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SOCIO-ECONOMICS,
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MIGRATION AND SUSTAINABLE DEVELOPMENT. CO-DETERMINATION AND POLICIES.

Professor PhD. Valentina VASILE, CSI, Institute of National Economy-RA
Professor PhD. Gheorghe ZAMAN, CSI Institute of National Economy-RA

Summary

Free movement of persons and labour force become more and more important for achieving local equilibria on labour market, for economic and social development. Temporary labour migration compensates on medium- and long-term labour supply deficits, hence having a contribution in sustaining economic growth in destination areas (by the added value of performed labour), and in the origin areas (by remittances). In this paper we intend to highlight the bi-univocal relation between sustainable development and migration, some of the most significant effects of labour force mobility on sustainable development, as well as a brief presentation of current and future concerns in the field of migration policies pro-sustainable development.

1. Preliminary Considerations

The bi-univocal relation environment – sustainable development poses a series of general issues for the contemporary economic and social practice, amongst which most important refer to:

a) **desirability** of internal and international **migration** at individual and macroeconomic level, through the effects triggered on short-, medium- and long term;

b) determining by adequate quantitative and qualitative techniques the **costs, benefits, opportunities and risks** implied by migration at local, regional, national and international level, attempting an analytical and prospective approach of **maximising advantages** or **minimising migration costs** through policies and instruments in the countries, origin and destination areas of the migrants, as well as at international level;

c) because migration has as main overall reason the search for higher incomes, under better labour and career conditions, the issue of diminishing economic discrepancies and lags within a general overall desirable objective of convergence, the factorial complex of sustainable development is particularised also through the specific migration components.

Even if from the viewpoint of migration desirability experts could not give a definitive answer, should be mention that **normal migration** flows that accompanied across centuries the development of mankind, through the pursued objectives had a series of favourable influences on the sustainability of economic growth for all. Some economists, for instance, maintain that migration increases incomes of migrants by diminishing wages and prices in host countries, generating a growth of gross domestic product.

The answer to the question related to the **net positive effect of migration** on sustainable development must be particularised depending on its type, on the short-, medium-, and long-term effects and punctual opportunities correlated with other components of sustainable development and globalisation, such as: the international exchange of goods and services; international financial and foreign investments flows, technology transfer and scientific knowledge; aspects related to environment preservation and ecological balances, etc.

Complementariness and substitution of sustainable development factors imply migration of different intensities, without having for now soundly justified rules.

If internal migration rises no questions about its positive effects on the country's GDP as higher incomes and advantages achieved by migrants stay in the origin country, and increase mobility and internal flexibility of labour market, international migration, especially the one of highly qualified persons (brain drain), is unanimously regarded as a factor of sustainable development for all involved parties. Even when the generated effects of external migration are subjected to the “win-win” rule, in the framework of which all involved parties win, there emerges the controversial aspect of unequal wins between the respective parties.

Beyond the theoretical disputes with respect to labour migration's effect on sustainable development, **free movement of production factors on a world market based on the principles of economic efficiency and social equity, represents one of the premises for putting to good use their potential, especially under the conditions of the knowledge-based society.** For the latter, one main pillar are high **technologies and scientific research**, undisputable factors of achieving the sustainable development goal for all.

External migration implies directly and indirectly the issues of economic relations between developed and developing countries, very often inflamed by the growth of economic and social gaps among them, as source of non-sustainability for economic growth and of increasing social polarisation and poverty. The interests and needs of developed countries and developing countries with respect to migration impact assume the participation of all countries sharing common goals, a harmonised legal frame and same monitoring mechanisms – a new organisation intended to develop “a new international regime for current persons' movement”(Ghosh, 2000).

2. Bi-univocal relationship sustainable development - migration

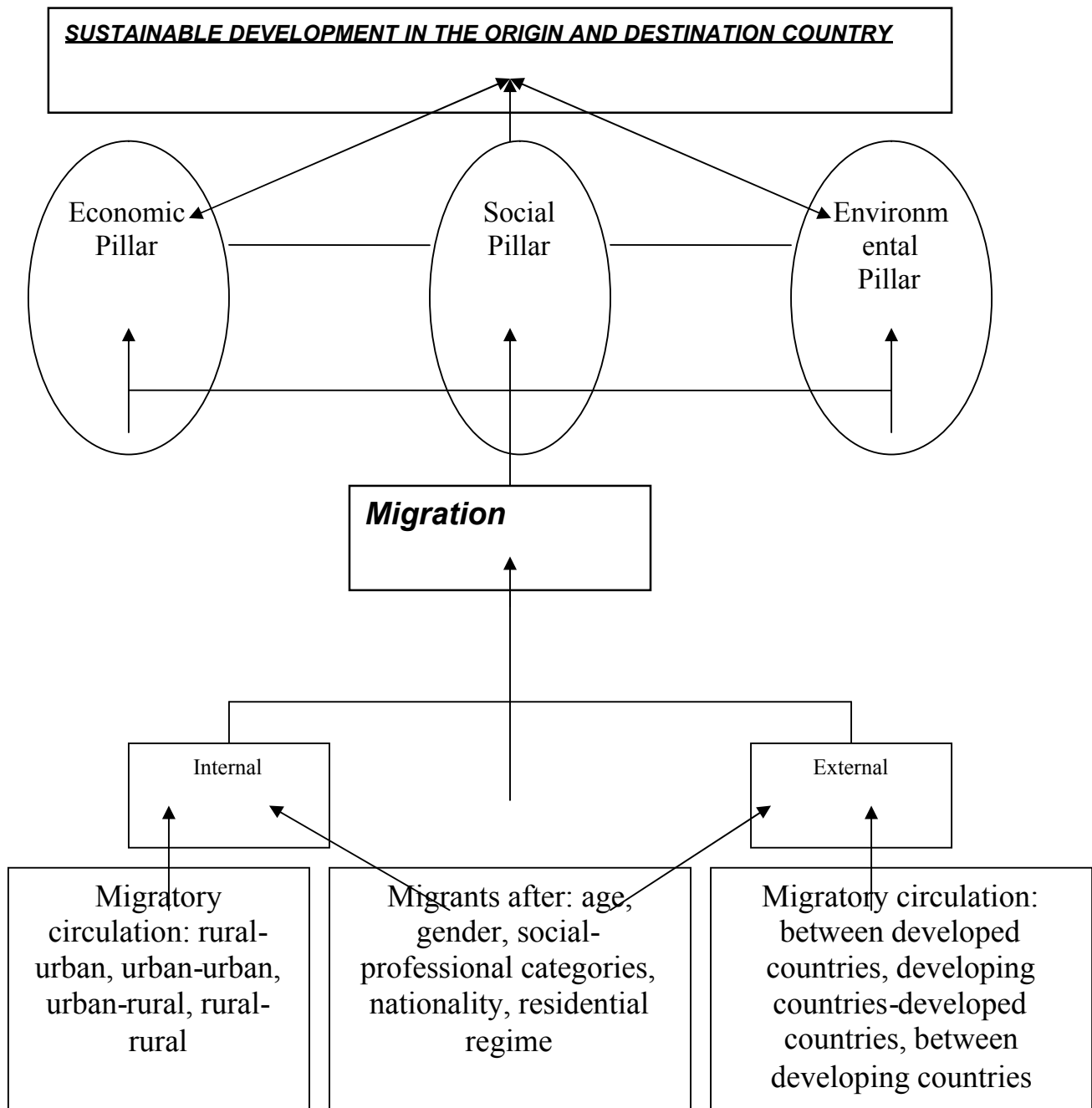
Sustainable development combines elements of economic efficiency, inter- and intra-generational equity, life standard and environmental protection so that humanity's welfare increases. In 1987, the Brundtland Commission, in defining

sustainable development implied in quality a hard nucleon of it in satisfying “*present needs without compromising the capacity of future generations to satisfy own needs*”.

