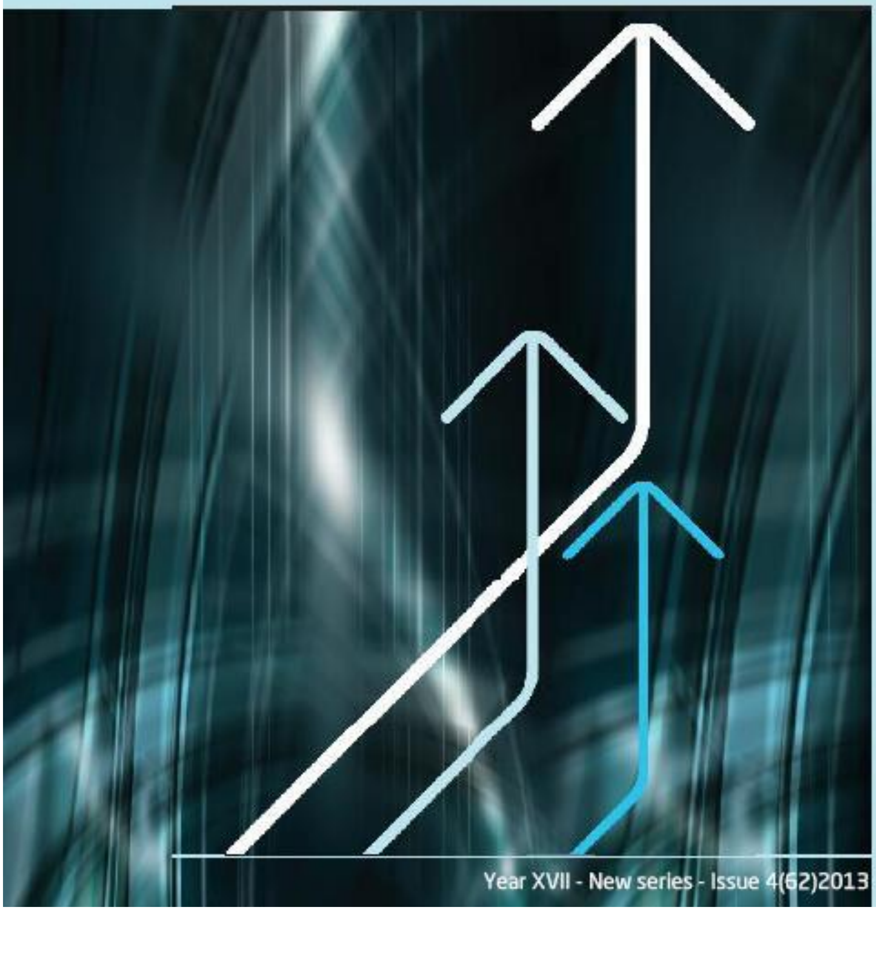
Romanian Academy
"Costin C. Kiriţescu" National Institute for Economic Research
"Victor Slăvescu" Centre for Financial and Monetary Research

Financial Studies



Year XVII - New series - Issue 4(62)2013

"VICTOR SLĂVESCU" CENTRE FOR FINANCIAL
AND MONETARY RESEARCH

FINANCIAL STUDIES

ROMANIAN ACADEMY
"COSTIN C. KIRIŢESCU" NATIONAL INSTITUTE FOR ECONOMIC RESEARCH
"VICTOR SLĂVESCU" CENTRE FOR FINANCIAL AND MONETARY RESEARCH

FINANCIAL STUDIES

Year XVlI – New series – Issue 4 (62)/2013

ROMANIAN ACADEMY
"COSTIN C. KIRIŢESCU" NATIONAL INSTITUTE FOR ECONOMIC RESEARCH "VICTOR SLĂVESCU" CENTRE FOR FINANCIAL AND MONETARY RESEARCH

Quarterly journal of financial and monetary studies

Iulian PANAIT, Hyperion University, Bucharest
Elena PĂDUREAN, "Victor Slăvescu" Centre for Financial and Monetary Research, Romanian Academy
Elena PELINESCU, Institute for Economic Forecasting, Romanian Academy
Rodica PERCIUN, National Institute for Economic Research, Academy of Sciences of Moldova
Gabriela Cornelia PICIU "Victor Slăvescu" Centre for Financial and Monetary Research, Romanian Academy
Napoleon POP, "Costin C. Kiriţescu" National Institute for Economic Research, Romanian Academy
Corina SÂMAN, Institute for Economic Forecasting, Romanian Academy
Andreea Maria STOIAN, The Bucharest University of Economic Studies
Alexandru STRATAN, National Institute for Economic Research, Academy of Sciences of Moldova
Angela TIMUŞ, National Institute for Economic Research, Academy of Sciences of Moldova
Carmen Lenuţa TRICĂ, The Bucharest University of Economic Studies
Victoria TROFIMOV, Trade Co-operative University of Moldova
Iulian VĂCĂREL, Academician, Romanian Academy
Katharina WICK, University of Natural Resources and Applied Life Sciences, Vienna, Austria

English version: Mihai Ioan ROMAN

Issue 4/2013 (62, Year XVII)

ISSN 2066 - 6071
ISSN-L 2066 - 6071

CONTENTS

THE DETERMINANTS OF BANKING SYSTEM VULNERABILITY IN THE REPUBLIC OF MOLDOVA..……….…………………………………...8
Dorina CLICHICI, PhD

THE ACCESS TO FINANCE IN MOLDOVA - BANKING COMPARED TO MICROFINANCE ORGANIZATIONS..……..……………..22
Viorica POPA, PhD Student

A GENERAL ASSESSMENT OF THE MONETARY INTEGRATION PROCESS IN EUROPE AFTER EURO ADOPTION..……………………….35
Adina CRISTE, PhD

ASPECTS CONCERNING ECONOMIC AND SOCIAL FACTORS DEVELOPMENTS - AN ASSESSMENT AT THE EUROPEAN UNION LEVEL…………..………………………………...……48
Alina Georgeta AILINCĂ, PhD Candidate
Floarea IORDACHE, PhD

BOOK REVIEW
”TOWARDS A GLOBAL CURRENCY. PRELIMINARIES”......................56
Tudor CIUMARA, PhD

THE DETERMINANTS OF BANKING SYSTEM VULNERABILITY IN THE REPUBLIC OF MOLDOVA

Dorina CLICHICI, PhD*

Abstract

A banking system is more vulnerable when there are felt more negative effects on this as a consequence of the global financial crisis events. In the context of the objective of enhancing financial stability and, in particular, limiting the likelihood of failure of the banking system it is useful to verify how the main characteristics which play a role for banking system vulnerability behaved in the case of the Republic of Moldova: system's liquidity, capitalization, competition, diversification, presence of foreign banks, and wholesale funding. In order to determine how hard was hit the banking system of Moldova by the recent financial crisis in the article are analysed quantitative and qualitative the above mentioned characteristics and identified the crisis effects on them.

Keywords: financial crisis, banking system, liquidity, capitalization, competition, diversification, foreign banks, wholesale funding

JEL Classification: G01, G21

1. Introduction

The globalization of banking activity determines that shocks affecting a particular bank or country can now affect not only the local real economy but also the financial system and real economy in other countries. Thus the banking systems are more vulnerable to shocks and to contagion now then ever. This contagion effect was felt the most at the beginning of the financial crisis (2007-2009), which started with the bursting of the US housing bubble and the subsequent increase in subprime mortgage loan default rates as triggering the global financial crisis. The critical turning point was when the US government refused to save the financial services firm Lehman Brothers from its collapse on September 15th, 2008. This bankruptcy shocked market confidence and caused financial panic.

* *National Institute for Economic Research, Chişinău, Republic of Moldova.*

The effects of the crisis rippled further throughout the highly interconnected and overleveraged global financial system. In the months thereafter, what started as liquidity problems transformed into greater solvency concerns about important global financial institutions (Claessens et al., 2010). Eventually, also consumers and firms faced a credit stop, leading to falls in consumption and investment and a real sector slowdown in the US and Western Europe. Thus a systemic economic crisis was born.

Later the crisis has spread to the developing countries through the holding by developing country banks of the same toxic assets that troubled Western banks' balance sheets, or through investments in foreign financial institutions that held such assets. Direct contagion was however limited in most developing countries, due to modest foreign bank penetration (with the exception of CEE countries) and low financial sector complexity. As a result, emerging and other developing economies were largely insulated from the crisis for some months, in part explaining initial optimism about decoupling. The consequences of the crisis for these countries only became noticeable with a lag, from September 2008 onwards. Most analyses (Dooley and Hutchison, 2009) identify four, more *indirect channels of transmission* as most important: trade, private capital flows, remittances and international bilateral aid. Republic of Moldova's economy was affected through two indirect channels: trade and remittances. The downturn of these two variables due to the worsening of the economic situation in the country has worsened the borrowers' financial situation which damages in its turn the banking system.

The methodological base of this research includes in particular qualitative and quantitative analysis of *characteristics* proposed by Degryse (2013) which play a role for banking system fragility: system's liquidity, capitalization, competition, diversification, presence of foreign banks, and wholesale funding. In order to determine how hard was hit the banking system of Moldova by the recent financial crisis it is useful to verify the relation between the above mentioned *characteristics* and the crisis effects, and to detect in this way the main channels of crisis impact.

2. The characteristics of Moldovan banking system vulnerability

The financial sector of the Republic of Moldova is dominated by the banking system, which accounted for 93 % of total financial assets and 96 % of total loans provided by the financial sector at the end of 2012. The local banking system has a low degree of connectivity to European and world banking system due to a very low presence of international banks on the market[1], which has determined *no direct contagion* within the last financial crises. The effects of the crises were felt indirectly by the banks, through the channel of remittances and foreign trade, which have diminished substantially as a result of economic decline in Europe. The decline of private consumption in the euro area has contributed to the decrease in Moldovan exports to EU and of the volume of remittances in 2012. Thus, the general effect of the financial crises on the Moldovan banking system was felt *on the banks' asset side*. The mentioned tendencies have negatively influenced creditworthiness of Moldovan borrowers and respectively the quality of local banks' loan portfolios. There are also some structural shortages which increase the fragility of the local banking system.

Taking into consideration the *characteristics* of banking system fragility proposed, the following effects of the financial crisis on them were identified:

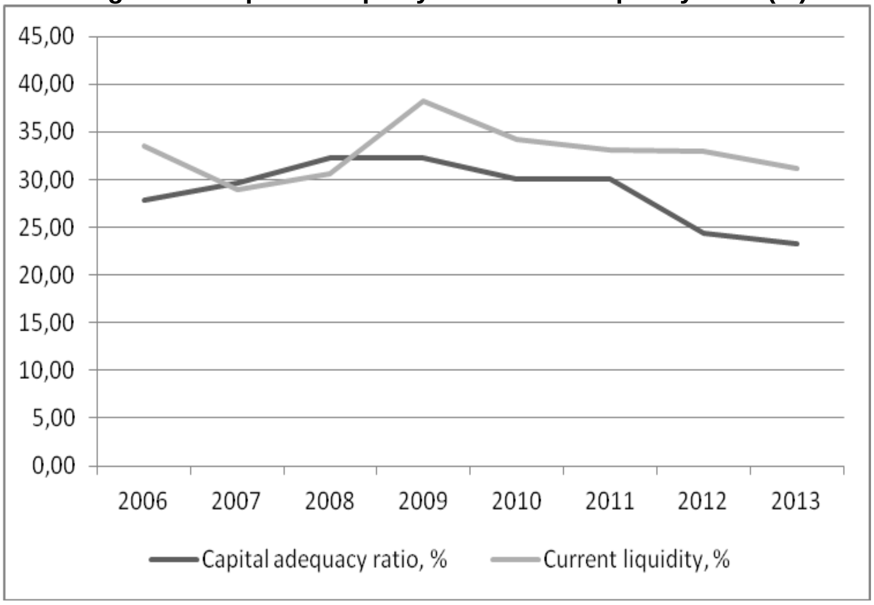
a. Capitalization and liquidity

A higher *capital base* provides a cushion against insolvency and helps in reducing possible contagion effects from individual bank failures in the same country or region. The *liquidity* on a bank's balance sheet serves as a first line of defence against liquidity shocks and enhances the stability of the domestic banking system. The average capital adequacy and liquidity ratio of the Moldova's banking system recorded for 2006-2013 indicates a high degree of banks safety and the potential to perform risky operations without affecting the capital (figure 1). Among countries from Eastern Partnership and some EU countries with similar size

[1] *There are only 4 banks with 100% foreign capital of 14 commercial banks operating in the local banking market.*

and economic problems, Moldova has the highest level of the capitalization and liquidity[2].

