

Mugur Isărescu: Regional economic outlook - Europe

Opening speech by Mr Mugur Isărescu, Governor of the National Bank of Romania, at the conference "Regional Economic Outlook - Europe", Bucharest, 17 November 2017.

* * *

Your Excellences, Ambassadors,

Members of the diplomatic corps,

Ladies and gentlemen,

Distinguished guests,

It is my pleasure to welcome you to the National Bank of Romania. The Board and I are honored to host the presentation of an important IMF document, one of their flagship reports, namely "2017 Regional Economic Outlook Report". It is a tradition for the National Bank of Romania to host this event and we are pleased to greet the presence of many foreign diplomats – this is a clear testimony of its importance.

Allow me to extend a warm welcome to Mr. Jeffrey Franks, who has been a long-standing friend of Romania. Mr. Franks is a veteran of the Fund, who – over the last 25 years – has managed challenging assignments, including the resident offices in Ukraine and Ecuador, and has led teams in Pakistan, Romania, France, Belgium, and Paraguay. He was the IMF Mission Chief for Romania for almost 3 years, from 2009 till 2012. As many of you may remember, during his mandate as mission chief, Romania overcame a very difficult period, with the support of the IMF, WB and EC.

I would also like to welcome Mr. Emil Stavrev, Deputy Division Chief, and Mr. Mariusz Jarmuzek, Senior Economist, both of them from the IMF European Department, who have contributed extensively to the report under debate today.

Now, returning to the main topic:

The National Bank of Romania has always valued the Regional Economic Outlook Report as it gave us a full and unbiased image of where we stand as compared to our peer countries. It has helped us to better understand the macroeconomic developments in our region and the interconnectedness/connections between our economies.

The current report marks a turning point in our post-crisis economic history:

We should take advantage of the improved economic context to focus on structural reforms needed to accelerate the real convergence and to raise Romania's economic capacity in the long run. We need to preserve competitiveness and enhance the quality of public expenditure.

- ♦ We are all glad to see the global economy back on track and the European recovery strengthening.
- ♦ These results are even more encouraging, if we think back to 2010, in the aftermath of the crisis, when economists and policymakers started to really doubt our economies ever returning to business as usual. At that time it was believed that the new normal would come with secular stagnation, low interest rates and low inflation.
- ♦ Romania has secured a record growth of 8.6% in 2017/Q3. Nevertheless, we need to moderate our enthusiasm. I have noticed that although real growth is evident in the region, it is accompanied by some important risks and vulnerabilities. One of the challenges attached is related to the sustainability of this growth. The National Bank of Romania shares your

view. We should not forget the saying “easy come, easy go”. Loose economic policies, unbalanced budgets and wage-price spirals could cost us much when the economic downturn check is due. This problem hit us severely in the recent past, but we have hardly learned the lesson.

- ♦ Because I have mentioned the economic laws, I will turn now to the legal environment: the report covers extensively the rule of law, the role of institutions and the judiciary. In the report, Central and Eastern Europe is presented as an example of effective measures and progress in this respect, which is of no small importance.
- ♦ Romania finds itself in an upright moment when economic performance is associated with strong achievements in the reform of institutions. We should not waste this moment. In the long run, the economy’s, the institutions’ and the society’s progress goes hand-in-hand, and, conversely, so does their regress. Therefore, we have to be careful not to reverse the current trend.
- ♦ Banks in Europe seem to ride better on the economic tide, also thanks to wide-ranging reforms brought by the Banking and Capital markets Union. Credit is still below its potential and the needs of the economy. With further reduction in NPLs and higher interest rates, there are better prospects for banks’ profitability.
- ♦ We see demons of the past in our region today and we wish to avoid any doubting of our European and Transatlantic engagements. In order to go further we must prevent the demons of the past from questioning the virtues of opening our economy to foreign investment.
- ♦ The only way to preserve this fine moment for Romania is to steer and balance the economic growth, to advance on our European path and grasp the benefits of this historical process.

I will now give the floor to Mr. Jeffrey Franks who will deliver an in-depth presentation on the first chapter of the report – “Europe Hitting Its Stride”, accompanied by his discussant, Deputy Governor Liviu Voinea.

I wish you all a fruitful debate today!