening gap between banks' business and market requirements, reducing the ability of traditional approaches to deliver these new requirements. Assuring high levels of information and service availability must become a key design objective for any bank of the Moldovan system.

Bank's benefits:
- reduced overall cost of downtime;
- improved business continuance environment;
- enhanced service level management;
- effective disaster recovery and crisis management programs;
- protected profits, revenues, and shareholder value.

IT OUTSOURCING

Competition and increasing pressure from shareholders focus on core business issues improve customer satisfaction and reduce information costs driving many banks to re-evaluate sourcing options. Emphasizing on core competencies while leveraging increasingly, commoditized services such as call centers, systems development and IT operations can also increase the focus and sharpen the competitive edge of the bank.

Moldovan banks should evaluate their sourcing approach, establish sourcing strategies with controls over implementation and management to facilitate selection between the numerous sourcing alternatives and increase the benefits that can be realized from shared services, outsourcing and multi vendor arrangements.

We provide four broad categories of services depending on the bank's needs:

• Sourcing Advisory: provides assistance with sourcing approach, vendor evaluation, negotiation and transition management, for potential sourcing service partners.

• Sourcing Assessment: helps clients review and assess current sourcing arrangements - includes: requirements reviews and due diligence and controls assessment.

• Sourcing Financial Management: provides cost analysis and billing practice reviews and analysis to help clients realize the benefits of sourcing arrangements.
• Sourcing Performance Management: assists clients with contract compliance and service level management reviews to help determine whether the planned value is being delivered.

Bank's benefits:

-identification and elimination of inadequacies in agreements with external service providers, therefore enabling the benefits of outsourcing to be better realized. These may include: improving customer service; reducing management effort; improved flexibility to meet current and future business needs; avoiding lock-in to inadequate agreements on renewal of contracts; compliance with regulatory requirements.

INFORMATION SYSTEMS (IS) GOVERNANCE

Effective IS Governance helps ensure business systems deliver value to banks. It also assists in managing the unique risks inherent in technology through appropriate corporate governance. IS Governance also facilitates use of technology to support organizations meet their compliance obligations.

REVIEWING ALIGNMENT OF IT AND BUSINESS STRATEGIES

Moldovan banks must focus on review and re-development of their IT strategies. The recommendations are to align the IT strategic plans to the business by clearly demonstrating the role of IT in meeting business objectives, including:

- *'Where are you now?'* - An overview of the current IT environment examined against the strategic direction in order to bridge the gap.
- *'Where are you going?'* - Confirmation of the strategic direction of the organizations and the link to IT strategy.
- *'How do you get there?'* - Strategies to bridge the gap including a portfolio of prioritized projects, indicative budget for projects, benefits, timeframes and risk management.

Understanding the potential value of IT is contributing to bank's effectiveness, in the implementation of IT strategies that enhance shareholder value and government in a better use of the bank's funds.

Bank's benefits:

- helping clients ensure that IT is delivering value;

- ensuring that IT is able to support business strategies;
- strengthening internal IT controls to support overall corporate governance frameworks.

ELECTRONIC BUSINESS RISK MANAGEMENT SERVICES

E-business continues to change "the shape of bank, the speed of action, the nature of leadership", along with the risks and opportunities banks face. As a result, every organization needs to ensure effective business controls to sustain a profitable position.

Moldovan banks develop a comprehensive suite of methodologies designed specifically to provide an end-to-end risk management framework to businesses on the Internet in the following ways:

-helping e-businesses in evaluating and strengthening the controls established in identifying and managing the risks during the strategic decision making process

-assessing the robustness of business processes in handling ever-increasing loads in a consistent manner, with assured end results

-evaluating the consistence of web presence with the organizational image and providing good practices to enhance visibility

-enhancing reliability, availability, and consistency of systems performance in meeting the business requirements and improve the customer's experience

-providing an ongoing service to secure the web presence against ever increasing and innovating external and internal elements of threat

An Electronic Business Risk Management Review identifies the capabilities developed by an e-business is developing a controls framework and the progress achieved in implementing them.