In the context of the complex topic of sustainable development to which several Earth summits were consecrated (Rio – 1992, Monterrey and Johannesburg, 2002), **population’s migration constituted a sui-generis component that, depending on its features, influences the sustainability of development and is, in its turn, influenced by the latter.**

Taking into account the economic, social and ecologic features of sustainable development, and assuming as known the definitions and content of migration, with its internal, external, on ages and gender components, on social-professional categories and ethnicities, we may determine bi-univocal cross-sectional, static and dynamic relationships, between the two notions (Zaman.G., Vasile.V.,2005).

Relationship between sustainable development and migration



The complex and pragmatic approach of the relationship between migration and sustainable development is based on the criteria of **scientific multi-disciplinarity** of ecology and environmental economy, as well as the ones of technology, sociology, and culture, in the framework of which interfere the laws of physical, social and environmental sciences in a multitude of interdependencies, complementariness and senses.

In the largest part of specialised studies, the research of the relation migration-sustainable development targets the functional dependency between the two categories, meaning the analysis of migration influence (explanatory variable) on sustainable development (explained variable), and reversely. Depending on the targeted aims, this dependency can be reversed in order to determine the **complementariness/substitutability** between the determining internal and external, main and secondary factors of sustainable development and migration, as well. Practically, population migration represents a component of sustainable development, and of globalization, as well. Indeed, therefore **to the relation sustainable development-migration must be directly or indirectly added the interface with processes regarding:**

a) intensifying the flows of **goods and services** by increasing external commercial exchanges which, in their turn, trigger also *persons' flows*;

b) unprecedented development of **international financial flows** and of foreign direct and portfolio investments accompanied by a certain type of *social-professional migration*;

c) **increasing the role at world level of information and communication technology (ITC), of science, scientific research and technological progress** which generate multilateral partnership phenomena in the field by also loss, *brain drain*, as well as *brain gain*;

d) the ever stronger ascertaining at the level of the world economy of **multi-and trans-national companies** with obvious *effects on labour force migration at*

national and international level, by production relocation, new forms of labour division, specialisation and cooperation within the world economy;

e) generalisation at world level of the **environmental issues** especially of the one with regard to *preventing and reducing of poverty*, of the greenhouse effect, extreme climatic phenomena, desertification, biodiversity diminishment, expansion of incurable transmittable diseases, etc.

In an attempt of synthesising the links between sustainable development and migration, we might stat that **migration is also a factor of influencing sustainable development, but also one of its effects with implications for each of the economic, social and environmental pillars of development’s sustainability on various time horizons**. Migration interferes in each of the sustainable development components, taking into account that these refer to:

a) **material and spiritual welfare** of individuals which includes concerns for improving the health state, education, social welfare, cultural values and increase of the environmental factors’ quality;

b) **intra-generational equity** which means the equitable distribution of costs and benefits, for the economic, social and environmental activities included in migration;

c) **intergenerational equity** which presupposes that the change of generations disposes of the support of natural and anthropic, at least at the same level of safety and availability ;

d) **safeguarding biodiversity** and maintaining the balances of ecosystems;

e) **risks and hazards management** related to economic, social and ecologic developments;

f) amplifying the **global dimension** of economic, social, cultural, technological and environmental interdependencies under the conditions of increasing international exchanges of goods and services, of higher information, knowledge, and persons’ flows between countries and between regions.

3. Effects of migration on sustainable development

Today, various opinions are known with respect to migration effect on sustainable development in origin and destination countries. These opinions are considerably subjected to the influence of the education level and professional interests. **While economists and businessmen tend to see the positive effect of migration on economic growth, ecologists, sociologists and demographers underpin the incapacity of the social and natural environment to sustain economic-social growth under the same conditions of migration.**

Even if it is acknowledged that migration has positive economic and social effects, their magnitude is at modest level, relatively low in the volume, dynamics, and structure of macroeconomic aggregates of the developing countries – at least, as statistical-economic indicators show as used by the current methodology. Without disputing the relevance of some global migration indicators, correlated with the ones of macroeconomic performance in developed countries and developing countries, we consider that the analysis instruments of these processes must be improved in quantitative and qualitative terms, with the required factorial disaggregating for **high and low qualified** migrants' levels, pursuing their contribution to sustainable development in the origin and destination country.

The theoretical-methodological and practical issues with **open character** with respect to the relation between migration and sustainable development, yet unsolved up to now, target the following aspects:

a) **desirability and optimum level** of internal and external migration, from the viewpoint of development's sustainability;

b) migration's features as **balance/imbalance** factor with respect to the development of labour demand and offer on the labour market;

c) **the feedback connection** between migration and sustainable development, **complementariness and substitutability** of their factors on short-, medium-, and long-term ;

d) interference and sense of the correlation between **internal** and **external** migration, as factors of sustainable development, between **legal** and **illegal migration** in the context of globalisation and integration;

e) relation between **immigration** and **emigration** for various categories of developed and developing countries, as element of diminishing/deepening the economic-social and technological gaps;

f) **efficiency of migration policies** in developed countries, in developing ones and at world level.

The quantitative and qualitative analysis of internal and external **migration effects** from the viewpoint of economic, social, technological and environmental components of sustainable development represents one of *the most complex challenges of the globalisation processes nowadays and in the future*. This, due to the fact that **human being – the general human capital – through migration intensifies the creative qualities and skills, opens new perspectives to international cooperation in the most various fields, stimulates diversity in unity and adds new value to the mentality “think globally, act locally”**. Migration represents a sui generis form of human capital mobility that confers increased chances to socio-humane adjustment and flexibility in accordance with the so rapidly changing conditions of information, knowledge based society.

If sustainable development means positive, efficient on long-term increase, diminishment of social disparities and inequities, and preservation of a natural environment beneficial from the intra- and intergenerational perspective, migration – through its effects – must mean a factor of satisfying the requirements of sustainable development, that confers to migration phenomena and processes ethic finality and increased means of creating added value for all.

From the theoretical viewpoint, the number of variables influencing the migration decision is very high and, conventionally, they may be grouped into several categories. Among the first important theoretical contributions with respect to the

types and laws of migration we have to mention the seven laws of migration (Ravenstein E.G.1885, 1889):

1. The largest part of migrants prefers *short distances*, and population displacement is oriented towards large urban centres of industry and commerce.
2. The absorption process occurs in the following way: inhabitants in immediate vicinity of an expanding town immigrate to it; the empty peripheral areas that remain are taken by migrants from more distant parts until the influence force of the latter is felt to the farthest corners of the kingdom. *Migrants recorded in an absorption centre shall increase, as consequence, in reversed proportion to the distance to the native population that delivers them, and in direct proportion to the size of the respective population....*
3. The *dispersion process is the reverse* of the absorption process...
4. Each mainstream of migration generates *a compensatory counter-stream*.
5. Migrants going over *far distances, in general...head towards one of the large industrial or commercial centres*.
6. *Natives of towns migrate less* than those from rural areas of the country.
7. *Women have a higher propensity* for migration as compared to men.

From the 7 laws of migration developed by Ravenstein, the first 5 laws are taken into account directly in modern gravitation models, which certifies their actuality for more than 100 years, meaning that **distance represents a demotivating factor of migration, and the better conditions of economic and social life an incentive**

Economic, social and environmental conditions' differences (in the area or origin, against the destination one) influence a series of opportunities and difficulties for the migrant who expects the aimed benefit to exceed encountered hindrances. Concretely, there are taken into account opportunities for a better job, to which are added a series of other conditions such as the social-cultural environment, the relief and climate, the perspectives of career development and advancement, infrastructure, education conditions for children, etc. All these factors have direct or

indirect influence, with various intensities, favourably/unfavourably, on sustainable development lato sensu, at microeconomic and macroeconomic level.

Consciously or not, due to the tendency of superior conditions of welfare and life standard, **the individual or collective migrant is the adept of obtaining benefits from combining the features of the three pillars of sustainable development: economic, social and ecologic.**

4. Impact of migration on economic growth and incomes level

In the last decades, labour migration was regarded as one of the reasons of increasing the inequalities of population incomes in developed countries. This reason, as intensity, was a lot smaller as compared to the impact had on incomes' inequality growth, technological change and development of commercial exchanges with countries in which labour is relatively cheap (Adams, 1997).

