

Mugur Isărescu: The Transatlantic renaissance – Romania as a faithful partner and ambitious player

Opening speech by Mr Mugur Isărescu, Governor of the National Bank of Romania, at the Conference “The Transatlantic Renaissance: Romania as a Faithful Partner and Ambitious Player”, Bucharest, 9 December 2013.

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Prime Minister Ponta,

Mr. Kennedy,

Your Excellences,

Ladies and gentlemen,

It is a great pleasure for the National Bank of Romania, and an honor for me and the board members, to welcome such a distinguished audience. I salute the presence of Victor Ponta, Prime Minister of Romania, who will be the keynote speaker today and that of Craig Kennedy, the President of German Marshall Fund of the United States. Allow me to greet their Excellences, members of the diplomatic corps, as well as the other notable guests who represent an important array of successful domains of activity.

A special welcome to Mircea Geoană, President of Aspen Institute Romania and his team of young, talented and hardworking professionals.

Today's gathering has a challenging topic: *“The Transatlantic Renaissance: Romania as a Faithful Partner and Ambitious Player”*.

Here, at the National Bank of Romania, we take pride in having always been a forum for debating, in an open and profound manner, the themes and trends defining our age. Thus, it is the perfect venue to host such a conference as this one, which encourages individuals to reflect on ideals and ideas that define good society through leadership, dialogue, entrepreneurship and regional stability.

I have read two papers prepared by Aspen Institute and the German Marshall Fund: the report “Dialogues on the national interest. Recommendations of public policies” and the program “East-West Gateway”. They generate the object of the forthcoming debates.

Allow me to make some remarks regarding the national interest and the transformations within the financial sector that are currently taking place in Europe.

The national interest goes beyond its economic dimension, although it is also true that the smooth functioning of the economy is not only an objective per se, but also a means to achieve the other objectives subordinated to the national interest. As any other European central bank we are focused on price and financial stability. Obviously, monetary and financial stability is an essential ingredient of economic performance. This is all the more relevant for a catching-up economy, such as Romania. On the one hand, progress towards convergence is impossible to imagine without capital accumulation from local and external sources alike, and it cannot be achieved in the absence of a viable financial system. On the other hand, investments imply a long-term outlook, whereas high and volatile inflation or fragile financial sector hampers long-term planning.

Moreover, the recent global crisis has shown that it is far cheaper to prevent financial instability than to rescue financial institutions in distress. Financial crises are even costlier in emerging economies than in industrialized countries, as their ability to bear such costs is severely constrained by spillovers between the banking system and sovereigns and the related vicious circle of escalating risk premia.

The crisis has also revealed that effective policy remedies have a transnational perspective. In the European Union the idea of a Banking Union emerged as a solution to break the above-mentioned vicious circle, thus putting a stop to financial fragmentation and helping restore the normal capital flow from the core EU countries to the periphery. In addition, the Banking Union has the merit of removing the contradiction between the pan-European nature of banking activity and keeping banking supervisory and resolution tasks at the national level. In this context, Romania's membership in the Banking Union comes as a natural choice, given that euro area banks hold three fourths of the total assets of the Romanian banking system and two thirds of its capital.

As was the case with EU membership, the national interest may be better served in the banking sector by relinquishing some of the national policy prerogatives. In the context of such a high financial integration, preserving the banking supervisory powers at national level would only entail suboptimal results, due to the limited access to information on parent banks and the lack of a cross-border perspective. Furthermore, Romania's membership in the Banking Union would ensure the country has an active voice in the decision-making process; as such decisions would affect it anyway, regardless of its membership status.

I will end here my brief comment.

Once again, we take pride in hosting what will be a substantial dialogue about the role Romania will take within the transatlantic renaissance as a faithful partner and ambitious player.

I wish you fruitful discussions and to enjoy the Leadership Awards and Gala dinner tonight, hosted in the beautiful Marble Hall of the Old Palace of the National Bank of Romania. Built in the late half of the 19th century, following the French architectural style, it has harbored the central bank from the moment it was founded. The National Bank of Romania is the 16th oldest central bank in the world, established 33 years before the Federal Reserve.

I do remember, two years ago, on December, 5th, when Aspen Institute Romania celebrated five years of operations, I was presented with the "Values-based Leadership" award on behalf of Aspen Network of International Partners. I cherish that memory and what this award stands for.

I would like to thank each and every one of you for joining us.