Figure 1 - Capital adequacy and current liquidity ratio (%)



Source: National Bank of Moldova database, 2006-2013

Nevertheless these indicators dropped slowly after 2009. Thus the effects of the global financial crisis were felt by the Moldovan banking system, even if the capital and liquidity ratios were significantly higher then the Basel requirements and the values required by National Bank of Moldova[3]. The studies of Degryse (2013) suggest that increases in capital do have an effect in reducing bank fragility but only when capital levels are higher than a threshold of around 7 %. Taking into consideration higher values of capital and liquidity ratios in Moldova I could assume that the banking system is relatively resilient to the crisis.

[2] *World Bank and IMF data base, Financial Soundness Indicators tables 2009-2013.*

[3] *The minimum capital adequacy ratio established by National Bank of Moldova is 16% (from June 2012), until then it was 12%. The minimum current liquidity ratio is 20%.*

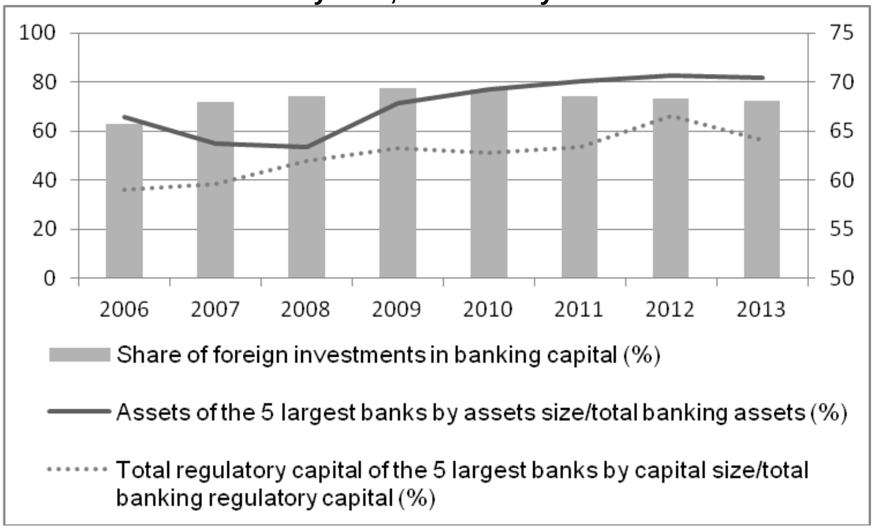
b. Competition, concentration and presence of foreign banks

Existing cross-country studies (Demirguc-Kunt and Levine, 2005, OECD, 2010) focusing on systemic stability find a positive effect of both *competition and concentration* on stability. As the study suggests, the positive effect of concentration on stability is likely to depend on better possibilities for larger banks to diversify risk. The main findings focusing on systemic stability are:

- Bank concentration, is (robustly) negatively correlated with financial crises. That is, more concentrated banking systems are less vulnerable to systemic banking crises are those systems (OECD, 2010). There are suggestive evidences (Demirguc-Kunt and Levine, 2005) that concentrated banking systems tend to have larger, better-diversified banks, which may help account for the positive link between concentration and stability.
- The likelihood of a financial crisis is lower in countries where regulation allows more entry, foreign ownership and a wider range of activities, and where the institutional conditions stimulate competition. The *presence of foreign banks* in a region may impact the fragility of the regional banking system in different ways. On the one hand, a greater foreign bank presence may lead to greater banking efficiency and competition in the domestic financial system. On the other hand, foreign banks may provide a channel for cross-border contagion when they transmit shocks from one region to another. Empirical studies have shown that by improving overall operating efficiency, foreign entry helps create the conditions for better financial intermediation and long-term growth (Claessens et al., 2000).

Concentration ratios of the Moldovan banking system range between 60 and 70 per cent for the largest five banks in the system (figure 2) and suggest that Moldova has a moderately competitive system with oligopoly tendencies.

Figure 2 - Structural indicators of the Republic of Moldova's banking system, end of the year



Source: National Bank of Moldova data base, 2006-2013

The graphs suggest that the level of concentration of the local banking system have slowly increased after 2008, which in accordance with the findings of Demirguc-Kunt and Levine (2005) has lead to a decreasing of the system's vulnerability. It is also a result of the orientation of the banks' clients toward the biggest banks of the system with higher visibility. After 2008, two small banks from sixteen have been hit hard by the crisis and became insolvent. It might be concluded that in case of the Republic of Moldova, as in case of Canada and Australia, a more concentrated financial system is more resilient to financial distress, and the biggest banks has bigger capacity to face the risks due to higher capitalization and liquidity.

Regarding the foreign ownership aspect, while foreign participation is considerable (share of foreign investments in banks' capital recorded at the end of 2013 was 72,2 %), the majority of foreign holdings in Republic of Moldova belong to investors that are not internationally highly-rated financial institutions, with a significant percentage of the owners being residents in offshore centres. While those owners who have more than a 5 % stake in a bank have been mostly found to be fit and proper, the ability and willingness of such owners to provide knowhow and capital or liquidity support is not obvious. On the other hand the low presence of foreign banks on the local banking market has protected it from the contagious effects of the crisis.

The *structural vulnerabilities* of the Moldovan banking system are the following:

(i) Uncertainties in the ownership structure still remain vulnerability despite considerable efforts of the NBM[4]. The process of clarifying the ultimate beneficial owners has not been completed. This raises concerns in relation to large exposures, connected lending, and loan concentration, and in establishing whether the owner can provide contingency funds in case of a bank run or other stress situations.

(ii) *Foreign strategic investors*[5] *own less than 20 % of the banking sector's assets.* The investments of first-tier banks in Moldova are welcome. The main arguments for this are: the implementation of highly efficient risk management practices within the local banking system and the injection of long term financial resources in the Moldovan economy. The supervisors should continue to exert pressure on the banks to consolidate ownership in individual banks through strategic investors.

c. Funding structure

The recent financial crisis has shown that *banks' funding structure* is important to their resilience. Banks can finance themselves with both depository funding and *wholesale funding* (i.e. funding from other banks, money market funds, corporate treasuries and other non-bank investors) relying mostly on wholesale funding have been severely affected by the crisis. Banks in Australia and Canada, for example, have been very resilient to the crisis because they have relied mostly on depository

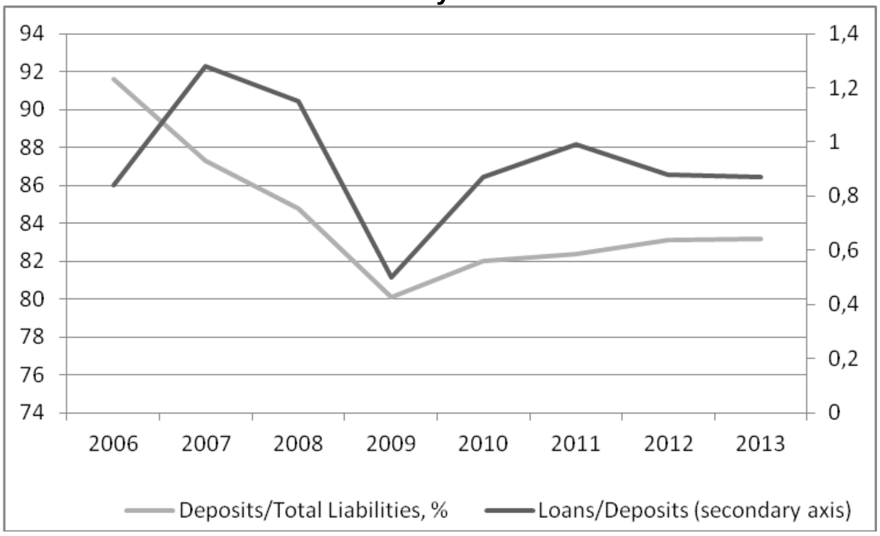
[4] *The threshold for significant shareholding was reduced to 5% from the previous 10%. Banks are obliged to submit information on their shareholders exceeding this limit. In case of noncompliance, the NBM limits the operations of the banks that do not support the enforcement of the regulation. In addition, the NBM requires that information be provided on shareholders with holdings between 1-5%. This requirement attempts to prevent connected parties from circumventing the regulation by splitting holdings into portions not exceeding 5%.*

[5] *BC „Mobiasbancă – Groupe Société Générale" S.A., B.C. "EXIMBANK-Gruppo Veneto Banca" S.A., B.C. ProCredit Bank S.A., BCR Chișinău S.A.*

funding, much of which came from retail sources such as households (OECD, 2010). Reliance on non-core deposits as a funding source, wholesale funding, could prove to be a more volatile source of funding that may accentuate regional banking fragility.

Moldovan banks demonstrate a high level of resilience to the crisis due to their *funding structure*. They finance themselves with both depository funding and wholesale funding, but they rely mostly on depository funding. Deposits to liabilities ratio reached the amount of 85,4 % at the end of 2013, much of which came from retail sources (figure 3).

Figure 3 - Funding structure of the Moldova's banking system, end of the year



Source: National Bank of Moldova data base, 2006-2013

It was recorded a sudden drop of deposits to liabilities ratio in 2009, as a result of remittances' and trade revenues decreasing. Another indicator - loans to deposits ratio - has recorded a sudden drop in 2007 till 2009, and still remains at a low level. These tendencies suggest that Moldovan banks have a strong preference for maintaining liquidity during the financial crisis. This is mostly due to the uncertain macroeconomic outlook and the recent history of banking sector instability.

However, the intermediation function of Moldovan commercial banks is undermined: although the level of liquidity in the system is one of the largest in the region they are very cautious in granting loans. The central issue of undermining is the mutual crisis of confidence: of the individuals and companies towards banks, and of commercial banks towards potential borrowers. It explains the conservative approach of local banks risk management, the reluctance in their lending activity and the maintenance of a high level of liquidity. This conservative approach has become even more acute during the recent economic crisis. It reveals that the lack of resources is not the essential issue of passive lending, and the high level of liquidity may be a consequence of this reluctance to credit activity.

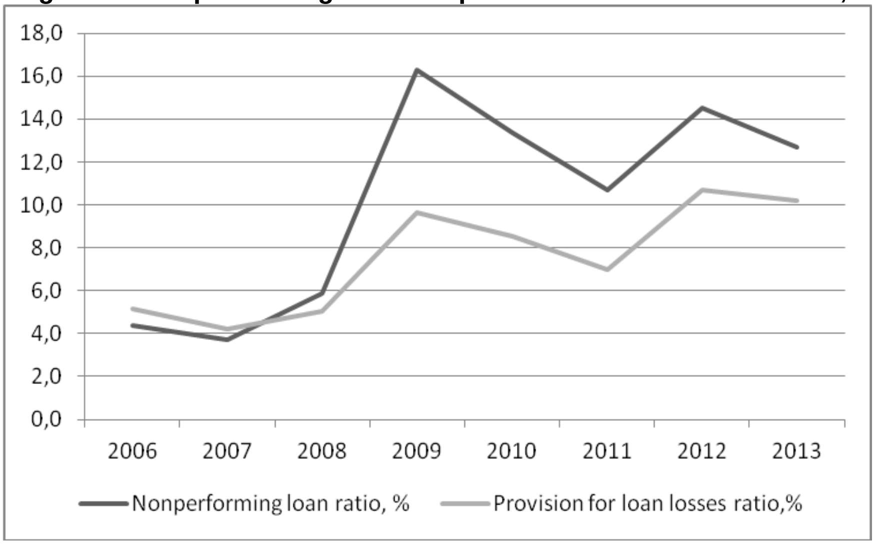
d. Diversification

Whether diversification in banking activities leads to financial stability or increase the vulnerability is a question addressed in many research studies (Stiroh, 2006, Baele, De Jonghe and Vander Vennet, 2007, Laeven and Levine, 2007, Schmid and Walter, 2009). Various financial innovations were conceived in the early 2000s as ways to improve risk sharing and risk management. However, they led to increased leverage and risk taking. Banks introduced a wide range of new instruments to transfer credit risk. Initially, these instruments allowed banks to gain very large spreads. Then, they substantially decreased due to global competition involving not only banks but also other financial institutions. De Jonghe (2010) finds that banking system fragility, aggravates when a bank engages in non-traditional activities. Since interest income is less risky than other revenue streams, it is argued that specialization in traditional activities result in lower systemic banking risk. It is theoretically argued that even though diversification may reduce risk of the individual bank, from the financial system's point of view it may increase the likelihood of systemic crisis as diversifying banks become more similar. In case of the Republic of Moldova, banks do not use such a wide range of financial innovations as the banks from developed countries. These preferences for traditional activities that generate incomes have contributed to a higher level of resilience during the recent financial crisis. The level of diversification, determined by the ratio of loans to total assets, has recorded a high level 62,3 % in 2012, demonstrating the Moldovan banks' focus on traditional loan-making activities.

e. Others sides of vulnerability

Vulnerabilities also could arise *on the banks' asset side*. The worsening of the economic situation due to the crisis in the country (GDP has decreased in 2008 by 0,8 %) has worsened the borrowers' financial situation which damages in its turn the banking system. Thus a high level of bad loans (12,7 % in 2013) became an alarming feature of the domestic banking sector (figure 4).