External migration, together with foreign trade has influenced the wage negotiation capacity in developed countries, as well as the minimum wage level.

Even though, by and large, mention is made about the positive correlation between international migration and economic growth, up to now there are no studies that certify without any doubts, the sense of this correlation, and the size of the impact as well.

A series of experts share the opinion that only in case of brain migration and highly qualified labour force we can ascertain that it has a beneficial influence on economic growth, due to the special creative capacity of the immigrant human capital. In accordance with some estimates (Borjas, 1994) an increase of net migration to USA with one percentage point leads to 0.1 percentage points of economic growth, and in England a migration increase of 0.4 percentage points generates on long term an annual growth of GDP of about 2.75%.

With respect to the **fiscal effects of migration**, especially as result of population diminishment, for instance in Western Europe and Japan, these cannot but

increase local and central public budgetary incomes, through taxes and other contributions to social and health insurance. Immigrants contribute substantially to easing the fiscal burden of the future generations in low fertility countries. The net added value of immigrants' net contribution to the budget of host countries depends on the nature of practiced fiscal policies, as well as on the wage level and the immigrants' socio-professional structuring.

Simultaneously with the incomes from taxes and charges that the host country cashes from immigrants, it must also spend for them, and their families' important amounts for increasing the quantity of delivered public goods and services (roads, hospitals, infrastructures, utilities, etc.). The volume of such expenditures differs from country and period to another, and is generally compared with the volume of incomes obtained from taxes and charges.

Anyway, on the long run, it is estimated a **net benefit** on the account of the fiscal contribution of immigrants, resulting from:

- the favourable structure on ages of immigrants who, in the vast majority of cases, are young and their contribution to the incomes budget of the host state exceeds the expenditures they require;

- increase of the future generation of native live-born dimension, who will participate to the additional budgetary burden, required to solve intergenerational budgetary constraints, contributing to reducing the dependency rate in developed countries facing more and more the issues of ageing population on short-, medium-, and long-term.

Even if immigrants have a positive net fiscal contribution to the incomes of the host state, after a certain period of their stay in the respective country, this contribution cannot solve on long-term all issues generated by the ageing trend of population.

Within the issues of international migration, a special place pertains to labour **temporary migration** that has a series of advantages as compared to long-term migration, both for origin and host country.

The main categories of temporary migrants are highly qualified persons, seasonal workers in agriculture, constructions, tourism, and persons who study. Among the **advantages** of temporary migration we mention the following:

- contributes in the country of destination to *solving some specific labour force needs*, that are impossible to, or inefficiently solved by the internal labour market forces from the respective country, without increasing the dimensions of long-term migration;

- *reduces the difficulties of social integration* in the host country, thus preparing the conditions for the potential long-term migration;

- emigrants generate *beneficial effects in the country of origin*, because they diminish unemployment, increase the financing sources of development through remittances, downsize the effects of "brain drain", and heighten the size of "brain gain" in the superior form of some qualification, expertise and entrepreneurship of experienced workers who have worked abroad and return to the country;

- highest gains on short- and medium-term are realised by the *origin country* from low-qualified and unqualified temporary migrants that on their return in the country have *increase their incomes, but also the level of professional training*, creating thus premises for the sustainable development of both host and origin countries;

- temporary migrants, especially the *highly-qualified* ones can work in a country, and have their residence and support the family in the origin country because of the rapid and less costly means of transport.

As long as there will be economic, social, technological and environmental disparities between developed and developing countries, it is hard to assume that international migration of labour will come to a halt. It is known that the restrictive measures of diminishing or halting emigration to developed countries, up to now, have done nothing but increase the illegal immigration flows. Therefore, and taking into account the ascending trend of the exchange and free movement of goods, services and capital liberalisation policies, that aim to increase efficiency for all

involved parties, after the “win-win” criterion, the international labour migration flows should not be subjected to restrictive regulations by the developed countries. To the contrary, they must constitute the object of interstate migration policies that would consolidate the mutual benefits at national and international level, taking into account the requirement of maximising the positive effects of migration for ensuring the conditions of sustainable development for all.

5. Migration policies pro-sustainable development

We can distinguish three fields of selective intervention with respect to stimulating the favourable impact of migration on sustainable development.

Short-term policies that comprise a series of actions with administrative character in origin and destination countries, meant to improve the ability of employment agencies to monitor and direct the process and determine the framework and institutional mechanisms to consolidate the positions of migrants, from the legal, economic and contractual viewpoint, and to facilitate the process of their integration. These policies and measures have a very special importance, irrespective of the area in which migration occurs.

When legal or illegal labour force export becomes by structure and qualification level damaging for the national economy, public authorities at local or central level have the duty to resort to a series of measures of restricting it for destination countries that are not performing with respect to the treatment applied to immigrants; infringing fundamental human rights, or damaging national interests of the origin country. Discussion is especially about child import, traffic of persons, other situations of immigrant vulnerability. Cooperation between origin and destination countries, and the conclusion of agreements with respect to mutual obligations represent the most efficient way of identifying mutual advantageous solutions.

In case of external migration of population, intervention measures must aim at doing away with any form of exploitation or abuse against migrants, as well as at

efficient integration of the latter from the economic, social and cultural viewpoint, in the new communities and receiving areas. Practically, it is about ensuring some decent living and labour conditions, so that migrants become a factor of sustainable development and not increases the numbers of those living under the poverty threshold.

Policies on medium-, and long-term are rendered concrete in **strategic interventions** that aim to redirect comparative advantages of the economy so as to better use and make compatible the needs of potentially labour importing economies at global, national and regional level. This means setting objectives and action plans by which to determine as clearly as possible the dimensions and changing structures of comparative advantages for potentially labour exporting and importing economies.

Medium -, and long-term policies intend that internal and external migration shall contribute to an even larger extent at macroeconomic growth and diminishing transition costs to market economy. The long-term objective of maximising the positive effects of migration is taken into account, including the one of money transfers, and of technological impact, and of the knowledge required for internal sustainable development of the region and of the country. Increasing the contribution of migration to internal economic development of countries, presupposes actions meant to heighten the volume of money transfers in economy, as well as schemes for labour re-absorption, of the qualifications and economies of the migrants returning to the country through operational mechanisms.

The second aspect of medium-and long-term strategies in the field of migration refers to the concerns referring to restructuring with respect to the professional profile and the territorial-geographic allotment of migrants in/from receiving/sending countries. This should contribute to achieving the maximum comparative advantage, including on long term for each of them, under the conditions of satisfying as good as possible the additional labour force demand.

Reinsertion of qualified/unqualified migrants that return to the origin country poses a series of specific issues; that is, authorities must take into account adequate

employment schemes, especially for high-qualified migrants who, in some cases, cannot be efficiently used in their country, because the knowledge and qualification gained abroad are not adequate for the autochthonous technologies and organisational structure. On the other hand, there are cases in which those returning to the country have not succeeded in a career abroad, but pretend advantages in the country without making the proof that they deserve them.

The most attractive and efficient strategic field of migration policy is represented by the **money transfers of emigrants** to the country of origin. Therefore, some states are concerned exclusively with this issue. This, of course, cannot be regarded as a full approach of migration. The modalities of **maximising** the volume of these transfers are for all a first rank concern, especially because in some developing countries these amounts are considerable as percentage of GDP. The reforms of the market and of the exchange rate, under the conditions of goods and services exchange liberalisation, must lead to political and economic stability, as well as to confidence in the performances of the economy and in the continuity of the competitive free market regimes. The reason is that so those who send money from abroad, or return with amounts accumulated during their stay abroad can use them as efficiently as possible from personal, but also from macroeconomic viewpoint.

Use of money transfers may be realised in various ways. The one of **direct productive investor** seems to have the strongest beneficial effect for sustainable development. This presupposes the existence in the country of a favourable business environment and of a functional market. Of course, transfers can be used also for consumptions, purchase of tangible assets, shares, and the payment of education for non-adult family members.