IT PERFORMANCE

Successful professionals need to focus on bottom-line results by maximizing business performance, minimizing operational risk, and gaining control over IT systems and processes. Optimizing the effectiveness and efficiency of people, processes, and technologies is critical for the survival and success of the bank.

Moldovan banks systematically strive for excellence by benchmarking themselves against established 'good practices'. They align their strategies from top to bottom, view their IT infrastructure as a mission critical business enabler, consider their IT group as a business partner, and satisfy their customers.

Bank benefits:

- improved overall business performance

- efficient business systems and processes
- better understanding of the underlying controls
- reduced risks associated with IT
- effective utilization of organizational assets

PROJECT RISK MANAGEMENT

Technological advances fuel the speed at which the Moldovan banking system environment transitions and develops. To survive and prosper, an organization must seize new technology opportunities that benefit the business. These include, among others, developing new routes to market, improving customer information or streamlining key business processes. However, the risks associated with such projects are complex and difficult to manage; and the cost of failure huge.

Banks take appropriate and timely project action to avoid expensive delays and failure. Their goals are aimed at reviewing the progress, organization and management of projects, selecting packaged software and improving data integrity.

Bank benefits:

-objective assessment of the effectiveness of project management controls providing assurance to senior management and/ or external parties

-proactive advice on enhancing processes and controls to mitigate project risks, increase the likelihood of the project meeting its objectives and reducing costs to the business (these include -unquantifiable costs such as a tarnished image, frustration, poor staff morale and wasted time)

-independent and objective assessment of the process for selecting packaged software

-experience to analyze and clean data as well as advice on the controls required, if management is to place reliance on data

IT INTERNAL AUDIT

Technology is not just a tool to support bank's functions: instead it is creating new needs, products, organizational structures and even business models. Banks that excel in exploiting IT and Internet technology gain significant competitive advantage.

These advances present a huge challenge to the Internal Audit function in providing effective assurance and advice over the risks and controls in this rapidly changing environment.

IT Internal Audit can be provided as part of a full internal audit co-sourcing or outsourcing arrangement, or as a stand-alone service. Our banks tend to highly experienced staff and a range of professionals having in depth knowledge of Internet security, business application controls, project risk, and business continuity.

Bank's benefits:

-updated technical knowledge and the business experience required for this function

-strengthened IT internal controls environment and thus, a stronger overall corporate governance framework

-identification and management of financial and operational risks embedded in business systems

As an example of how Moldovan banks manage these types of risks we bring into discussion the Moldova Agroindbank's risk management policy. In order to minimize them, the bank administrates the risks related to the environment of data e-processing: the risk of information confidentiality, the risk of information integrity, the risk of continuity functionality of the basic components, the risk of security of the functioning environment.

The banking IT's risk management is performed through:

-Elaboration, systematical actualization and practical application of the bank's Continuity Business Plan;

-Periodically analysis of the IT risks with the application of the accepted international methodologies;

-Systematic control of the information security with regard to the bank's employees and third parts that perform to the bank IT outsourcing services;

-Identification of the intern information sources with regard to the operational losses events, thus to be included in the data base for the measurement and monitoring risks facilitation;

-Use of licensed antivirus programs, limited access to the information both, at technical and program levels, use of more levels of protection;

-Passing in real terms of the bank's management to the International Standards of Information Security BS 7799/ISO177;

Also the bank develops and applies the necessary procedures and mechanisms, including reserves and measures of recovery in cases of disasters; systematical modernization and accessibility and reliability insurance of the bank's IT; implementation of specific processes in accordance to the International Standards like COBIT, for example (Control Objectives Information Technology).

In conclusion, we may say that a sound risk management in which concerns innovations provides a higher efficiency and productivity, increased number of customers, thus better services/ products, an improved image on the financial market and consequently the leadership position.