Figure 4 - Nonperforming loan and provision for loan losses ratio, %

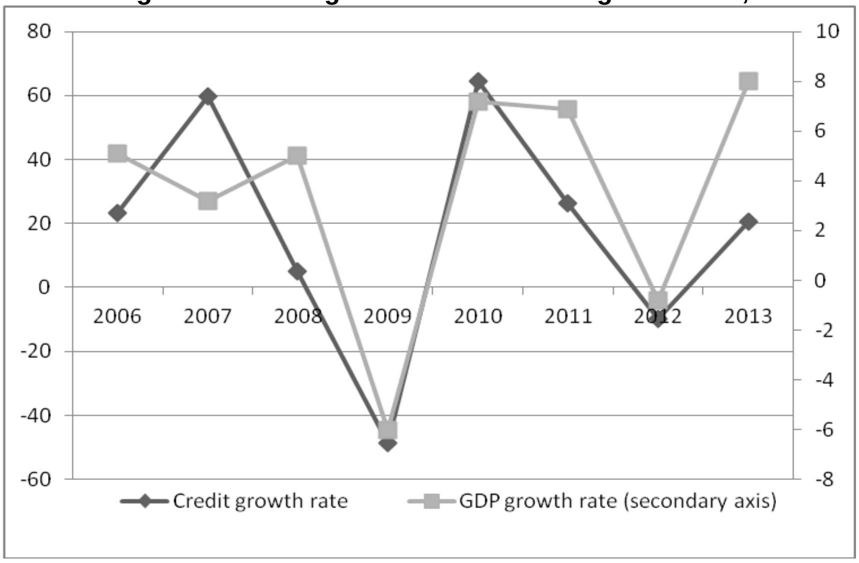


Source: National Bank of Moldova data base, 2006-2013

Economic crisis in 2009 caused a significant increase in non-performing loans from 5,9 % in 2008 to 16,3 % in 2009. Sudden increase of credit risk during this period led banks to restrict lending and to significantly increase the allowances for loan losses. With few exceptions, the trend of deterioration in loan quality continued to be a common feature for the European banking market in 2012 due to sovereign debt crisis.

In addition to the mentioned above characteristics of the banking system vulnerability to crisis, Moldovan banking system is *highly sensitive* to macroeconomic changes and expectations, showing a *pro-cyclical character*. Given the pro-cyclical nature of the banking system, relatively favourable macroeconomic situation in Moldova recorded in 2013 was fully reflected in increased banking credit activity (figure 5). While this credit growth is from a very low economic base, possibly reflecting catch-up growth, a continued increase will require careful attention to pre-empt deterioration in banks' credit portfolios.

Figure 5 - Credit growth rate and GDP growth rate, %



Source: National Bank of Moldova data base, 2006-2013

The danger is now that the banks' internal risk management systems are not good enough to pre-empt nonperforming lending. In this context, it would be useful for the NBM to develop an *early warning system* that would signal any emerging macro prudential risks to the financial system.

Another characteristic of the Moldovan economy which increases the vulnerability of the banking system is the dependence on remittances. It is one of the highest in the world (24,5 % of GDP), and enhances the financial system vulnerability to potential volatility in these inflows. For 2012, Moldova ranks the fifth, in the world (World Bank, 2013). Thus, the dependence on the economic conditions of the main destinations for Moldovan emigrants (Russia and the EU) could influence significantly the local banking system. Should these conditions worsen, or enforcement of immigration and labour laws in those countries tightened, the inflow of remittances may slow down considerably. This would put the exchange rate under pressure and diminish the availability of financial resources for the financial sector. It could also increase credit risk, as part of bank lending is based on the borrowers earning/receiving remittances.

3. Conclusions

The main conclusions of the article in the context of verifying how the main characteristics of the banking system vulnerability have behaved in the case of the Republic of Moldova are the following:

- Taking into consideration higher values of capitalization and liquidity of the banking system in Moldova the assumption is that it is relatively resilient to the crisis.
- The level of concentration of the local banking system have slowly increased after 2008, which in accordance with the findings has lead to a decreasing of the Moldovan banking system's vulnerability.
- The majority of foreign holdings in Republic of Moldova's banks belong to investors that are not internationally highly-rated financial institutions, with a significant percentage of the owners being residents in offshore centers. As e result the low presence of foreign banks on the local banking market has protected it from the contagious effects of the crisis.
- Moldovan banks demonstrate a high level of resilience to the crisis due to their funding structure.
- In case of the Republic of Moldova, banks do not use such a wide range of financial innovations as the banks from developed countries. The banks' preferences for traditional activities that generate incomes have contributed to a higher level of resilience during the recent financial crisis.
- Economic crisis has caused a significant increase in non-performing loans. Sudden increase of credit risk during this period led banks to restrict lending and to significantly increase the allowances for loan losses.
- Moldovan banking system is highly sensitive to macroeconomic changes and expectations, showing a pro-cyclical character.

- Another characteristic of the Moldovan economy is the dependence on remittances, which is one of the highest in the world and enhances the financial system vulnerability to potential volatility in these inflows.

An appropriate institutional structure is critical for preventing banking vulnerability in Moldova and for reducing their undesirable effects if they should occur. NBM has made progress in developing and implementing a basic stress testing toolkit, although the lack of capacity to change stress testing scenarios to accommodate newly emerging risk factors, is vulnerability. More work is needed to identify additional risk factors and properly assess credit and liquidity risks. In this context, it would be useful for the NBM to develop an early warning system that would signal any emerging macro prudential risks to the financial system.

References

1. Claessens S., Laeven, L., Igan, D. and Dell'Ariccia G. (2010) *Lessons and Policy Implications from the Global Financial Crisis*, IMF Working Papers10/44, International Monetary Fund.
2. Dooley, M. and Hutchison, M. (2009) *Transmission of the U.S. Subprime Crisis to Emerging Markets: Evidence on the Decoupling-Recoupling Hypothesis*, JIMF/Warwick Conference on April 6.
3. Degryse, H., Elahi, M. A. and Penas, M. F. (2013) *Determinants of Banking sytem fragility a regional Perspective*, ECB, Working Paper Series no 1567.
4. Demirguc-Kunt, A., Levine, R. (2005) *Bank Concentration and Fragility: Impact and Mechanics,* [Online], Available: http://www.nber.org/papers/w11500
5. OECD. Competition Committee. (2010) *Competition, Concentration and Stability in the Banking Sector*, DAF/COMP, [Online], Available: http://www.oecd.org/competition/sectors/46040053.pdf
6. Claessens S., Demirguc-Kunt A., and Huizinga H. (2000), *How does foreign bank entry affect domestic banking markets?,* Journal of Banking and Finance, 25 .

7. Stiroh, K. and Rumble, A. (2006) *The dark side of diversification: The case of US financial holding companies*, Journal of Banking & Finance, 30 2131–2161.
8. De Jonghe, O., Baele, L., Vander Vennet, R. (2007) *Does the Stock Market Value Bank Diversification?* Journal of Banking & Finance, Vol. 31, No. 7.
9. Laeven, L. and Levine, R. (2007) *Is there a diversification discount in financial conglomerates?"* Journal of Financial Economics, Elsevier, vol. 85(2)
10. Schmid, M., Walter, I. (2009) *Do Financial Conglomerates Create or Destroy Economic Value?* Journal of Financial Intermediation. Vol. 23.
11. De Jonghe, O. (2010). *"Back to the basics in banking? A micro-analysis of banking system stability"* Journal of Financial Intermediation, Elsevier, vol. 19(3)
12. World Bank (2013), Migration and Development Brief, April 19.

THE ACCESS TO FINANCE IN MOLDOVA - BANKING COMPARED TO MICROFINANCE ORGANIZATIONS

Viorica POPA, PhD Student*

Abstract

The objective of this article is the comparative analysis of the banking sector with the non-bank sector of the Republic of Moldova, by the elucidation of the main trends of development of microfinance and banking institution in the last five years, as being reflected by the improvement of all indicators. In this article, the author analyses the microfinance institutions in Moldova through the financial soundness indicators (the degree of financial intermediation). In the first part of the article, the author analyses the main trends in the microfinance sector compared to the banking sector in recent years, requiring the implementation of an effective and coherent strategic management for banking and non- performing strategies and to maintain the financially stability through appropriate policies administration and risk management. A very suggestive remark about the author is the difficult access to finance in Moldova, representing a particular importance to any economy. In this context, the shocks arising from the financial and economic crisis have affected both credit supply and demand as well. Thus, the existence of appropriate strategic policy to minimize risk in a bank and microfinance institution, condition a management with a high level of professionalism and quality.

Keywords: microfinance organizations, non-bank institutions, commercial banks, Global Competitiveness Report, finance

JEL Classification: G15, G21, G23

1. Introduction

The difficult access to finance in Moldova serves as a current constraint on which collides the entire SME sector. The financial market in Moldova consists of banks and non-banks. The banking institutions are represented by 14 licensed commercial banks, which

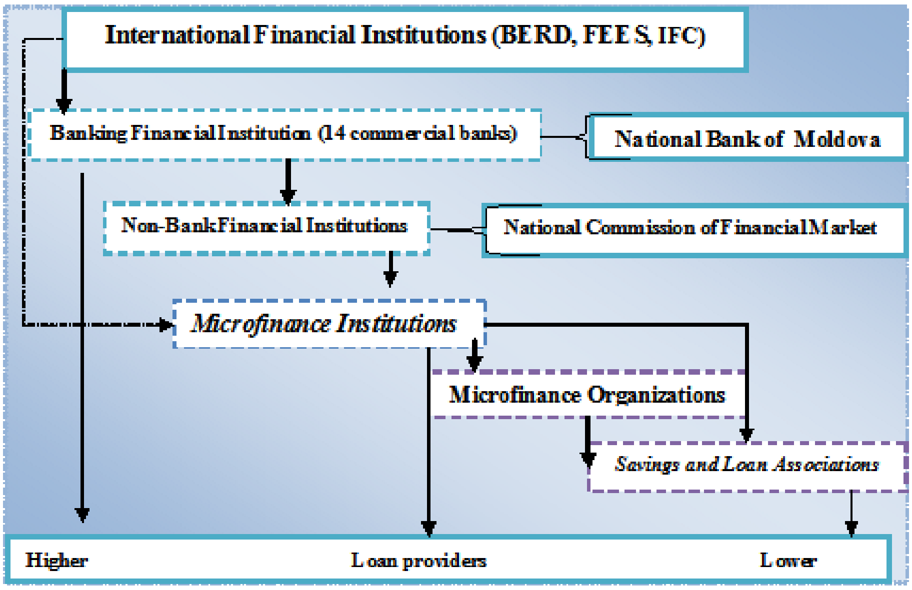
* *Scientific researcher, National Institute for Economic Research, Chişinău, Republic of Moldova.*

are regulated by the National Bank and the non-bank sector consists of the central association, microfinance organizations and savings and loan associations. In turn, non-bank institutions are supervised and regulated by the National Commission of Financial Market (NCFM).

The microfinance institutions have developed as an alternative to the banking sector. Currently, the alternative for loans granted by commercial banks is the products offered by microfinance organizations. The goal of microfinance is to small business lending, mainly in rural areas, facilitating in this way, the access to cheap financial resources and stimulating private initiative. The microfinance institutions operates on the Law no. 280-XV from 22.07.2004 on Microfinance Organizations (hereinafter OMF) and allocate loans from its own resources/borrowed. The microfinance organizations opposed to savings and credit associations (SCAs) are entities engaged in lending activities with professional basis and do not accept deposits or other repayable funds to the public (members) (*The savings and loan associations Law no.139-XVI from 21.06.2007, Official Gazette of 03.08.2007 nr.112-116/506*). The microfinance institutions serve customers who do not have sufficient guarantees to obtain financing from banks or live in areas where banking services are not available.

In Figure 1 is elucidated the structure of micro financing system in Moldova. The potential credit providers may choose at least two lenders both banking and non-banking from (*The evaluation study of the microfinance market in Moldova (2013) available at: http://www.cnpf.md/file/AEI/3.pdf*).