The insufficient character of the short-term decision with respect to migration is clearly reflected when this is evaluated in strategic terms within the rapidly changing context at national, regional and international level. Therefore, on medium-term the comparative advantages of developing countries cannot be ensured with respect to cheap labour export. As a rule, large migration inflows have been triggered

by the **labour demand from destination countries** so that migration had to adjust to regional structure and to the trigger character of the respective demand.

Up to now, external migration had the character of a rather spontaneous process, of exploiting the opportunities of the market openings, as they appeared parallel, with more or less substantial support from the labour force recruitment and placement agents. As result of the rapid and important changes generated by markets' globalisation, at present and in perspective, appears as obvious the **need of anticipating the evolution of migration flows** as intensity, structures and geographical orientation, as component of the international labour market. Prospective studies referring to critical and pressure issues on the international labour market, as well as to the major labour force lack at international level, currently represent a desiderate, at least at theoretical level for the majority of economic and social decision factors. The efficiency of countries' participation to regional and international division of labour cannot be achieved only based on national strategies, without knowing the structures of the external labour force demand and sectors in which deficit/surplus of labour shows on various areas and geographical regions.

*The structure of the future international migration potential for each country must be organically articulated to the strategy of sustainable development of it, taking into account the factors contributing to sustainability and economic and social balance, **locally, regionally, nationally, and globally.*** The achievement of such an approach requires not only highly qualified experts but also their widened cooperation at international level under the conditions of improving the analytical and predictive instruments, and the necessary data and information bank as well.

As first emergency, it is necessary *that migration policies have available **forecasts** of the trends and structures of the labour demand, about deficit and surplus professional categories, including the pressures wage/cost that show within the international competitiveness for various economic-social activity sectors.*

Satisfying through migration the demand for foreign labour force may extend the lifetime of some industries in the countries of destination. The issue of future

relocation of industries from developed countries in developing ones has also a connection with changing direction and magnitude of migration phenomena and processes. Relocation, broadly, represents a process of rendering economically efficient activities at global level. At local level this raises a series of issues and discontent in developed countries, as well as in developing countries. While employers from developed countries, especially the ones representing multinational corporations regard industries' relocation as a source of increasing profits on medium- and long-term based on comparative advantages (low price of labour, unsatisfied demand at internal level, advantageous prices for some raw materials, materials and energy, etc.), developing countries consider that, in many cases, a transfer of low added value processing industries takes place. Employees from developed countries consider that industries' relocation leads to increased unemployment in their own country, what generates unwanted internal and external migration. The employees from developing countries, in their turn, complain that the level of wages is lower, for equal work, in the relocated industries and try to find work abroad, counting on a better wage.

The erosion of the cheap labour force factor at international level represents a challenge for countries to find also other competitive advantages related to labour migration (not only in clothing and textile industry, but also in ITC) and to direct foreign investments that will change the traditional migration flows, offering new opportunities of absorption of highly qualified labour force.

With respect to the **services** component of labour demand on the international market, a series of structures' changes are found. As result of the fact that consumption industries, with high labour use have started to be relocated from developed countries, it is found that the demand for maintenance and assistance **services** has increased, as well as for personal services that may create a new field of migration in developed countries. This presupposes a new orientation in labour force training.

Long-term migration policies must focus on **macroeconomic and structural reforms** required for generating an efficient and equitable economic growth so as to diminish migration pressure and, finally, society shall progress on the way of its sustainable development, where migration becomes a real economic growth factor, and not a disparaging one and of regional or national disturbance.

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MANAGEMENT OF THE MACROECONOMIC AND SOCIAL UNBALANCES DURING THE TRANSITION PERIOD

**Professor PhD. Constantin POPESCU,
Academy of Economic Studies, Bucharest
Lecturer PhD. Gheorghe H. POPESCU,
Christian University „Dimitrie Cantemir”, Bucharest**

In the vision of this study, the transition period is considered as a natural process of passing from one situation to another one, from one phase to another one, that what matters being the ascension and the achievement of the human being in as many as possible heights as Mircea Eliade said.

In this natural and continuous process, the passing from undesirable unbalances to desirable unbalances is achieved through the «station» of the unbalances as a moment when we try to understand the causes of things, to rebuild spiritually in the new strategy and to win toward other horizons where the consequences of the actions are still waiting in comparison with those being done.

Characteristic for the transition periods of time, the man and the mankind are passing through, is the fact the management of the unbalances, that of the inefficient and undesirable transformations toward efficient and desirable transformations in the construction of the dynamism implied by the achievement through ascension.

After the big change from December 1989, it appeared the problem of the transition from a centralized planned economy to that with a competitive market, period during which we have to put the economic fundamentals of the capitalism and to create the favorable framework for the invisible hand in order to stimulate the rationality and the competitiveness in the options we are adopting.

Key words: *the transition through crisis, the change management, macro-economic unbalances, economic performance*

1. Significance of the transition

The evolution of the events succeeding in a certain period of time, because of their implied intensity and sense has given to the transition concept a temporary state as this would be specific only to certain periods from the humanity history.

So, it has been considered that the radical transformations that have accompanied the passing from the capitalism to the socialism was a transition period needed for the new socialist relationships of production to strike roots so that, on their basis, to be created a favorable environment for the development of the production forces.

The same thing happened also after the big change from December 1989 when appeared the problem of transition from a centralized planned economy to the economy with a competitive market where we have to set up the economic bases of the capitalism and to provide the favorable framework for the invisible hand to stimulate the rationality and the competitiveness in the options we adopt.

In our opinion specific for these periods of time, as of other succeeded in time, show that, in fact, the human community in its evolution toward better is passing through periods of «transition through crisis» where the fundamental parameters of the economic, social and spiritual life as those of the individual life, are deviating from their natural limits, entering the counter-sense.

In these transition periods through crisis, the management of change is actually a management of the macroeconomic and social unbalances, from

undesirable unbalances to desirable ones where the rationality and the hope of human action must represent the rules of the open and unfinished game.

As integrant part of the transition concerning the human individual through life, coexistence and succession of the generations, the transition through crisis includes an essential moment of the evolution where, from objective or subjective reasons, the change is requested, the desirable unbalances getting the power to which the struggle for a better horizon of waiting is directed.

In the transition process as a general, universal and permanent process there are directions, normal and desirable ones, such as from childhood to maturity, from a life in pain to a better life, etc., but there are also normal and undesirable directions as those from maturity to the life twilight, from an economic boom to economic recession, etc.

The live organism, indifferently that it is nature or society, has in its structure «the invisible hand» which helps it to make the transition, overcoming the internal disturbances, providing the homeostasis of the system as a quality of balance, structurally dynamic one, allowing the progress in stability conditions.

Because the economic organism, too, is a live system, in its construction there are elements that provide its stability within limits of a normal tolerance but also internal or external factors that unbalance this stability, by introducing it in the field of abnormal and undesirable unbalances.

As Aolom Smith said, the invisible hand of the economic organism succeeds in certain limits to provide its transition towards new states of homeostasis where the neutrality of the disturbing factors is created, the supply generating further the demand it needs.

When the complexity of the economic organism operation becomes more intense and more powerful than the determining factors, the transition to better of the economic organism can pass also through periods of crisis, when the economic organism try to eliminate «the bad blood» and to rebuild from the perspective of

the durability a new structure favoring the overcoming of the unbalances and allowing the expansion by passing toward normal and desirable unbalances.

The management of these unbalances with macroeconomic, social character, implies their anticipation – as an element of scientific observation, the identification of the factors generating it and that of the consequences being generated and of the ways of fighting for a new adaptation to the new conditions imposed by the change.

The transition sense, in the vision of this study, is one from undesirable unbalances to desirables one, the management of this process being, actually, a management of the crisis situation whose time of carrying on can be bigger or smaller than that of waiting.

When the transition time towards normal and desirable unbalances is bigger than that of waiting, the society is wasting more than is necessary because either the change has not been anticipated in a adequate manner or because the most adequate instrument of practical action, resulting from the influences of these combined transition delaying causes, had not been identified. Keeping under control the delaying process in order that it does not transform in more serious forms represents a forgotten problem of the transition management and which can represent a starting point for overcoming this underdevelopment and a gradual recovering of the technological, economical and social-human gaps.