Moldovan banks must develop their own strategy with regard to banking innovations in accordance with their needs and future expectations. By having a large experience in the back, the challenge for innovation implementation at present, the future of Moldovan banks can be drawn in bright colors of profitability and success in the picture of innovation.

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CONCEPT OF „ FLEXICURITY” – IN ACTUALITY ON THE WORK MARKET FROM RUMANIA -

Abstract: *An important element that may support the work control without legal contracts refers to the flexicurity* ***– a modern concept*** *that develops within many countries members of E.U. and where is combined as balance solution on the work market, the flexibility under different aspects with security and/or safety of the work place*[1]*. (There are cases when the employee avoids the conclusion of a work contract with normal duration of 8 continuum hours per day). For this reason there will be considered the examination of the flexibility degree stipulated in the standard contracts (contract with undetermined duration and with full norm) regarding the notices terms, costs and the procedures regarding the individual or collective dismissals, inclusively even the definition „ abusive dismissals”, this one being from historic point of view the key- element of the security of the work place for the employees.*

The more and more complex work methods and the phenomena specific to the globalisation impose that the employers, on the base of some adequate strategies to act at all operative levels and within all activities to get economic superior performances as well as admission in indicators of social performance established by the de specific politics for the European Union. The organizations must be capable to continuously

[1] The report Wim Kok from November 2004 underlines: „It is necessary to be promoted the flexibility of the employees market, combined with its security, especially by the improvement of the work organisation and of the attractiveness of the standard and non-standardized work contracts – for employees, as well for employers – for avoiding the arrival of a work force market with two speeds. The notion of security of the work place must be modernized and extended, for not covering only the protection of the work places, but also to mobilize the employees’ capacity to remain at the work place and to promote in carrier. It is important to create as many work places as possible and to improve the productiveness, by reducing the obstacles in the foundation of some new companies and by promoting a better anticipation and of a better administration of the reorganisations.

cope with the problems specific to the work relations and to implement by adequate strategies a modern system for this purpose.

Within the work European politics, the notion of flexicurity was for the first time introduced in 1997 with the occasion of the Conference from Luxemburg when was launched the Work European Strategy. The strategic objective formulated by the European Council at Lisbon in 2000 for the following decennium stipulates that „the economy must be capable of a durable increase accompanied by a quantitative and qualitative amelioration of the work force and a bigger social cohesion".

The European Commission wants the instauration of the flexicurity as a common socle of the European work market that involves the flexibility conciliation within the companies with the legitimate security of employees.

The further completions formulated at the European Council from Stockholm (March 2001), at the European Council from Barcelona (March 2002), or in the Kok Report (November 2004), want to apply a modernization politic of the work law in each member state with the purpose to generate a new dynamics of the work places concomitant with the economic increase. The flexibility and security notions are in the centre of those modernizations but it is necessary to notice that the national stipulations are very diverse and the „ flexicurity" applies differently from one country to another.

The E.U Board U.E. stipulates that in approaching the flexicurity the national particularities must be taken into evidence. In accordance with the principles presented in the Green Book published in November 2006, there is necessary „to adapt the work law to guarantee the flexibility and the security for all".

The conferences developed in Europe during 2006 and 2007, with the participation of the work ministers as well of the representatives of the social partners, wanted to establish elements for a common base of values for an European work politic so that **„the** flexicurity**" to become the skeleton of a „ social Europe".**

In accordance with the „ National Program of Reforms correlated with the priorities of the Strategy from Lisbon, elaborated by the Romania Govern for the period 2007 – 2010, an important objective is the improvement of the work force market, and in accordance with the documents of the European Union the development ***of the human capital*** from our country will take in consideration four big directions:

- ➢ Education and professional training for the whole life duration;
- ➢ Stimulation of the research– development and innovation with significant impact in economy;
- ➢ *Flexibility of the work force market* and the minimization of the constraints bureaucratic, elimination of the discriminations (on sex, age, origin base etc.), social inclusion, social protection (social assurances and pensions);
- ➢ Improvement of the public health systems.