Figure 1 - The structure of micro financing system in Moldova



Source: Prepared by the author according to the assessment of microfinance market in Moldova, available at: http://www.cnpf.md/file/AEI/3.pdf

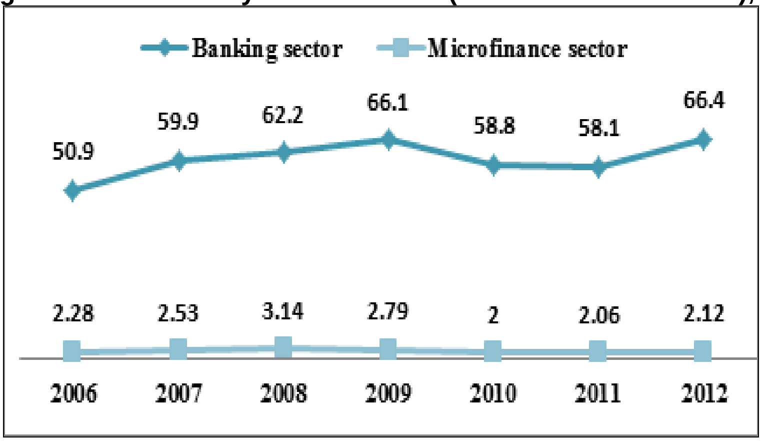
The banking system plays an important role in the economy as a whole of the Republic of Moldova, aimed at creating an efficient, functional and capable to provide a wide range of products and services to meet the requirements of all potential customers. As in any country both internationally and domestically, each country and also the Republic of Moldova is interested in creating an efficient banking system, which would ensure an appropriate organizational framework to develop financial mechanisms. Thus, by creating a competitive environment as appropriate, and maintaining financial stability, banks, through appropriate policies for administration and risk management, are necessary to implement an effective strategic management and consistent for the implementation of banking strategies.

Further, the author aims to assess the situation of the banking and microfinance sector through the main activity indicators that allow identifying risks, to remedy shortcomings in sectors and strengthen resilience to macroeconomic shocks.

2. Examining the issue of access to funding in Moldova

In 2012, the microfinance sector had total assets of 2227,4 million Moldavian Leu (OMF - 1892,9 million Moldavian Leu and AEI-334,5 million Moldavian Leu) and the banking sector had a heritage of 58304,4 million Moldavian Leu. The dominant position in the financial system is owned by the banking sector in 2012 the ratio of assets held by banks and GDP was 66,4 %, while for microfinance institutions, this indicator is only 2,12 %. After the 2009 crisis, the microfinance sector registered a recovery and slightly increased, so assets held by OMF to GDP in 2010-2012 period increased from 2% to 2,12 %. However, this increase represents a modest result and has a small weight in the economy and failed to reach the level before the crisis.

Figure 1 - Financial system structure (assets relative to GDP), %

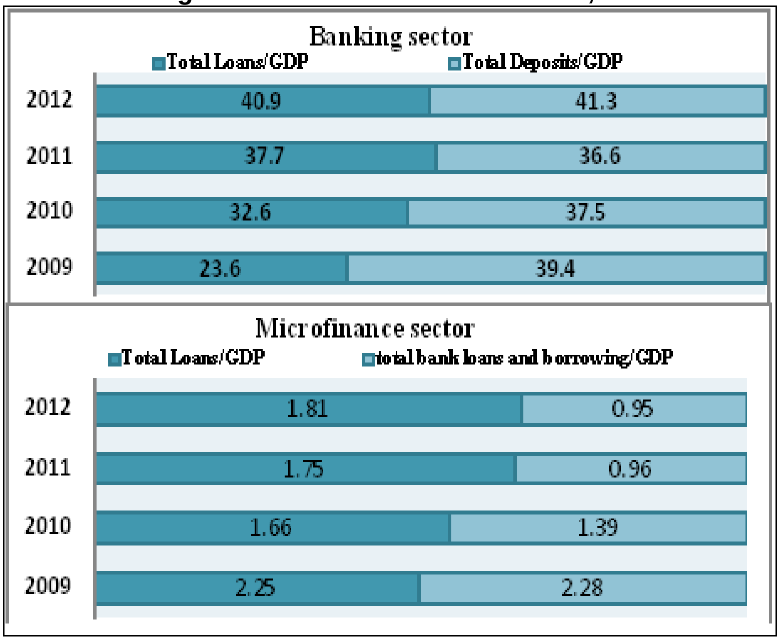


Source: Prepared by the author based on data from annual reports 2006-2012, NCFM, BNM

Analysing the degree of financial intermediation through the asset during the period 2006-2012, there is an increase in the banking sector in relation to GDP, with a slight deviation in 2008 and 2011. The bank assets relative to GDP increased from 50,9 % in 2006 to 66,4 % in 2012. Similar trends were recorded for microfinance organizations in relation to GDP. Thus, assets in relation to GDP increased from 2,28 % in 2006 to 3,14 % in 2008, and in 2012 this indicator decreased, reaching a level of 2,12%.

The consolidated value of the assets of microfinance organizations in 2012 increased by 3% compared to 2011. However, in 2011 there were decreases in assets by 5% compared to 2009, due in large part to the influence of the global financial crisis. A steady increase in assets is evident in 2006-2008, developments increase mainly due to loans granted to customers, which have increased on average by 40 %. A portion of the assets of the institutions of OMF are placed temporarily in liquid assets such as cash accounts, securities, etc. At the same time, the banking sector recorded good performance in bank assets chapter, which increased to 31978,6 million Moldavian Leu in 2007 to 63516,2 million Moldavian Leu in the first half of 2013, was driven by strong growth in assets profits, and the largest share in total assets goes to the credit portfolio (62,3%) (Popa V, *2013*).

Figure 2 - Financial intermediation, %



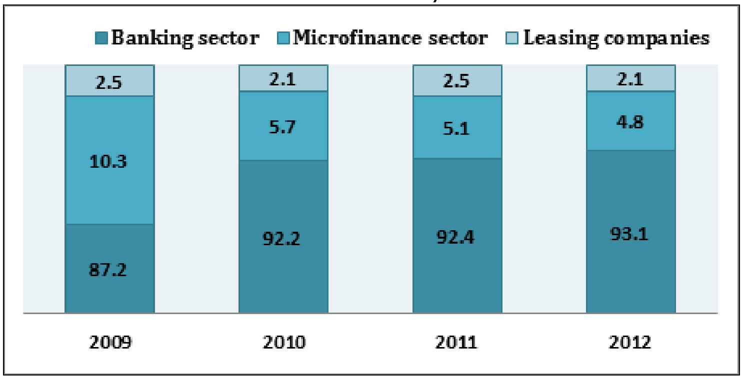
Source: Prepared by the author based on data from annual reports 2006-2012, NCFM, BNM

Another meaningful indicator reflecting the evolution in the banking sector are the loans granted by banks. During the period 2007-2012 this parameter increased continuously, except for 2009. In 2012, the volume of loans increased by 29,1 % from 2008 and the largest share of total loans granted to the private sector is 77,9 %. A positive and significant aspect for investment incentives are increasing the share of long-term loans of one year (the end of 2012 this indicator was 70,7 % of total loans).

Although during the last years is registered a positive trend in the number and volume of loans granted by the banking system, small business enterprises continue to face difficulties in accessing finance. The 2012 year for the microfinance sector can be considered a recovery period, registering a growth of loans by 10% compared to 2011 and amounted to 1864 million Moldavian Leu (OMF - 1590,1 million Moldavian Leu and AEI - MDL 273,9 million Moldavian Leu). It is also necessary to highlight that the majority of loans granted to the small business subjects are resources from international financial institutions that grant credit lines to domestic commercial banks, the latter giving financial resources to the sector enterprises.

In 2012, the coverage level of lending activity by microfinance sector was 4,8 % and the banking sector (93 %).

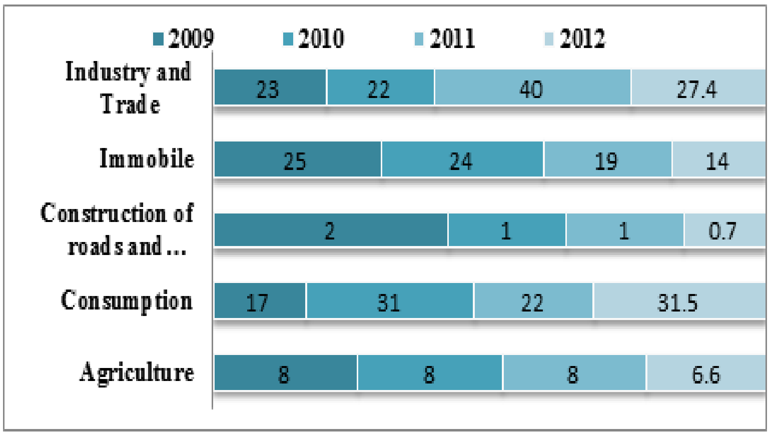
Figure 3 - The share of the financing granted by banks and non-banks in 2009-2012, %



Source: Prepared by the author based on data from annual reports 2006-2012, NCFM, NBM, NBS

An important feature highlighted in recent years is the relatively proportional dispersal of loans granted by the MOF on the whole spectrum of areas of the national economy. In 2012, the largest share of 31,5 % was represented by consumer loans, 27,4 % of loans were offered to industry and commerce, primarily micro, small and medium enterprises, and 14 % are loans to building. Loans of approximately 19,8 % were for "other purposes" and rose by 9,8 pp compared to 2011.

Figure 4 - Classification of loans granted by OMF regarding the directions for use, in 2009-2012, %



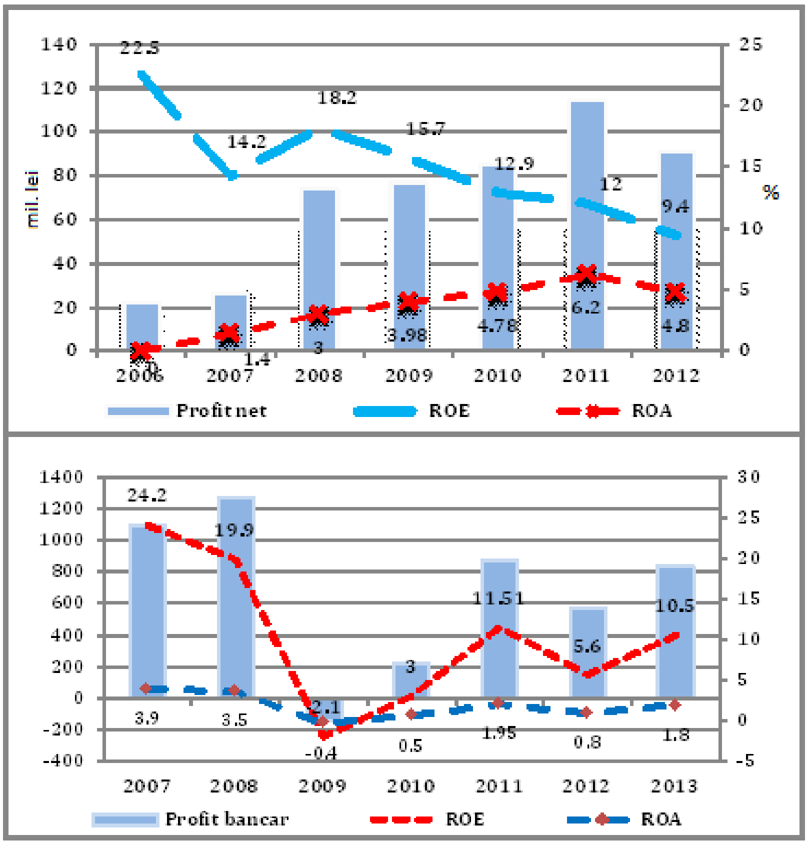
Source: Prepared by the author based on data from annual reports 2009-2012, NCFM

In Central and Eastern Europe, the average value of a loan granted by microfinance institutions is between 5,000 EUR and 5,200 EUR, while in Western countries, the average value of the loan goes up to 9,600 EUR, depending on the type of intervention and purpose of the loan.

However the problem of access to credit for Moldova remains one of the most important constraints for business. According to the Global Competitiveness Report, the issue of 2013-2014, this is the third issue of importance to local businessmen. Despite the ascent of 5 positions from the position indicated in the last report, Moldova ranked 104 of 189 countries included in this study, in terms of ease of access to credit (Stratan, *A.* and Septelici/Popa, V. 2012).