The analysis of the world's general state shows that the South is lagging against the North, the world having today also developed countries and undeveloped one, although in the passed century by means of international and national projects it has attempted to galvanize their delay in development. Today the way the things are shows that the mankind failed to solve this world-wide problem, even it has spent huge resources in this direction. We still are faced with the same questions for centuries: where the development comes from? for which the ideological answers or those less ideological ones have formulated various causes without concentrating, in our opinion, on the vital question: the

development comes from inside towards outside, it is the result of the way the education, on the life's direction, develops the courage behavior to assume the responsibility risks, to live better. Such a vision is developed also by Stefan R. Covey when he asserts that «the real change is always generated from the inside of life toward its outside, it is the result of a profound and permanent process that works upon the life's paradigms, forming the new lenses through which we perceive the world we live in and we want to make it better». As a matter of fact, the ideology of faith, also, affirms that in order to make much more good in the human community one must not take the people outside from the morass but it is necessary to take out the morass from people's inside and they will start working at the roots of the change for better. Probably from these lessons of the history was born also the Chinese saying «if you want to help someone starving to death you must not to give him a fish, but teach him to fish and so he will have something to eat all his life».

2. The substance and the direction of the macroeconomic and social unbalances

At the level of the macro-economy from the comparison of the main economic aggregates, it results the most important correlations in comparison with which excesses or deficits appear, so that the economy evolves on ascending or descending slopes of the economic cycles.

One of these integrating correlation is the relationship between the incomes and the expenses of the State budget, the capacity of the economy to collect by means of levers incomes and to spend them in project of general interest, mainly with public character ones. In the last period of time the projection of such a correlation is done as unbalance, planning *ex ante* that the volume of the expenses surpasses that of the incomes. Such a macro-economic unbalance is considered as a instrument of the budgetary policy as the weight of the State budget deficit in NGP. As indicator of the government management, its use supposes its placing

between two limits – minimal and maximal one – depending on the concrete conditions but, also, on the imposed requirements by the international financial organisms.

The minimal limit of this indicator takes into account that level up to which the weight of the budget deficit can go down without affecting the carrying on of the public projects necessary to the communities.

With regard to the maximal limit, its level shows that weight that one must not to exceed because there is a risk for the public debt to grow excessively or, if the deficit is financed through monetary issue, to generate an inflationist choc that hardly can be absorbed by the economy.

Between these two limits – minimal and maximal – the optimum is always a concrete value that allows to the government management to manage *ex ante* the flows of incomes and expenses, and, in this manner, the fiscal policy and the policy concerning the public expenses. As principle, it is considered that keeping under control of the budgetary deficit is a sign of managerial performance, the economy being gradually directed on the way of developing the liberties of the economic agents, increasing the role of the invisible hand within the competitive environment.

From this comes out also the reverse of the matter, i.e. the lose of the control concerning the budgetary deficit, especially toward its superior limit or beyond this, is a sign that the economy is falling down in unbalances, that the government management must find new ways for tempering the steps of financial conflict manifested in the field of the relationships between the budgetary incomes and expenses.

The experience of the developed countries and not only, point out that the decrease or the increase of the budgetary deficit weight in GNP does not represent itself a bad thing as long as these modifications are within the anticipated limits concerning the maximal and the minimal anticipated levels.

The main problem is that of how we can best substantiate those two limits – minimal and maximal – and the difference between them in percentage to be no too bigger, so that the maneuver margin of the government management has a too large domain for the financial expectations.

In our opinion, the projection of the budget deficit weight in GNP should be equal with the maximal limit + the minimal limit divided by 2. For example: if the maximal limit is 2% and the minimal one is 4.6%, the weight of the deficit in GNP could be projected as being 3.3%, level that through anticipation succeeds to annul the forces relations that could tend toward the maximum or the minimum and leading in this way to an equilibrium point of the deficit, one that is advantageous both from the perspective of the incomes and from the perspective of the expenses, too.

There is an opinion that says that such a budgetary unbalance could take also the form of the excess and the government management could manage the country finances not by means of the deficit projection but by means of the excess projection in GNP.

Such a situation does not happen in real terms in the capitalist developed countries. This because the tendency to expenses manifested by the government management is much more powerful especially in the field of the expenses for defense, for national security, for fighting the terrorism and for carrying on certain social programs as well, and for keeping under control certain risks generated by the negative externalities of the market.

Also, the management through budgetary excesses comes up against the impossibility to increase too much the incomes by means of the fiscal lever and, therefore, in these conditions there is the risk that, in the absence of a «convincing» excess, we can not achieve anymore important objective of public interest for the functioning of the social life.

On the basis of these considerations, we think that it is more advantageous, from the economic point of view, that, on medium and long term, the projection of

the financial management concerning the State budget to be done by means of deficits and not by excesses, provided that their weight in GNP do not lead to inflationist choc, nor generates situations of public debts excessively too high.

All these being perceived as externalities of the management concerning the State budgetary deficit, must be kept under control and integrated in a mix of macroeconomic policies from whose coherence results the impulse for the economic increase in real terms in conditions of macroeconomic and macro-social stability.

The ever larger opening of the economy through integration and globalization poses also the problem of the management concerning the balance of trade and payments as a defining element of interaction between the internal and the external factors of the development.

Reflected by the excess of the deficit of economic performance external, the management of the balance of trade and payments is carrying on in the last period of the evolution for the contemporary world by means of deficits.

As a comparable element, the weight of the deficits of external economic performance in NGP represents an instrument of the managing the interaction with the exterior, trying in this way to keep under control the level of the external debt and especially to be much more connected with the impulsion for the economic development.

The weight of the deficit concerning the balance of trade in NGP and that of the current account deficit in GNP represent element expressing the level of anchoring the national economy into the world-wide economy , especially from the perspective of the import that the world-wide economic competitiveness has it for the performance capacity of the domestic market.

The increase of the deficit concerning the balance of trade in the NGP can illustrate a period of giving an impulse to the economic increase by means of carrying on certain imports that contribute to the economic restructuration and to the increase of the productivity.

Such a tendency does not be extended too much because after a period of 4-5 years there is a risk not being more possible to correlate the positive function of the imports with the increase of the competitive capacity of the exports.

The situation becomes grave when the increase of the weight concerning the trade deficit in the GNP does not mean an import of competitiveness but a import for consumption that, on medium and long term, can compromise the capacity of performance related to the exports.

In this context of requirements, it is recommended that the external debt on inhabitant engaged mainly by the trade deficit be correlated permanently with the export on inhabitant and with the GNP on inhabitant so that from the analysis of this correlation results the increase of the economy capacity to provide by means of exports the necessary imports, the payment of the external debt service and to constitute the reserves of competitiveness.

The outrunning of the dynamics concerning the external debt on inhabitant by the dynamics of the exports on inhabitant represents a guarantee of this capacity to cope in time with the effort of paying the external debts without being put in danger the macroeconomic and social stabilization.

When the dynamics of exports on inhabitant is outrun by the dynamics of the external debt on inhabitant begins to decrease the efficiency of the debt level in real terms of competitiveness, existing so the danger of the transforming the economic external relations in a factor of macroeconomic and social destabilization.

In absolute terms, the external debt on inhabitant could be equal with the exports on inhabitant or even bigger, in this later case the economy can be introduced in the zone of incapacity of making international payments, with dramatic consequences for the destabilization of the economic system functionality as a whole.

From this perspective, also, the management of the external debt has a crucial importance not only with regard to the level of the debt but especially with

regard to the productive function of this debt valued in real terms through its contribution to the national income and, implicitly, to opening the exports toward high competitive countries.

The period the world is passing through, that of deepening the interdependences and opening the complexity to limits so far impossible ones, arises the problem of a new management of the public debt which starts from the principle that in a very close future the countries will be in a position of an impossible development without having recourse to the external debt.

The function of the external debt in the new economy becomes the fastest way to get financial means, especially for the investments in the field of knowledge, global competitiveness and protection of the natural environment.

