Mugur Isărescu: The macroeconomic perspective in Romania

Welcome speech by Mr Mugur Isărescu, Governor of the National Bank of Romania, at the Romanian-Czech Business Forum, Bucharest, 20 May 2014.

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Your Excellency, President Zeman, you are most welcome here, at the National Bank of Romania, a place that holds within its walls countless pieces of history, tails of how Romania has grown into a modern state. We are privileged to greet here, today.

Distinguished guests,

Ladies and gentlemen,

Allow me to extend a very warm welcome and thank you all for gracing us with your presence at the Romanian-Czech Business Forum. It is a great pleasure for the National Bank of Romania, and an honor for me and for the members of the board, to host what will be a substantial discussion about the challenges currently facing Europe, in particular the development of economic relations between the Czech Republic and Romania.

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.

A few weeks ago we celebrated the 134-th anniversary of the Romanian National Bank, a central bank ranking 16-th in the world. During the break, after the working sessions, you are kindly invited to visit/walk the outstanding halls of the Old Palace of our national bank.

Let me salute the presence of Mr. Jaroslav Hanák, President of the Czech Confederation of Industry, Mr. Karel Novotnỳ, Deputy Minister of the Czech Ministry of Industry and Trade and Mr. Bogdan Pandelică, State Secretary of the Romanian Ministry of Economy. They will address the audience right after my brief remarks.

I extend a warm welcome to His Excellency Mr. Jiři Šitler, the Ambassador of the Czech Republic.

The Forum will focus normally on micro level, on real economy issues. Allow me to say a few words about the macroeconomic perspective in Romania, which is the main area of interest for central bankers. The macro perspective is relevant since is the canvas on which the picture of business relations is to be set up.

No doubt the crisis has taken its toll on Romania's economy, given the large imbalances which had been steadily accumulating during the boom years. Whether the crisis has ended or not at European level is still a matter of debate. What may be said for certain is that Romania undertook the necessary adjustments during 2009–2012 period and the preconditions for sustainable growth are now in place. Indeed, the result of these adjustments may already be seen in the 2013 economic performance, which hopefully marks a turnaround in Romania's economic development: rapid economic growth (judged by the current EU standards), sizeable adjustment in the current account deficit, historically low inflation, while keeping the fiscal deficit well below 3%.

As a result, Romania is now fulfilling three out of the four Maastricht criteria, namely the sustainability of the fiscal position, convergence of long-term interest rates and exchange rate stability (although we are not technically in ERM II). Meeting the price stability criterion is probably just a matter of months, until the recent low inflation numbers feed into the 12-month average rate used as a reference. This is especially relevant now in the context of the recent political consensus that Romania should aim at adopting the euro by 2019.

However, the recent economic European developments have taught us that only the fulfilment of nominal convergence criteria is not enough. The key is to pull this off consistently. Setting a target date for euro adoption should act as a catalyst for sound economic policies. Romania has a five year period in which to check whether the above-mentioned achievements are here to stay and to demonstrate significant progress in real convergence area, where we still have a lot of catching-up to do.

Another lesson of the recent crisis is that a Monetary Union cannot function properly in the absence of a fiscal counterpart. In today's Europe, it is hardly imaginable that a consensus on the latter is rapidly achievable. The closest substitute – which is supposed to break the vicious circle between sovereigns and banks – is the Banking Union. Romania is a supporter of this initiative as adhering to the Banking Union will strengthen financial stability and further increase confidence in the national banking sector through the harmonisation of supervisory practices and deposit guarantee schemes and avoiding regulatory arbitrage. In the long run, Banking Union will foster sustainable lending and economic growth (by reducing the fragmentation of the European financial markets). In the particular case of Romania, it makes even more sense to support the project given the share of foreign capital in our banking system. Furthermore, it is always preferable to have a voice in the setup of a mechanism the existence of which will affect all EU Member States, especially since – irrespective of their current choice – all will eventually end up as members.

Our central bank will obviously be a major player in successfully reaching these objectives – sustainable nominal convergence, preparedness for euro adoption and strengthening financial stability through participation in the Banking Union. By doing this, it should contribute to providing the stable business environment that is required from the perspective of micro level decisions. Czech companies are already present as investors in Romania, with names such as CEZ, Zentiva, Hamé, and hopefully following this Forum more companies will join them. This should work both ways, as investment opportunities identified during the Forum discussions may also prompt Romanian companies to invest in the Czech Republic.

Having said all this, I wish you to turn this event to good account and start fruitful business ventures. For instance, organising this forum in Bucharest might be an opportunity for us to persuade our guests to get a flavour of the Romanian wines. As far as the Czech beer is concerned, Romanians do not need much convincing – they are already into it.

I do wish you all excellent and productive discussions.

Thank you!