Despite the general situation, another important indicator reflecting the evolution of the banking sector is profit, which during the period 2007-2012 has witnessed a continuous growth, with the exception of 2009, when this indicator losses worth 145,5 million Moldavian Leu. In the first nine months of 2013, profits amounted to 838,6 million Moldavian Leu.

Figure 5 - Evolution of non-bank and bank profitability



Source: Prepared by the author based on data from annual reports 2006-2012, NCFM, NBM

The evolution of bank profitability shows that banks were able to increase the net income reported to assets reported to the share capital (ROE) of 6,2 pp in the first nine months of 2013, registering 10,5 % compared to 31.12.2012. With the increasing of shareholder capital and assets, the ROE and ROA increase shows that the net profit growth rate is much faster, which is quite encouraging. Within the microfinance system, the net income reported to the assets reported to the share capital is decreasing from 18,2 % in 2008 to 9,4 % in 2012. Respectively, the income of microfinance sector was 90,9 million MDL in 2012, decreasing by 21 % since 2011.

There are several factors that caused this fall: making new adjustments to some interest, developments in interest rates differ from previous years, paying the income tax by microfinance organizations starting in 2012, the impact of new regulation on the methodology of calculating provisions.

During 2012, the most microfinance organizations have given more credit than they have received, such as ICS Prime Capital Ltd (291,62 million Moldavian Leu), OM Elat PROFIT (205,50 million Moldavian Leu), FCE Credit Fast Ltd (215,90 million Moldavian Leu) and "Rural Finance Corporation" JSC (198,33 million Moldavian Leu), etc. At the end of 2012 there were 21 losses in 60 microfinance organizations, including OMF Elat PROFIT (12,550 Moldavian Leu), etc. Among the organizations that have achieved positive results include: ICS Prime Capital - 40,8 million Moldavian Leu, ICS Credit Rapid SRL-24,3 million Moldavian Leu and the Rural Finance Corporation SA - 9,3 million Moldavian Leu.

Table 1 - Concentration ratios of the banking and non-banking credit institutions, in 2011-2012, %

No.	Name of bank / OMF	Market share on the assets value (%)		Market share by value of loans / borrowings (%)	
		2011	2012	2011	2012
	Banking sector				
1	Victoriabank	17,1	17,4	16,3	17,5
2	Moldova-Agroindbank	19,5	19,6	21,6	21,7
3	Moldindconbank	14,2	14,7	15,4	16,8
4	Banca de Economii	12,4	11,4	9,7	6,5
5	Eximbank-Gruppo Veneto Banca	7,7	7,3	8,6	8,7
	HHI (points)	1211,1	1210,8	1264,0	*1309,8*
	CR-4 (%)	63,2	63,1	63	*64,7*
	Microfinance sector				
1	I.M.O.M.F "Microinvest" S.R.L.	17,5	18,8	14,4	13,5
2	I.C.S. "Prime Capital" S.R.L.	17,3	16,6	20,0	18,3
3	"Corporatia de Finantare Rurala" S.A.	13,9	13,2	8,7	12,5
4	O.M.F. "Elat Profit" S.R.L.	11,9	10,5	16,0	12,9
5	I.C.S. "Credit Rapid" S.R.L.	11,6	11,6	14,5	13,6
	HHI (points)	1188,8	1161,6	1248	1132
	CR-4 (%)	60,6	60,2	65	58,3

Source: Calculations based on reports provided by commercial banks and OMF, 2011-2012

In 2012, the indicators that reflect the level of concentration in the banking sector by assets such as the Herfindahl-Hirschman Index (HHI) and the share of the first 4 banks on the market (CR-4) were

1210,8 points and 63,1 %, which is an area with a moderate concentration. To fall within the limits of a market with a moderate degree of concentration, the market concentration indices must fall within the following ranges: 35% <RC-4 <70%; 800 <HHI <1800. Although the indicators show a satisfactory degree of market concentration, the level of competition in the sector is moderate. In this respect, the high share is held by the top five banks, e.g. 70 % of the banking market assets and the total loans granted.

The concentration degree on microfinance market remains high, although there is a steady improvement in this indicator. This trend is explained by the increasing competition in this market, which leads to the balancing weights that is held by the sector operators. In 2012, 45,4 % of loans were granted to the three microfinance companies (Prime Capital, MicroInvest, Credit Fast) (Popa V.2013).

3. Conclusion

Much of microfinance institutions are regulated and monitored as the commercial banks by the same standards of client review for granting credit. Consequently, the legislation regarding the consumer protection and the legislation on mortgage refers equally to banks and microfinance institutions. Also, according to the legislation that refers to the money laundering combat, as well as banks, the institutions are required to report suspicious transactions and those with cash that exceeds certain limits. In assessing portfolio quality, the formation of provisions, the classification of loans, the microfinance institutions are following banking standards.

The most important **advantages of microfinance institutions** compared to banking institutions are:

- The rapidity of processing the file, the affordability of services by reducing the number of acts and the flexible repayment schedule with a strong logistic support and taking a greater risk;
- Serving persons conducting entrepreneurial activity at the early stage and self-employed persons, customers without salary certificate.

In addition to the positive trends analysed, the **microfinance sector** is facing a number of problems that prevent its continuous development. Thus, the main constraints identified are listed:

- Imperfect legal framework,

- A weak system of risk management because of bad management,
- Lack of supervision by NCFM leads to unfair competition
- Poor product diversification offered by SCA;
- Lack of information about the history of lending to beneficiaries lead to increased risk for lenders;
- High interest rates;
- Risks assumed by the ***reimbursemen***t, given the lack of a short-term mortgage loans.

The evolution of the microfinance sector shows that, although it has reduced proportion in the country's economy, compared to the banking sector, the radius of coverage is very extensive, offering complementary credit services to banking sector available to small and medium enterprises throughout the country.

Accordingly, the financial sector requires resolving deficiencies by recommending the following proposals:

- Improving legislation on microfinance organizations and legislation looking at commercial banks insolvency;
- Training and capacity development of the microfinance sector through continuing professional education;
- A well-functioning bureaus with credit history and imposing requirements for microfinance institutions to disclose information about customers;
- Improving the quality and diversification of banking and non-banking services through greater transparency;
- Proper management (capping) of banking and non-bank lending;
- Developing a Good Practice Guide for the provision of microcredit in Moldova (eg European Code of Good Practice 2013);
- Improved performance management in each commercial banks and microfinance institutions.

In the context of the above mentioned, **we conclude that an important pillar in the development and strengthening of bank and non-bank financial institutions is Moldova's geographical situation that would allow boosting the future of financial intermediation between East and West, in the perspective of integration of the Republic of Moldova in the European Union. Thus, in terms of European integration, it is appropriate to**

promote public confidence in the banking and non-banking sector by providing a stable and transparent economic environment.

References

1. Comisia Naţională a Pieţei Financiare (CNPF) (2013a), *The reports of the National Commission of Financial Market of Moldova*. [Online]. Available at: http://cnpf.md/md/rapa/
2. Comisia Naţională a Pieţei Financiare (CNPF) (2013b), *The evaluation study of the microfinance market in Moldova*. [Online]. Available at: http://www.cnpf.md/file/AEI/3.pdf
3. The European Code of Good Practice 2013, [Online]. Available at: http://ec.europa.eu/regional_policy/thefunds/doc/code_bonne_conduite_ro.pdf
4. National Bank of Moldova (2013), *Financial statements of the National Bank of Moldova*. [Online]. Available at: http://www.bnm.md/md/bank_system
5. Popa, V. and Popa, N. (2013), *The analysis of the functioning and organization of the microfinance sector through the Financial Soundness Indicators*, International Conference on Financial Economics and Monetary EFM 2013, Bucharest, Romania, p.149 -158. ISSN 2344-3642
6. Popa,V. (2013), *Banking Sector*. In: Trends in the Moldovan economy. No.10 (QIII) quarterly. Ch: Complex IEFS Publishing, 2013, pp.35-48, ISSN 1857-3134, available at: http://iefs.md/ro/noutci-i-evenimente/346-institutul-naional-de-cercetri-economice-ince-a-lansat-ediia-a-zecea-a-publicaiei-trimestriale-de-analiz-economic.html
7. Septelici, V. and others. (2012), *Banking Sector*. In: Trends in the Moldovan economy. No.6 (QIII), quarterly. Ch: Complex IEFS Publishing, pp.32-40, ISSN 1857-3126, available at: http://iefs.md/ro/activitatea-ince/publicacii/met/254-institutul-de-economie-finane-i-statistic-iefs-a-lansat-ediia-a-asea-a-publicaiei-trimestriale-de-analiz-economic.html
8. Stratan, A. and Septelici/Popa, V. (2012), *The banking system of RM: trends and challenges*. The Fin Review Consultant, no.7. pp.40-46
9. The savings and loan associations Law no.139-XVI from 21.06.2007, Official Gazette of 03.08.2007 nr.112-116/506.

10. Law on microfinance organizations no. 280-XV of 22.07.2004 Official Gazette of the Republic of Moldova nr.138-146/737 from 13.08.2004
11. World Economic Forum (2013), *The Global Competitiveness Report 2013-2014*. [Online], available at: http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf

A GENERAL ASSESSMENT OF THE MONETARY INTEGRATION PROCESS IN EUROPE AFTER EURO ADOPTION

Adina CRISTE, PhD*

Abstract

After more than five decades since the problem of the European monetary integration has been introduced into the arena of the politic debates and after almost two decades of changes towards a viable functioning of the Euro Area, it is interesting to make a review of this process and of its main challenges. The paper tries to provide an overall image of the European monetary integration process, evaluating it from the perspective of several elements that are important for this attempt. Besides the presentation of the historical facts from the Euro adoption, the paper also presents some challenges to the process of monetary integration in Europe, on the short-term.

Keywords: theory of monetary integration, economic convergence, political relations, international context, public opinion

JEL Classification: F15, F36

1. Introduction

The most often cited reason in the favour of the monetary unification refers to the economic factor (lowering the costs for currency transactions, reducing or eliminating the currency risk, increasing the trade integration between member states, increasing investments). The mutual and strong commercial relations, the symmetric exposure to the external shocks and business cycles synchronization increase the expected net benefits of a single currency and of the common monetary policy.

According to the classical theoretical model of the optimum currency areas, the process of integration of several economies

* *Scientific researcher III, Centre for Financial and Monetary Research "Victor Slăvescu", Romanian Academy.*

within a common monetary space is done starting from the accomplishment of several economic criteria: the labour force mobility, the degree of economic openness, the degree of economic and commercial diversification and the incidence of asymmetric shocks. Several political conditions have been added afterwards: the fiscal transfers between the member countries, the homogenous preferences on common decisions of economic policy (see Criste, 2012).

Table 1 – The level of accomplishment of the theoretical criteria for optimum monetary conditions for the Euro Area

Criteria	Euro Area
Economic and financial integration	
Reciprocal economic openness	significant
Production and trade diversity	significant
Labour mobility	poor
Financial flows	significant
Integration of the financial markets	in progress
Political integration	
Single currency	supranational, newly-created currency
Fiscal policy	national policies limited by the PSC
Fiscal transfers	inexistent

Source: Criste, 2012

Applying the theoretical criteria of an optimum currency area to the Euro zone, we will notice that the adjusting instruments for a balanced functioning are not adequate (see Table 1): the labour mobility is structurally poor, while the fiscal transfers between the member countries have not been stipulated in the treaties underlying the operation of this monetary union. These facts show that the theoretical model of the optimum currency area is not the foundation for the monetary integration in Europe. The European Monetary Union (EMU) was formed by the political will of the authorities from the developed European countries to establish an economic area in order to be a competitive region in relation with other regions of the world. This monetary union was designed on the basis of the principles stated in the two European Treaties – the Maastricht Treaty, by which the acceptance into the third stage of the economic and monetary integration (the adoption of the single currency) is conditioned by a sustainable nominal convergence of the candidate countries, and the Amsterdam Treaty, which established the Growth and Stability Pact, a fiscal regulation for the functioning of the EMU.

The decision-making factors from the Euro zone member countries considered, even from its establishment, that a single currency will promote convergence in terms of economic growth, inflation and of the other macroeconomic elements. Such hypothesis was built on the assumption that after joining the EMU, there will be assimilations of the economic behaviour and synchronizations between macroeconomic indicators of different member countries, by the so-called “convergence process”.

The article aims to present a way to assess the overall process of the European monetary integration in the 15 years of existence of Euro Area given the contradictions existing between the theoretical and operational principles of this monetary union.