Probably, such a problem will arise and will impose also the need to respiritualize the international functions of the world-wide funds which have to be integrate into another system of functionality according to the win-win rule and not win-lose one.

It is necessary, in our opinion, that the management of the trade deficits and that of the current accounts to be integrated in an international management of the external debt, rebuilt according to new, democratic rules and not so as it is unfolded at the present time. By means of an international management of the external debts we think that it is possible to keep under control the available situation in regional plan and on the basis of some adequate national strategies, the external factor being possible to be integrated endogen into national programs for increase and economic development.

The mankind passing to a new model of development will arise the question of revision for the national managements in order to project the new structures by means of the instrument involving internal and external deficits, the management through desirable unbalances representing the key of re-modeling the structures in the perspective of providing a sustainable development.

The particular efforts implied by these deficits represent, in our opinion, the opportunity costs involved by the renouncing to the old technical way to manufacture and the passing to a new way to generate the added value by means of the competitiveness of the scientific knowledge and network informatics that follows to define the new economic system based on interdependences.

The opening towards exterior of the national economic world transforms in this manner the interdependences in the most powerful factor of structural remodeling, the economy becoming a complex system which operates by means of interdependences and not by means of factors having a direct action.

The economy of these interdependences has, also, the disadvantage that it can break anytime rigid and inadequate structures, rusted ones under the cover of successful industrializations done many years ago.

Probably that this economy system will not be in a position to be supported otherwise than by means of a management of external deficits imposing a global control that allows their direction towards in advance desired positions and generating hopes.

Such a movement will push the present economy of the world towards the direction of its uniqueness of sense and will interact it beyond our micro-cosmos when the management by deficits will represent the sole force to attack new vectors of the economic language opened by the new world we follow to integrate ourselves into.

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THE LABOR MARKET IN THE ACTUALITY OF THE THIRD MILLENIUM ECONOMIES

**Lecturer PhD. Gheorghe H. POPESCU,
Christian University “Dimitrie Cantemir” Bucharest**

The economic-social activity supposes, objectively, the work factor, meant to capitalize systematically the resources in its interests. As other production factors, it is provided by means of the labor market, constituted as an essential sub-system of the economy with a competitive market.

The labor market we can define as a coherent system of relations between the demand and supply bearers of work services provided by the spiritual capital. This system is influenced by multiple institutional-legislative variables, training-educative, social, economic and cultural ones, manifested on long and very long term.

The labor services must be registered officially by the habilitated institutions, this not excluding at the present time the possibility that certain labor services not being registered officially, leading so to an occult, underground system, parallel or grey one of the labor market. The labor market is a specific market of labor services being provided by the spiritual capital, in a very diversified set.

In the conditions of Romania adhesion to the European Union, such acceptance of the labor market becomes particularly actual because it suggests that the adhesion concerning the human factor is done only at a certain level of

professionalism, of spiritual-cultural and economic evolution, in a permanent adaptation to a new economic environment, internationally integrated one, to an integrated world, a unique world requesting unique people.

Key words: *the spiritual capital, the contractual market, economic goods, labor demand, social dumping*

In any time and space conditions, the economic-social activity involves, objectively, the labor factor, meant to capitalize systematically the resources in its own interest. As the other production factors, this is achieved by means of the labor market, constituted in an essential sub-system of the economy with a competitive market.

1. The content of the labor market

The transactions on this market have as object an indispensable element in all the economic acts, phenomena or processes. Such an element has particular significances exactly due to the impossibility to be avoided or replaces within the economic-social activity. Consequently, in the dynamics of the time the object of the labor market has been synthetized and assimilated by the economic science, having multiple acceptations such as: labor, manpower, human capital, intellectual capital, etc. The reality shows that in these circumstances were accumulated continuity aspects indicating the fact that the labor remains the fundamental value which, through scientific creativity, through efficiency, morality and fairness, characterizes the life and the individuals' and human communities' progress on various steps of the development.

Taking into account the increase of the scientific knowledge brought by multiple theories being elaborated in time, and by their inherent limits, implying the open, perfectible character of any concept, in our opinion, the essential element that we can take into account when we analyze the labor market in the modern conditions is the spiritual capital. This could be defined as the coherent assembly of native and

educated aptitudes, scientific information systematized in the man’s professionalism by the spiritual-cultural and health elements delimitating the individual’s person, empowering his creative capacities and favoring the perspective of receiving certain incomes by means of the social, practical action he can carry on.

The spiritual capital must be known and understood as taking into consideration the following elements at least: the biological origins of the individual’s life, the human health; the social sources of the human life; the education level and that of the morality; the faith and the hope of each person. So, the spiritual capital has a dynamic character, i.e. appears in certain specific circumstances, progresses permanently quantitatively, qualitatively and structurally, being in a mutual relation with the economic, social and cultural dynamics. It represents the element of large complexity, its time coming at the same time with the new century and millennium, when the human society becomes the society of science, knowledge and information. The spiritual capital, through its content, structure and dynamics, is reflected in the labor services that represent an important merchandise being transacted systematically on the market.

The labor market we can define it as a coherent system of relations between the supply’s bearers and the labor services demand being executed by the spiritual capital. This system is influenced by multiple institutional legislative, training-educative, social-economic and cultural variables, manifested on long and very long term. We understand from this that the labor services must be officially recorded by the habilitated institutions, this not excluding at the present time the possibility that some labor services are not recorded officially, this leading to an occult, subterranean, parallel or the grey system of the labor market. Therefore, the labor market is a specific market of the labor services, that can be provided by the spiritual capital, in a very diversified game.

Such an acceptance of the labor market becomes especially actual in the conditions of the adhesion of Romania to the European Union, because indicates that the adhesion concerning the human factor can be done only at a certain level of

professionalism, of spiritual-cultural and economic progress, in a permanent adaptability to a new international environment that is integrated in an integrated world, a unique world requesting unique people. The European Union does not need our illiterates, we being expected to enter it with the dowry of spiritual, cultural, social-human values, this increasing the importance of the specific and national effort within the integration, amplifies the role of the indigen values and their compatibility with the principles of the universality or globalization.

In this way, the decision to invest in the spiritual capital must be based, mainly, on an analysis of type cost-benefit where the costs include both the direct expenses and those indirect ones, expressed in opportunity terms, i.e. as incomes that could be get in case the alternative for penetrating the labor market would be chosen, instead of continuing further the training-spiritual studies.

The labor market, whose definition we refer at now, indicates that its dynamic capacity to receive the important values of the economic-social development, on the coordinates of their convergence ant national and international level. Such qualitative-structural values would be:

- the man's labor is transforming gradually in a cultural value, similar with the joy or the pleasure to live;
- the labor offer is enriched, by strengthening the qualitative aspects of the labor services being the negotiations object;
- the emphasizing of the labor character as a special merchandise on the domestic market and within the international migration;
- the labor market is capitalized in a superior way not only at national scale, but at world-wide scale too, taking into account the high professionalism coupled with the man's spiritual development , with the increased role of the intellectual effort, with the development of the authentic, human partnership that go beyond the limits of the indigen framework;

- the new quality of the labor services and of the human life represent obviously also an expression of the religion, ethics and fairness in the twenty first century, influencing directly the economic development in a long perspective.

From this we conclude that the problems of the labor market in the perspective of European adhesion correlates organically its individual significance with collective, social one, favoring the observance of the dignity and man's fundamental rights, beginning with the right of every person to live and to work with dignity, this meaning, in essence, the harmonization of two defining elements:

a) the model of the individualized person through requirements, aspirations and diversified needs

b) the model of the man's different behavior as intellectual level, tendencies and mentalities.