Otherwise, the strategic directions regarding the work market will aim „the increase of the work flexibility and security as well the improvement of access on the work market. ***For the promotion of the flexible work relations will be supported the development of economic activities within an independent way, will be considerably reduced the barriers at employment, will increase the preoccupation for security and health at the work place and will consolidate the bipartite and tripartite social dialogue.***

Due to the actual economic and legislative evolutions, as well the confrontation of the managers with an acute crisis of employees as well from a numeric point of view, and also qualitatively, the problem of security, health and the work relations becomes a component more and more important within any organization.

Taking into consideration this national and European context, it is recommended the elaboration and the implementation within the IMM of a pattern of **„management regarding the security, health and work relations”** adequate for the small and middle companies, that identify inclusively elements concerning the psycho- social risks and flexicurity at the work places;

The main conditions for a management system pattern of security, health and work relations to be applied successfully are the following:

- that its appliance to be volunteer;
- in implementation to be taken into consideration of the special characteristics of the small and middle companies;
- evaluation methods and procedures will be mainly based on intern audit;
- results will improve the capacity to respect the administrative legislation and stipulations in the field of work relations and of the security and health in work;

- to promote the improving of cooperation with authorities that issue stipulations in the field;
- to establish a full participation of the a employees and/or of their representatives in conceiving, appliance and evaluation of this system.

This modern approach of the security, health and work relations will determine the creation of „better and safer work places”, priority objective at European as well national level. In the actions of implementation of such a system regarding the security, health and work relations, the flexicurity must represent the essential element of cohesion of the social partners.

To be underlined the fact that presently Romania by its specific normative deeds adopted within the process of reform in the work field, offers legislative support to the commercial companies for the realization of the strategies with occupational objectives. For this purpose it is mentioned the new Work Code, Law of chances equality between women and men that assure also the legal context necessary the elimination of harassment at the work place, as well other legislative deeds that assure the maternity protection at the work place etc.

Only a modern work legislation, that includes all the work changes, may create the flexicurity context. The flexicurity is strongly connected and may be put into practice only by strong social partners, collective negotiations, combining the social protection with active politics from the work market. It must interfere into the institutionalisation of the undeclared work, removing all the restrictions, transforming the conclusion of the classic and atypical work contracts into flexible instruments of consolidation of the good communitarian practices.

At national level it is presently observed that even if it is disposing of legislative instruments necessary to apply some modern management methods regarding security, health and work relations, there aren’t enough prepared and trained specialists to promote and apply those methods, being necessary the development of some special projects in this field.

The communitarian financial Instruments for cohesion – and especially the Social European Fund for the programming period of 2007-2013, may bring a significant contribution at the budgetary aspects of the flexicurity, for example by training courses within the companies, continuous teaching programs or by promotion of the entrepreneurial spirit.

A Eurobarometru research showed that the European citizens understand and accept the solutions of adaptation and/or change characteristic to the flexicurity, respectively: 72% consider that a higher level of flexibility regarding the work contracts would contribute to the increase of the degree of occupancy of the work force; 76% think that a life long work place is of the past domain; and 88% expressed the opinion that the continuous learn improves the chances to find a work place within a short time.

Therefore the flexicuritatea means also the security for employees of occupying a new work place – the external flexibility, as well of a easier passing from one work place to another one within the same company– the intern flexibility, and the security doesn’t points only the employees, but also the companies because the improvement of the employees’ competencies increases the performance level and implicitly of employees’ security. The flexibility and the security sustain themselves reciprocally in many aspects.

Therefore, by involving the interested factors at the national level, respectively by development of some specific strategies and assurance of some facilities and opportunities of implementation at local level, inclusively within the companies, it may be determined by the realization of some work relations based on the concept of flexicurity an economic and social durable development.