2. Methodology

Generally, the initiation and run of a worldwide economic or political process (adoption of a single currency, adhesion to an economic union, a change in the monetary policy strategy, etc.) must be analysed at least from four points of view: the **international context** (stats of worldwide political and economic stability or instability that may influence the particular process); the **main ideas and trends noticed in the literature on the particular topic** (underlying theory of the process, quantitative and qualitative analyses, empirical and critical observations on the particular process); the **political debates between the parties involved in that process** (for instance, between countries, in the case of the single currency, between the national institutions in the case of a domestic or national strategy); the **public attitude regarding this process** (perception of the citizens, which may provide valuable information since that particular process affects their lives).

Based on these elements, we will evaluate the progress of the monetary integration in Europe, from 1998 to 2012, presenting the main characteristics of the four conjunctural elements, on three-year intervals. The splitting of this period in short, even intervals, aimed both to capture the most important features of these periods (the start of the EMU, the period of recession in some European countries, the period previous to the global financial crisis, the acute period of the crisis, which also includes the European crisis), and to provide for a temporal balance.

Methodologically, the evaluation is done marking as minuses (-1) those identified characteristics which reflect the situations unfavourable to integration, and pluses (+1) those characteristics which favour the monetary integration. If any of the four criteria has the same number of pluses and minuses, it is scored with 0. Based on the possible results, cumulating the scores for each criterion, the possible scores range from -4 to +4. A minimal value of -4 signifies a negative evaluation of the process of monetary integration in Europe, showing that all four elements describe a “hostile” attitude towards this process: an unfavourable international context; the existence of epistemological criticisms regarding the monetary integration or the predominance of ideas against this process; political tensions between the European countries and a generally hostile attitude of the public against this project. At the opposite end, a maximal value of +4, shows an absolutely favourable evaluation of the monetary integration process in Europe. This refers to the convergence of the attitudes from the four criteria, which are in favour of the project of European monetary integration: international stability, positive relations between countries and between great powers, dominance of the current in favour of the monetary integration, both in terms of ideas and of the internal and foreign policy, as well as a positive attitude of the public.

3. Understanding the realities of the monetary integration process in Europe

During the first period that we approached (1998-2000), the **international context** was dominated by the effects of the Asian crisis, which amplified the concern of the countries to rethink the global financial system; however, this circumstances didn’t affect in any way the process of European monetary integration. Since it was assumed that worldwide the Euro will give Europe the strength to become a competitive region compared to other regions, we may say that overall, the adverse effects of the financial crisis were offset by the “fever” of adopting the Euro. As the Euro zone was established and became operational, the **sphere of the theoretical knowledge** expanded with the experimental field, the reality of the European monetary union becoming the research support for the process of monetary integration. Many case studies reveal the existence of divergences between the European countries (even those outside the Euro zone) regarding the cyclic position: on the one hand, the UK, Denmark, Finland, Netherlands, Ireland and Norway had positive economic growth and low inflation, while Germany, France and Italy had a poor economic growth and higher unemployment rates. These divergences were presumed to adjust in time by the functioning of the monetary union. According to the endogeneity hypothesis, which supported this trend, the monetary integration creates processes of convergence within a currency area. The studies, such as Frankel and Rose (1997 and 2000), Rose (2000), highlight a direct connection between reciprocal trade (commercial integration) and income correlation, and these estimations show a very strong connection between these two indicators (the so-called “Rose effect”). According to these estimations, the process of monetary integration is considered to be positive. Despite of the structural difficulties of the Euro Area (the differences between European countries regarding the cyclical position of the economy, the rigidity of the products and labour markets), the **political climate** was in favour of the euro adoption. Such attitude is explained by the fact that they rely on the process of economic convergence, highlighting particularly the potential benefits of the common currency: *fostering the adoption of measures in favour of employment, developing of the single market* (by a higher price transparency, lower transaction costs, elimination of the currency risk, which would boost competitiveness and the trade flows), *more important international role of the euro currency*. During this period, the **public expectations** were optimistic. The information from the *Eurobarometer*, show that, during this period, in average, about 66% of the member states citizens were favourable to the monetary integration process, perceiving mainly the benefits of adopting the common currency.

The period between 2001 and 2003, although didn’t lack in major events which marked the world, may be regarded as neutral for the process of monetary integration. One of the important effects of the shock of the terrorist strike of September 11, 2001, was the lower trust in the **global plan**, as reflected by the “quality flight” phenomenon, both in the developed countries, and in the emerging countries, as well as the deterioration of the financial conditions from the emerging countries. These effects didn’t affect though, directly, the economic and politic climate of Euro Area, the economic and politic relations between the countries being rather stable. The

knowledge area is dominated by concerns for the potential integration, flexibility and symmetry generated by the establishment of a monetary union. The studies published in this period show that the Rose effect was overestimated. However, the idea that the establishment of a monetary union stimulates the economic integration between the member countries still persists. There are different opinions regarding the effect of the monetary integration on the flexibility of economies: some say that the monetary union tends to increase the labour flexibility (Blanchard and Giavazzi, 2003), while others say the contrary (Iversen and Soskice, 2001). The problem of a political union is increasingly mentioned in the debates, by the persistent concerns about the governance of the Euro Area, highlighting that the absence of a political union might affect the progress of the monetary union. These observations decreased, at least conceptually, the level of support for the monetary integration within the Euro Area. **Politically,** the process of the European monetary integration is rather seen as optimistic, although there is an insufficient level of the real economic convergence of the member countries and the deficiencies generated by the lack of a political union. For instance, the burden of the macroeconomic "management" of the recession in the Euro Area (in 2001) was transferred to the European Central Bank which cannot have all the necessary instruments for such activity. During this period, the **public expectations** are optimistic, the trend of support for the process of monetary integration increasing by about 4 percentage points, compared to the previous period.

Between 2004 and 2006, there was a higher level of concern for the build-up of imbalances **worldwide**, which affected even the situation within the Euro Area. On the one hand, the current account deficit of the US balance of payments reached historic peaks due to the deterioration of the trade balance. On the other hand, the Asian countries had a surplus of the current account. This situation yielded academic concerns about the potential consequences of a correction of this imbalance: higher distrust of the investors for the loans in US dollars, depreciation of the US dollar and the consequent effects on the wealth. Although this conjuncture generated concerns, they were neutralized by the political stability of Europe and by the process of EU enlargement. Hence, the international conjuncture during this period may be considered to be neutral for the process of European monetary integration. In the **field of the ideas debates**, there were more concerns regarding the existence of macroeconomic divergences between European countries. The appreciation of the real exchange rate, with the competitiveness deterioration of the countries from the Euro Area periphery amplified the concerns about the functioning of a “two speeds” monetary union, with consequences arising from this. The experience proved not only that the Euro Area functioning is just a learning process, but also that the nominal economic convergence is not enough to support a sustainable integration of a member country. However, no major tensions exist **between countries**, because they are timely adjusted. For instance, the potential conflicts concerning the excess of the budget deficit and public debt are settles by reviewing the Pact of Stability and Growth (in 2005), bringing a more flexible interpretation of these limits, taking into account the cyclical position of the economy. During this period, the **public expectations** remain optimistic, although the support for the monetary integration process is, averagely, slightly lower than the previous period: about 68% of the Euro Area citizens support the new currency. According to the *Eurobarometer* data, in average, 53% of the Euro Area citizens consider that the monetary integration project is beneficial for their country, but many criticise the fact that the adoption the single currency meant higher prices and that it didn’t determine price convergence.

After 2007, the **international context** has deeply changed following the global financial crisis. The “subprime” shock, in 2007, whose propagation determined turbulences on the international financial markets, affected directly the developed countries, and the Lehman Brothers shock, in September 2008, deepened the financial crisis in the European countries. The higher uncertainty from the financial markets determined the “quality flight” phenomenon as the investors went to countries which provided more stability (like Germany). The differential treatment of the sovereign debts from the Euro Area widened the already existing gaps between European countries, being a triggering factor of the sovereign debt crisis in the next period. Therefore, the process of monetary integration was significantly affected by the conjuncture of the international relations, being, thus, negatively rated. In the **field of knowledge**, for this period, it has been published analyses regarding the alternatives to the initial project of the European monetary union, proposing to narrow or even to break the monetary area, which means an opposing process of the monetary integration. The Euro Area difficulties, determined inter alia by the widening gaps between countries in terms of the interest rates, intensified the distrust about the viable functioning of the Euro Area. However, the stronger Eurosceptic current and the intensifying political tensions between countries were offset by the **political statements** supporting the further functioning of the Euro Area. In average, the support for the monetary integration project was still high in the Euro Area (about 68%), but it displayed trends of decrease. There also was heterogeneity between the member countries about this matter. Thus, according to the Standard Eurobarometer 70 (European Commission, 2008), 90% of the Slovenian citizens were supporting the Euro project, while only 53% of the Portuguese citizens did the same thing. Such situation might be considered neutral (neither positive, nor negative): on the one hand, the support for the Euro currency is higher, in average, within the Euro Area, but there are significant differences between the member states, on the other hand.

During the period from 2010 to 2012, the **international context** didn't change further compared to the previous period; the effects of the global financial crisis (the global economic slowdown) persisted; tensions developed between different regions of the world (geopolitical issues), but they didn't affect directly the process of monetary integration. Because this conjuncture didn't produce changes in the European monetary integration process we may consider it to be neutral. The **sphere of ideas** was increasingly filled by concerns about the financial stability, the role of the central banks in the management of the on-going crisis and the resulting risks. Though, no clear opinion in favour or against the monetary integration could be determined, in this field. Again, the burden of administrating the problems generated by the crisis is transferred to the ECB which cannot have all the instruments and means necessary for such endeavour. Although it managed, nevertheless, to manage the financial instability, there still are risks that its independence is affected. Despite the higher tensions between the European countries determined by the deepening budget deficits and by the onset of the sovereign debts crisis, there is an increasing interest to solve the crisis and to maintain the Euro Area operational. Thus, besides the **political declarations** of supporting the functioning of the EMU, there were several other institutional proposals regarding a better governance of the monetary union: establishment of a European mechanism for financial stabilization (in May 2010); financial assistance by the international organisations to support the countries from the periphery in building a new architecture for financial surveillance and consolidation of the cooperation between EU member states regarding the economic competitiveness and convergence, through Euro Plus Pact (in 2011); functioning of a permanent European mechanism for stability (as of October 2012). The chronicization of the problems challenging the Euro Area made the governments of the new EU member states (Poland, Czech Republic, Hungary, Bulgaria and Romania) to become circumspect about adopting the single currency. These evolutions can be rated negatively overall, because although there is some political stability left in the EMU after the start of the crisis, the structural problems maintain a vulnerable political climate. The problem of the sovereign debts from the Euro Area and the implementation of the austerity programs to correct the budget deficits in the countries from the periphery aggravated the social tensions. The higher unemployment rate, persistent phenomenon of this crisis, fuelled the pessimism and euro-scepticism among the **population**, although the decrease of popularity is rather low: according to the Eurobarometer data, 65% of the people from the Euro Area support this project, just 3% less than in 2007-2009. Such level shows a rather stable perception of the process of European monetary integration during the period after the financial crisis outbreak.

Table 2 below shows the evaluation of the process of monetary integration from the perspective of the four criteria.

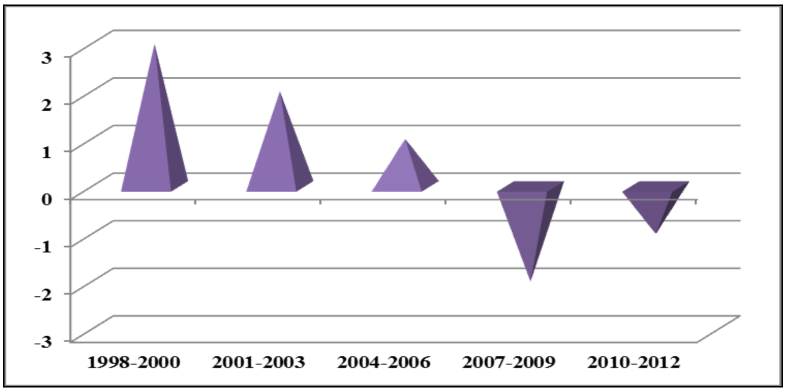
Table 2 - Evaluation of the monetary integration process in Europe

Period	Criteria				Total
	International context	Literature on the monetary integration	Political debates on the monetary integration	Attitude of the public towards the monetary integration	
1998-2000	0	+1	+1	+1	**+3**
2001-2003	0	0	+1	+1	**+2**
2004-2006	0	-1	+1	+1	**+1**
2007-2009	-1	-1	0	0	**-2**
2010-2012	0	0	-1	0	**-1**

Source: Prepared by the author

Figure 1 shows graphically the evolution of the perception regarding the process of European monetary integration.