Such aspects being spread in various contemporary theories are perceived unequally or even a deformed way by certain individuals or social-human categories. Although these aspects reflect essential elements, specific for an elevated human behavior in life and work, starting from that of the common sense, there are still people or economic decisional factors that underestimate the work for ideological reasons or because of immediate advantage interests, minimizing the nocuous character of such reasons. From this angle of analysis, results that in some individual options to the work is granted a secondary role, with in the system of factors that provide the success in life. The disregard of the work, inducing in the population the idea of non-work, putting on the first plane the good swim, that is related with the chance, instead of the success that is connected with the constant work, leads to a confusing state, serious confusion, social inefficiency. This state is favored also by the mass media from Romania during the transition period to the competitive market economy. Games, competitions such as «look and win», «call now and win», etc., ostentatiously and coupled with the exacerbation of certain accidental and rare wins, are meant, it seems so, to replace the absence of hope of certain young people which would dare to carry out a normal, honest, quality work, in conditions not the most

favorable ones. Romania illustrates, unfortunately, a situation both atypical and hard to be understood, being perceived not always through its elements of performance work, scientific creativity but through the destitution and human degradation so intensively made known by mass media, so that the negative education emphasizes the human alienation instead of a positive education meant to diminish the poverty.

The authentic theory of the labor market in the perspective of the European adhesion must take into account the fact that the non-work leads indisputably to poverty on long term, and such a relation is a curse over the centuries for certain people or communities. Still, the history of the world-wide economy shows that the authentic, fundamental reasoning of the labor market must be that resulted from the direct relationship between the permanent work, characterized through professionalism and morality, on one side, and by the systematic efficiency, the economic development, the welfare and the fairness or social justice, on the other side.

Surely, each stage of economy progress, that by its essence is, and must be, a human one, means an important leap towards the liberty to choose in life and in businesses. But, this leap must be necessarily connected with the morality and the psychology of the aspiration and the morality and psychology of the duty, otherwise the human resources are wasted in an inadmissible way, through various forms, including the irrational international migration of the spiritual capital formed on the basis of national expenses and the efficiency of its use is collected on international plan.

2. The mechanism of the labor market on the adhesion route according to its state in Romania

The place and the role of the spiritual capital in the unitary system of the productions factors are provided by means of a operation mechanism belonging to the labor market, derived from its content and specificity. Such a mechanism is essential in the struggle with the time for the adhesion of Romania to the European Union.

The mechanism of labor market operation represent a set of connections between autonomous individual partners, as future employees, and the autonomous employers demanding and using the paid work, and the connections and the negotiations between the representatives of these two parties, i.e. the unions and the employers' organizations, being carrying on according to in advance established rules. Each partner fulfills specific functions, and the mechanism in its totality provides specific functions with regard to other mechanisms from the society (economic, technical-scientific, social-cultural, ecological one, etc.).

The materialization of the operation mechanism of the market is done by means of labor contract, that establish the parties rights and obligations, and the modalities of their transposing into the real economy depending on the labor market segmentation, the negotiation of the retribution getting ahead of the labor service execution. So, the labor market is a contractual market. At all levels and everywhere where are manifesting the relations between the supply bearers and those of the demand for spiritual capital. The labor market appears in a more complex synoptic than the other free markets, because its specific relations are carried on according to the basis of each country and international one, providing the harmonization of the interests confrontations generated by the labor bearers and solicitants by means of the contractual consensus.

The mechanism of the labor market operation implies the systematic achievement of the relations between the labor supply and demand, on one side, and the salary level and dynamics, in a concrete expression, on the other side.

The labor market, as a systemic unity between the labor supply and demand, operates in interdependence with the other specific markets,, first of all with the economic goods market, as a dynamic unity of the aggregated supply and the aggregated demand of economic goods (materials, services, information). This means that the specific relations of the labor market are mutual with the specific relations of the economic goods market, i.e. all the time and space circumstances regarding the economic-social development are the source of the labor demand and the

demographic evolution is the source of the labor supply. So, the multiple and in permanent diversification relations between the economic development, the evolution of the incomes from work and the demographic movement form the substance of the labor market.

By means of the operation system concerning the labor market is emphasized the fact that the labor demand depends on the offer of economic goods the employed workers can achieve and put at the consumers' disposal, by means of that employer, as user of the labor services. Certainly, the employer uses the paid work with the scope of getting a profit as much as possible, because in the economy the economical interests and not the acts of charity are those being in action.

The operation of the labor market proves that the labor demand on short term is practically invariable, because the employment of paid persons depends on the investment chances provided by the producers. Still, the producers can make investments in the modern technical capital whose capitalization reduces relatively the labor demand or in investments for the development and the diversification of the economic branches, of the production concerning new economic goods, demanding the employment of new paid workers, this happening at larger spans of time. In this complex mechanism it is calculated and achieved a permanent process of continuation or substitution of the labor with capital.

The operation of the labor market demands the setting in motion, in a specific manner, the spiritual capital offer, taking into account the reduced level of its mobility. This mobility reduced level is provided by the influence of the independent variables related with the demography, the people cultural development, the specific sedentary life of certain persons, by the family duties. Such influences make the labor offer to be modified at long spans of time and in an unequal way.

The operation mechanism involved by the labor market reflects the very diversified interdependences between its multiple segments of forms.

In the perspective of the European integration, the division of the labor market is more and more emphasized both within each country and on the world-wide plan.

We can identify multiple forms of this market according to specific criteria such as : form of property (the labor market in the private sector, the public and the mixed one); the national or international legislation (the legal labor market, the black market; the parallel, subterranean labor market, the grey labor market, etc); the economic power of the employers (the labor market specific for the small, medium, large, very large and gigantic enterprises); the State ownership of the firms (the specific labor market of the national, foreign, mixt and transnational firms), the labor quality and structure in comparison with the type of the predominant technical progress (the specific labor market for the traditional production of economic, material goods, the services market, the information market, the market of cultural or artistic-intensive goods, and so on).

The functioning of the labor market in the perspective of the European adhesion reflects its increased atomization both on national and international scale, more and more domestic interdependences of the labor market being mixed with those of its regionalization, globalization, and international labor migration, etc.

The labor market state in Romania

The formation of the labor market in Romania began after the events from December 1989 on the basis of a new theory considering the work as a specific merchandise, unlike the previous economic system where the work was not defined as a merchandise.

The complex process concerning the formation of this specific market is placed in the general context of the economic reform during the transition to the modern competitive market. During this process there are taken into account the fundamental coordinates of the labor market, so as they have been crystallized in the universal economic science, and, also, the specificity of the Romanian economy given by the historical concrete conditions for the construction of the new economic competitive system.

The formation of the labor market has a procedural character providing the professional restructuring, essential changes in the technical parameters of the work,

etc., in accordance with the strategic objectives of the economic reform. The level, the rhythm, the extension and their costs characterize various stages of this process and allows to achieve the market of the modern, efficient work.

The successes and the limits in the labor market field are similar with those defining the form of the Romanian economy in its totality.

The analysis of the market labor in our country can be done by taking into account the following relations: work-property; work-competition; work- public power.

The state of the labor market is characterized by more features, i.e.:

- The labor resources have recorded divergent evolutions. They are, generally, relatively constant ones, with a light tendency for temporary increase, as weight in the total population, while the occupied population has been considerably reduced. The unemployment level has increased, so that, given the relative constant labor resources, it is modified not so much by the occupation level as by exceeding the legal incidence of the unemployment legal period of time;

- The relation between the occupied population, employees and retired persons affects the balance of the labor market in an important measure, taking into account the principle that makes the payment of the pensions by means of the contributions provided by the working people. The relation between the average number of the retired persons and the unemployed people, on one side, and the occupied population and the employees' number, on the other side, expresses the pressure on the incomes of working people or the dependence rate. This involves that the relation between the work productivity and the salary needs to be considered in a more complex manner, by taking into calculation also the unemployment subsidies and the contributions for pensions.

- The occupation restructuration is specific for the austerity and the need of counteract the recession and the inflation. This means that the restructuration of the occupation in Romania has been done not by means of the natural substitution between

the work and the capital through investments and, therefore, has not been achieved a competitive restructuring of economic development.

The branches faced with a deeper restructuring of the occupation are those where there is a low productivity or are direct consumers of the GNP and added value. Among these branches, some will be in a position to contribute in the future to the increase of the added value.