Figure 1 - Evolution of the perception regarding the monetary integration process in Europe



Source: Prepared by the author

It can be noticed that the poorest level was recorded in 2007-2009, during the first stage of the financial crisis, while the best one was noticed in the early days of the Euro. The positive assessment weakened gradually and the global financial crisis imprinted a negative trend in this direction, too. The positive assessment was due to the positive perception both of the political relations between member states and of the public (see Table 2), the key elements that might return the evaluation on the positive side for the next period.

4. Short-term outlooks

Although in 2010-2012 a slight revival of the positive perception on this process was noticed, overall it is not relevant, because one important criterion, the political relations between the European countries, was evaluated negatively, and the perception of the public from the Euro Area is neutral. Nevertheless, it is not sure whether, subsequently, the assessment will continue to improve, given the persistence of the risks for the European integration process. These are not related only to the rather turbulent international context, but mainly to the operational political framework of the European Union, which is the foundation for the Euro Area stability.

According to the latest data published by the *Standard Eurobarometer 80* (European Commission, 2013), the average proportion of the people from the Euro Area which support the process of monetary integration remains stable (66%), but there are still differences between the individual countries in this respect. The lowest proportions are recorded in the countries from the Euro Area periphery, reflecting the negative effects of the financial crisis, which have been felt stronger in this region.

Politically, the relations between the EMU countries remained at the same level as during the previous period. Conventionally, the Euro Area has political stability for the governance initiatives agreed by the countries, but actually there are some tensions because of the polarized structure of this monetary union (centre-periphery; north-south), the preferences regarding the measures aiming to adjust the national imbalances not being homogenous. For instance, there are two divergent conceptions: on the one hand, the economically and financially stronger countries (Germany) consider that the economies which had an unsustainable development (Greece, Portugal and Spain) should bear the debt burden by implementing austerity measures; on the other hand, the countries which are more powerfully affected by the crisis consider that the stronger economies should continue supporting the loans, although the default risk increased.

Another risk factor regarding the political relations between countries refers to the fact that the implementation of the national fiscal measures and the announced initiatives aiming to strengthen the fiscal governance at the European level are yet to be finalised. Moreover, the social tensions, built-up over the recent years because of the implemented austerity measures, and the delayed economic growth, undermine the capacity of the governments to implement the policies necessary to administrate the financial system, thus maintaining vulnerable the political climate in the Euro Area.

5. Conclusions

The originality of the paper is that it doesn’t aim to reiterate the macroeconomic evolutions within the Euro Area and the nominal convergence process of the member countries, but to asses the process of European monetary integration in terms of its context after the euro adoption. Having a different approach, the paper is not a review of the literature, but it uses the literature to show the characteristics of the European monetary integration process.

The European monetary integration process of was assessed differently in time, but the favourable perception is on a decreasing trend. From the view of the four elements that we considered, the political relations between countries and the public perception regarding the consolidation of the monetary integration process are determinative for assessing the integration process in Europe. The latter is influenced, in turn, by the political evolutions and by the perspectives of the economic development of the European countries.

Although the direct adverse effects of the global financial crisis have mitigated, the political risks still remain, and they may maintain or aggravate the unfavourable perception of the process of monetary integration.

References

1. Blanchard O., Giavazzi F., 2003, *Macroeconomic Effects of Regulation and Deregulation in Goods and Labour Markets*, Quarterly Journal of Economics, 118, pp. 897-907.
2. Criste A., 2012, *Zonele monetare optime*, Iaşi, Sedcom Libris Publishing.
3. Criste A., Lupu I., 2013a, *The European Project beyond the Financial Crisis*, Ovidius University Annals, Economic Sciences Series, Vol. XII, Issue 1, 2013.
4. Criste A., Lupu I., 2013b, *The Conflict Relation between the Sovereign Debt of the Euro Area Countries and the Common Monetary Policy as a Potential Source for Geopolitical Changes*, „Annals. Economics Science Series. Timişoara", Vol. XIX, 2013.
5. European Commission, 1998-2013, *Standard Eurobarometer* 49-80, available at http://ec.europa.eu/public_opinion (Accessed on: 5th Decembre 2013 and 28th January 2014).
6. Frankel J., Rose A. 1997, *Is EMU more justifiable ex post than ex ante*, European Economic Review, 41, Issue 3-5, April, pp. 753-760.
7. Frankel J., Rose A. 2000, *Estimating the Effect of Currency Unions on Trade and Output*, CEPR Discussion Paper 2631.
8. Iversen T., Soskice D., 2001, *An Asset Theory of Social Policy Preferences*, American Political Science Review 95 (4) (December), pp. 875-93.

9. Lupu I. et al., 2012, *Determinări, constrângeri şi condiţionalităţi ale proiectului integrării financiar-monetare europene în conjunctura actuală*, Research project, „Victor Slăvescu” Centre for Financial and Monetary Research, Bucharest, Romanian Academy.
10. Pop N. et al., 2008, *Evaluarea politicilor macroeconomice ale ţărilor membre ale Uniunii Europene, din punct de vedere al proceselor de convergenţă necesare adoptării euro*, Research project, „Victor Slăvescu” Centre for Financial and Monetary Research, Bucharest, Romanian Academy.
11. Rose A., 2000, *One Market, One Money: Estimating the Effect of Common Currencies on Trade*, Economic Policy, vol. 15, nr.30, April, pp. 7-46.

ASPECTS CONCERNING ECONOMIC AND SOCIAL FACTORS DEVELOPMENTS - AN ASSESSMENT AT THE EUROPEAN UNION LEVEL

Alina Georgeta AILINCĂ, PhD Candidate*
Floarea IORDACHE, PhD **

Abstract

Global financial and economic crisis has dramatically changed the economic and social landscape of all world countries. In this context, economic factors and social variables have deteriorated even more and the interconditionality between them became increasingly stronger in the sense that the negative implications of economics have reflected more and more on the social domain. Thus, there was a dramatic decrease in the real GDP growth rate and an alarming and rapid growth of unemployment, a decline in the birth rate, a reduction of the employment, a deterioration in the level of education and training, an alarming increase of poverty, in a word, a "collapse" of all social life components.

As the world has evolved rapidly to an increasingly deeper integration, through the globalization process, all economic and social progresses recorded until the crisis have been significantly reduced or even cancelled.

Keywords: economic factors, social factors, evaluation

JEL Classification: D31, E24, F36, J11, J21

1. Introduction

One of the most important worldwide, implicitly European, problem of the current period is the connection of social factors with the economic variables. This article will analyse the relation of the economic indicators from the European Union with the evolution of the population, employment, unemployment and other social

---

* *Scientific researcher III, Centre for Financial and Monetary Research "Victor Slăvescu", Romanian Academy*

** *Scientific researcher III, Centre for Financial and Monetary Research "Victor Slăvescu", Romanian Academy*

variables. This topic is extremely important if we think of the value of the social component within the global crisis. The superficial approach of the social problems may be an explanation for the lack or insufficient adequate means to control them worldwide and in Europe.

Although there are many programs and projects in Europe (e.g. Europe 2020 growth strategy, Broad Economic Policy Guidelines, European Employment Strategy (EES), Employment package, etc.), a properly designed social project able to solve, at least partially, the economic and social problems, is yet to be noticed in the European Union.

2. Methodology and data sources

This paper will try to notice and explain the link between several variables that are important for the economic and social sectors, by comparing the evolution of the two sets of indicators. The analysis will focus on the European Union, analysing the evolutions within the Euro zone compared with the evolution of the countries outside this area. We will concentrate mostly on the social in order to reveal the adverse influences felt at this level during the period of the global economic and financial crisis. The main source of data consists of Eurostat statistics, which provide a good and relevant comparability in time and space (between countries). We also use many publications of the European Commission and of Eurostat, particularly on the side of economic forecasts, just to complete the general picture given by the indicators. One of the problems that challenged us is the fact that the statistics for the social and demographic indicators have a lag of 2-3 years compared to the much faster pattern of collecting and processing other statistical data, economic data included. Hence, we will not make more laborious quantitative analyses, because the social data will be delayed by reviews and will even have inaccuracies compared to the similar procedures for the other economic data.

3. Evaluation of the evolution of the economic and social factors within the European Union

World economy experienced a strong recession after the first signs of the global financial crisis, marked by a “crash” of the industrial production, of the trade, by much financial turbulence and by the continuous deterioration of the labour market, which produced higher unemployment rates.

After 2008, the economy of the European Union started to contract strongly. The Euro zone (17 countries) also had a lower *economic growth*[1], decreasing by 4.4% in 2009, only to return to a slightly positive value (2%) the next year. In 2011, the rate of the real GDP growth in the Euro zone was 1.5%, but it decreased to -0.6% the next year[2]. In 2010, Slovakia (4.4%) and Germany (4%) were the only Euro zone countries with a stronger annual growth of the GDP[3]. In 2011 and 2012, the economic growth contracted in these countries: 3.2% in 2011 and 2% in 2012 for Slovakia, and 3.3% in 2011 and 0.7% in 2012 for Germany. In 2012, only Estonia and Slovakia recorded significant values of the economic growth, of 3.9% and 2%, respectively. Among the member states outside the Euro zone, in 2009, the Baltic countries experienced the strongest contraction of the economic growth. Thus, the economic growth decreased by 17.7% in Latvia and by 14.8% in Lithuania. GDP evolution improved in 2010 for all EU member states, but among the countries outside the Euro zone, only Sweden (6.6%), Poland (3.9%), Czech Republic (2.5%) and the United Kingdom (1.7%) scored better[4]. However, in 2012, the growth of the real GDP for the entire EU was negative, -0.4%[5].

This situation also occurred for the GDP per capita: the annual variation of this indicator for the European Union was 1.7% in 2010, increasing from -4.8% in 2009. This indicator decreased to -0.6% in 2012, from 1.5% in 2011. In 2012, the GDP per capita increased by 6.7% in Lithuania, by 5.1% in Latvia, and by 4% in Estonia, followed by 1.9% in Slovakia and 1.8% in Poland.

Simultaneously with the negative evolution of EU economy, the annual variation of EU population (both for all EU member states, and for the Euro zone) decreased along the period between 2008-2011 (0.5% in 2008, 0.3% in 2009 and 2010 and 0.2% in 2011). The forecast for 2012-2013 is a constant 0.3%, while the prognosis for 2014 is of just 0.2%. The annual variation of the population in the new member states was negative during the period between 2008-2011 in almost all these countries (except Czech Republic in 2008-2010, and

[1] *Gross Domestic Product, in volume, expressed as percent variation compared to the previous year. Source: Eurostat data, accessed on 23.09.2013.*
[2] *Eurostat data, accessed on 23.09.2013.*
[3] *Eurostat data, accessed on 23.09.2013.*
[4] *Source: Eurostat data, accessed on 23.09.2013.*
[5] *Source: Eurostat data, accessed on 23.09.2013.*

Poland); this situation is predicted to continue in 2013-2014 too (European Commission, 2013a).

If we approach the demographic problem in terms of *birth rate* and *fertility of the population*, during the analysed period, in Europe, only Island had a fertility rate higher than the replacement fertility. Although the fertility rate increased slightly in the European Union compared to the period before the onset of the crisis, it still is lower than the replacement fertility, the necessary replacement fertility rate being of at least 2.1 children/women, to keep the population of the Union at the present level. Thus, in 2011, according to Eurostat[6], the fertility rate for the entire EU was 1.57 children/women, while in Romania it was 1.25 children/women. Also in 2011, the crude birth rate per 1000 inhabitants was 10.4‰ for EU27, while in Romania it was 9.2‰ in 2011, the forecast for 2012 being 9.4‰. At the same time, although the life expectancy in the European Union was high until 2009, within the current context of the crisis, the trend is of decrease; only the net migration is predicted to have a contribution to the growth of the population of the European Union as of 2015 (European Commission, 2012b).

At the same time, the downward trend noticed in the new member states, already confronted with a decrease of the population, is expected to continue, partly due to the decrease of the birth rate and to migration. Furthermore, the forecasts show that by 2060, the old people (aged 65+) will account for about 30% of the entire EU population (European Commission, 2012b).

The rate of labour force employment reflects the demographic evolution. The annual percent variation of the employment rate compared to the previous year was negative (overall EU and Euro zone too) in 2009-2010; this situation improved slightly in 2011, but it worsened in 2012. The forecasts for 2013 show a similar value with 2012, while it is expected to increase slightly in 2014 (European Commission, 2013a). In 2012, the positive, higher than the unit, evolutions were noticed in Estonia (2.1%), Luxemburg (2.2%), Malta (1.7%), Austria (1.3%) and Germany (1.1%), the other countries of the Euro zone recording negative or at most slightly positive values (for instance, 0.2% for Belgium). The employment rate decreased strong in 2009, 2010 and 2011 in almost all new member states, except Poland, which reported modest positive rates, of 0.4% in

[6] *Source: Eurostat data, accessed on 23.09.2013.*

2009, 0.5% in 2010 and 1% in 2011. In 2012, these countries displayed moderate, yet positive employment rates: 2.8% in Latvia, 1.9% in Lithuania, 1.3% in Hungary, 0.4% in Romania, 0.2% in Czech Republic and 0.1% in Poland. Although positive, we may say that the prognosis of the employment rate for the new member states is reserved, the forecast increase being modest in 2013-2014 (European Commission, 2013a).

Unemployment rate increased in the European Union from 9% in 2009, to 10.5% in 2012, with a predicted increase to 11.1% in 2013 followed by a modest decrease to 11% in 2014. Unemployment rate in the Euro zone was 10.1% in 2010, 10.2% in 2011 and 11.4% in 2012, the predicted values for 2013-2014 being even higher, 12.2% for 2013, and 12.1% for 2014. The highest unemployment rates in 2012 were reported by Spain (25%), Greece (24.7%), Ireland (14.8%), Latvia (14.9%), Lithuania (13%) and Bulgaria (12.2%). The prognosis for 2013 predicts a worsening situation in Greece (27%) and Spain (26.9%), remaining at the same values in 2014. Unemployment rate peaked in 2010 in the new member states, soaring to 19.8% in Latvia, 18% in Lithuania, 16.9% in Estonia and 11.2% in Hungary. The prognosis for 2013-2014 predicts a modest decrease for Latvia and Lithuania (however, still higher than 10%), while it will probably be 9.8% and 9%, in 2013 and 2014, in Estonia (European Commission 2012a). Furthermore, the people who lost their jobs at the beginning of the crisis had decreasing opportunities to get a job as the crisis evolved; many of them turned into long-term unemployed (European Commission, 2012b).

We may also notice that the private debt increased along the public debt as the crisis progressed; therefore, the personal tensions and frustrations determined a higher rate of suicide, particularly among men and among the old people (aged 85+) (European Commission, 2012b)

During the recent years, especially in 2009, the economic gaps between the different EU regions decreased, particularly in the older member states; however, these regional disparities increased in the new member states, particularly in the countries with fiscal-budgetary problems (such as Greece). The regional disparities regarding the employment of the labour force are rather similar all over the European Union, but the women are more affected by unemployment than men, although the dispersion rates of employment for women was close to the corresponding values for men in 2009-2010 (European Commission, 2012b).

We may also notice that the inequality of incomes didn't decrease in the EU during the period of the crisis, the distribution of incomes being extremely varied: the richest 20% of the population earns over 5 times more than the poorest 20% of the population (European Commission, 2012b).

The crisis left deep social scars; among the fundamental aspects of poverty in the European Union are the financial and material shortages and the limited access on the labour market. In 2010, poverty affected at different rates, sometimes simultaneous, the population of the European Union; thus, the monetary poverty affected about 81 million people, 40 million people were affected by material shortages and over 116 million people were threatened by social exclusion, while 8 million people were affected simultaneously by all aspects of poverty (European Commission, 2012b). In 2011, 24.2% of EU population (119.6 million people) were exposed to the risk of poverty or social exclusion, compared to 23.4% in 2010, and 23.5% in 2008 (Eurostat 2012a). Eurostat data (2013) show that the children are the category of population most exposed to the risk of poverty and social exclusion. Thus, in 2011, 27% of the children under the age of 18 ran this risk, which is more even that the corresponding rate for the old people (21%).

Many studies noticed clearly the relation between education and poverty, the higher level of education reducing dramatically the risk of poverty. This aspect is valid both for the children and for the teenagers the higher is the educational level of the parents, the more chances have their children not to be affected by poverty (Eurostat, 2013). All these unfavourable aspects of the social policies are a major flaw for the entire European Union and for the individual member states. The economic growth will probably follow the implementation of bold social policies that will really contribute to the remediation of the current situation.

4. Several conclusions

After the first signs of the world economic and financial crisis, the economy of the European Union scored a slightly lower growth, with slight revivals in 2010 and 2011, followed by the deterioration of this indicator in 2012.

The GDP per capita revived in 2010, the prognosis for 2013-2014 also being slightly favourable.

Simultaneously with the negative evolution of EU economy, the population at the level of the entire Union, and at the level of the Euro zone, displayed a decrease of the annual percent variation in 2008-2011; the predictions for 2-13-2014 show constant low values of this indicator.

The birth rate and the fertility rate continue to be lower than the replacement fertility rate, which should be of at least 2.1 children/women, in order to maintain the EU population at the same level. Only Ireland has a replacement fertility rate higher than this threshold. This situation cannot be remedied only by the contribution of the net migration to the growth of the population; active programs and initiatives are needed at EU level to stimulate birth rate, more so as population ageing seems to be a phenomenon with swift evolution.

Labour force employment reflects somehow the demographic evolution, the evolution being negative in 2009-2010, but the prospects for 2013-2014 being slightly better.

Unemployment rate in the EU was below 10% in 2010 and 2011; the forecast for 2013 is above 10%, the situation being almost identical for the Euro zone too. The highest unemployment rates in 2012 were recorded in Spain (25%), Greece (24.7%), Latvia (14.9%), Ireland (14.8%) and Lithuania (13%), and the forecasts for 2013 and 2014 are bleak. This evolution occurs due to the economic and financial (budgetary, especially) constraints imposed by the international organisms, which affected the social sphere (pay cuts, freezing or decrease of the pensions, massive layoffs among the people paid from the public budget, higher taxes and dues, etc.).

The effects of the global economic and financial crisis prejudiced all or almost all levels of the social life, boosting unemployment and the regional income disparities, reducing the occupation rate of the labour force and the evolution of the population, while affecting the educational and health care systems. Moreover, the fundamental aspects of poverty, such as the financial and material shortages, and the limited access on the labour market gained strength.

However, the problem of poverty is a global problem, marked by the failure of the production systems of the developing countries, by the profound impairment of the national institutions, by the disintegration of the healthcare and educational programs, of the national pension systems, by the major inefficiency of the social policies and of the labour market policies.

Within the context of the increasing pressure of globalization, if the European Union will have a sufficiently strong political determination to solve these problems, we will be able to speak of a truly social Europe, a united, strong Europe which will continue to exist in the future too.

References

1. European Commission (2012a), *Economic and Financial Affairs*, *European Economic Forecast, autumn 2012*, European Economy 7|2012, European Union, Bruxelles.
2. European Commission (2012b), *Bilanţ pentru viitor: 20 de ani de dezvoltare durabilă în Europa?* available online at: http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2_RO/EN/2_RO-EN.PPT.
3. European Commission (2013a), *European Economic Forecast, Winter 2013*, European Economy 1|2013.
4. European Commission (2013b), STAT/13/28, *At risk of poverty or social exclusion in the EU27 In 2011, 27% of children aged less than 18 were at risk of poverty or social exclusion. Risk of poverty decreases with increasing education level of parents*, 26/02/2013.
5. Eurostat (2012a), *At risk of poverty or social exclusion in the EU27 in 2011, 24% of the population were at risk of poverty or social exclusion. Corresponding to around 120 million persons*, news release 171/2012 - 3 December 2012, Luxembourg, European Union.
6. Eurostat (2012b), *The EU in the world. Comparing demographic, economic and social trends among the G-20 members*, news release 166/2012 - 28 November 2012, Luxembourg, European Union.
7. Eurostat (2012c), *The EU in the world 2013. A statistical portrait*, Luxembourg, European Union.
8. Eurostat (2013), *At risk of poverty or social exclusion in the EU27 In 2011, 27% of children aged less than 18 were at risk of poverty or social exclusion Risk of poverty decreases with increasing education level of parents*, news release STAT/13/28, 26/02/2013 Luxembourg, European Union.

* http://ec.europa.eu/eurostat

BOOK REVIEW
"TOWARDS A GLOBAL CURRENCY. PRELIMINARIES"

Tudor CIUMARA, PhD*

Abstract

Review of *Spre o monedă globală. Preliminarii/Towards a global currency. Preliminaries* by Napoleon Pop and Valeriu Ioan-Franc. Book published at Expert Publishing House, Bucharest, 490 p., ISBN 978-973-618-306-5, 2012.

Keywords: global currency, monetary research

JEL Classification: Y30

This book represents the first part of a longer term project undertaken by the authors, in their quest to uncover the subtleties of the global currency topic. And, as the authors state from the very beginning, this book is not a treatise on money but a philosophical analysis of the transformations that money induce in social behavior. In consequence, if questions regarding the authors' view on the issue of the global currency remain unanswered, the probable reason is that they will be dealt with in the future parts of their research.

The authors are distinguished researchers of the "Costin C. Kiriţescu" National Institute for Economic Research of the Romanian Academy. It is important to note that this is not the first time the two authors work together. As a matter of fact, they have a long experience of common research, some of the more significant previous results being the book *Faith and economy* (2009) and the book *About crisis without anger and with discernment* (2010), written with Amalia Fugaru as a third co-author, which received the prestigious "Victor Slăvescu" prize of the Romanian Academy in 2012.

The two authors' experience and skills are complementary, leading to a paper which has both depth and breadth in its approach of the analyzed subject. Therefore, the reader has the chance of

* *Scientific researcher III, "Victor Slăvescu" Centre for Financial and Monetary Research, Romanian Academy.*

following a solid and structured approach of the technical aspects, all placed in a cultural and philosophical context, with elegant phrasing. There is an extensive use of mottoes throughout the book, quoting a variety of personalities, from writers to politicians and scientists. This surely helps in establishing a context for the entire discussion.

As a general note, in the course of discussing the global currency, the authors do not refer to a currency that could be simultaneously used in all countries of the globalized world but to a complex instrument of operating the globalized world, perhaps with the use of the European model as a “regional experiment”. They state the following as the main hypotheses of their research: 1) the creation of a global currency should be a mainly political project; 2) a global currency does not necessarily imply that such a currency would circulate in every country in the world; 3) there is a choice between an authentic global currency and a new global monetary standard.

The book has a balanced structure, with a preface, a prologue, three chapters and an epilogue. The preface is used to describe some elements of the inner and outer context that provided motivation for the writing of the book, while the prologue is used to briefly identify the origins and the motivation of the authors’ approach of the global currency issue.

The first chapter of the book (*Financial innovation – a stimulus for a global currency?*), after a number of preliminary ideas, presents the concept of order, from planetary to international, social, and financial level. A few pages are dedicated to financial ethics and morality, with obvious references to the recent financial crisis.

The second chapter (*The global financial system*) starts with a historical perspective over the Bretton Woods system, leading to a lengthy discussion of a new international order, under various aspects: historical and philosophical grounds, the implications of the financial crisis, Europe and its role in such a new order.

The third and final chapter (*Euro functioning governance*) deals with the political project of the single European currency and with the necessity of changes in the economic governance of the European Union.

The book and the research project that led to its writing provided the substance of several public presentations made by the authors at prestigious scientific events. Of particular importance are the presentations made at the Financial and Monetary Economics – 2013 International Conference of the "Victor Slăvescu" Centre for Financial and Monetary Research (entitled *Is there a need for a public currency?*) and at the Economic Scientific Research - Theoretical, Empirical and Practical Approaches – ESPERA 2013 International Conference of the "Costin C. Kiriţescu" National Institute for Economic Research (entitled *Towards a global currency*).

This is not necessarily a book aimed only at specialists. Certainly, it presents the knowledge on the subject of specialized researchers and much of its content derives from their in-depth research and experience, providing a distinctly technical character. However, the content benefits from an elegant use of language and a broader perspective over economy, history and humanity, which allow the non-specialist reader to understand the issues discussed and gain valuable knowledge.

The book is published in Romanian and has a rather generous synthesis written in English (consisting of a translation of the conclusions found at the end of each chapter), which facilitates the access to its content to non-Romanian members of the research community.

To conclude, this is a valuable contribution to financial and monetary research. It will probably be best understood when the authors' entire research on the subject will be finalized and published, allowing the reader access to their complete perspective on the subject.

Financial Studies

"Victor Slăvescu" Centre for Financial and Monetary Research
Casa Academiei 13, Calea 13 Septembrie, Building B, 5th floor
Bucharest, 050711, Romania
Phone: +40 21.318.24.19
Fax: +40 21.318.24.19
E-mail: a.barac@icfm.ro