The movement tendency towards subsistence structures with low productivity do not represent a factor of intensive, competitive growth, a real requirement of the economic, but are the expression of the inertia, of some accidental solutions, solutions of a conjecture.

Taking into account these aspects one can identify better the various anomalies present and future of the labor market institutionalization and management in our country.

The labor market state reflects the direct influences that the macro-economic factors have on it.

Knowing this situation allows to formulate some viable solutions for a better management of the labor market and to achieve some realist anticipations concerning the relations work-salary-management, inflation-productivity-unemployment, collective negotiations, salaries, etc. In this sense there are significant more aspects, such as:

a) The labor market specific for the new Romanian economic system can be formed in a long period of time, requiring new laws, structures and legal rules to which the social partners report themselves with a high level of maturity and responsibility.

The start of introducing new rules for the creation of the labor market have been obstructed by the increased disorder in production and work, on the background of production diminishing, reduction of the work rules quality, inefficient costs management, unions claiming pressures.

Also, the reduction of the work duration, ignoring the insecure state of the production leads to the diminution of the motivation for work, economic inefficiency and, therefore, the destruction of the relation between the increase of the productivity

and the increase of the nominal salary. The solution of this problem is included in the totality of the problems concerning the provision of the flexibility for the labor market.

The labor market in Romania does not dispose yet all the legislative rules meant to avoid the blockages, the distortions or the dysfunctions and to provide the formation and its normal operation. This aspect is correlated with the state of the monetary-financial market and the market of the economic goods one, because one can not regulate and use normally only the labor mechanism, without a efficient operation of the currency, price, credit, bonds, etc., when one takes into account that the labor market is one derived market.

The labor markets face global and structural-qualitative unbalances and unbalanced impulses from the entire system of markets from the Romanian economy.

b) The labor market has a limited field of action, being interconnected with the employment. In this sense must be understood the occupation as a process that can go beyond the labor market.

The study of the occupation on professional structures shows that this is the effect of the general transition process towards a new type of economy, based on substantial changes in the field of the property and that of stimulating the free initiatives. A certain segment of the labor relations from the private sector is not subjected to the incidence of the regulated labor market, being given especially the insufficiency of the legal framework concerning the regulation of the labor relations. Such a state slips towards a black zone maintained also by the tendency to tax avoidance of some economic agents.

In the field of occupation are included, also, the occult activities, known as the grey market or the black market that remains out of the control of the labor legislation.

In such circumstances, the tensions on the labor markets are vast, including all its structures and mechanisms. The labor demand has been considerably diminished because of: investments diminishing, reduction of the motivation for developing the

spiritual capital at individual's and society level, also because of the diminishing the final demand for economic goods. The labor supply records important structural unbalances: occupation-professional, territorial, on groups of age, qualification categories, sex, etc.

The tensions on the labor market are interfering with those institutional-legislative, having negative consequences on medium and long term. Although the new legislation of labor has been set up with priority, still, in practice, it proves to be insufficient and incorrect in comparison with the labor market dynamics. The social aspects are faintly approached, especially those concerning: the employees' protection in case of the enterprise liquidation, the employees' protection from the private sector, the employees' protection in case of the economic enterprises restructuration subjected to the watching regime, etc.

Also, the specific partnership of the labor market is weak and incomplete with regard to the organizational aspects. The labor offices and the qualification centers have not the capacity to include all the aspects concerning the demands and supply flows, the mediation, the professional training, the reconversion of the manpower, etc.

c) The mechanisms regarding the labor market management show disfunctions, both in macroeconomic and microeconomic plans.

The collective negotiation proves to be an important institution for a normal operation of the labor market, when it is harmonized with the union organizations and the employers.

In the context of the labor market management mechanisms the information has an important role. Gathering, processing and distributing information must contribute to the elaboration and the achievement of certain strategies and policies regarding the labor market based on authenticity, credibility, transparency and systemic efficiency. The information, as an essential element of the labor market management, involves a correct and operative ascertainment of the labor supply, labor demand, manpower costs, employee, unemployment, social aspects as well.

For all these we need some statistics necessary indicators, relevant ones, being correctly calculated and used by the institutions of the labor market. Such indicators are: the employment and unemployment level, the school and professional training level, the manpower cost for various categories, etc.

d) The places of work crisis is manifested on the background of the crisis in the entire economy.

In the conditions of the Romanian economy recession, the stoppage or the diminishing of the work demand is due to essential processes such as: the enterprises de-capitalization, the investments reduction, the monetary-financial unbalance, the devalorization of the national currency, the import of inflation and unemployment by means of international economic relations, the deficit of the trade balance.

The crisis of the places of work is an expression of the labor crisis and labor market crisis, the latter being not for a long time ago limited at the unemployment form only. At the present time, the labor crisis and the crisis of the labor market are not limited any more to the unemployment and is manifesting also in the occupation field, which becomes more and more insecure, having proportions that exceed substantially those of the unemployment.

e) The diminishing of the inclusion in education the population having the schooling age.

This process has a special role in the training, making flexible and adapting the supply to the labor demand. Its appreciation can be done by means of the gross level of schooling, calculated as a relation between the school population and the population having the age of 3-23 years.

Such aspects have a special significance both for providing the spiritual capital and for its occupation. The occupation is a multi-dimension process, involving the organic combination of some elements of economic, demographic, educative-training, social-behavioral and legal-institutional nature. The occupation area is larger than the paid work area itself because it includes all the kinds of activities and

occupational structures defining a place of work, a paid income, stimulating one for the people and for the progress of the business environment where it acts.

At the same time, in the process of the European integration one can reach the internationalization of the occupation, with favorable effects for some persons and less favorable for others, the occupation becoming a bearer of social dumping. In the actuality of our century one identifies a new paradigm of capitalizing the spiritual capital, based on the relation of the economic growth–competitiveness-occupation-human sustainable development

Synthesizing, the scientific approach of this analysis aims the necessity and the possibility of some strategic and precise measures meant to favor the positive results in the struggle with the time for the European adhesion:

- the efficient operation of the labor market starting with the conceptual improvement of its object, the spiritual capital, and the achievement of a new way of thinking and behavior;

- the perfection and the modernization of the initial and permanent training of the population by implementing the education reform, on the basis of certain scientific and pedagogic authentic programs, avoiding the superficial approach of this fundamental process;

- the liquidation of the forms and modalities inducing non-labor in the population so that the productive function of the Romanian economic system is put in rights and consolidated, in the conditions of the informational society, scientific knowledge and understanding, on the routes of a harmonious economic, international integration and of the globalization as well.

In the struggle with the time for the adhesion of Romania to the European Union we should be animated on the labor market also by the following fundamental rules of changes to be done in the Romanian economy: in crucial problems unity is required, in those important the diversity is needed and in all these the generosity is a must.

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WATER QUALITY AND ITS EFFECTS ON LIFE QUALITY, IN THE CONTEXT OF SUSTAINABLE DEVELOPMENT

Associate Professor PhD. Maria-Ana GEORGESCU

“Petru Maior” University, Tîrgu-Mureş

Graduate Emanuela ARANYOS,

“Petru Maior” University, Tîrgu-Mureş

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Abstract

This paper is focused on water quality in the context of human life quality indicators and long term development. There are a lot of problems regarding the quality of the water consumed by the population. We mention some of the results obtained by the Hydrology and Water Management National Institute of Mures County: the 89 drillings performed in 2004 by the Water Division reveal that the maximum allowed concentrations of pollutants are exceeded in many cases in all areas of this county. Our main contribution consists in a survey on water pollution caused by agricultural practices. In this sense we designed a questionnaire which we administered to the villagers that sell agricultural products and live in the area of Mures and Gurghiu rivers.

1. Un-ecological economic activities

For most people involved in economic activities in Romania, the protection of the environment is of a less importance because they are not concerned about business ethics. From the micro-economic point of view regarding producers, traders and business companies as isolated and not within the frame of the social system, it may seem reasonable that the only goal is maximizing profit. Their duty is to be within the law and to assure as much as possible value to the owners or to the shareholders. The problem arises when there is a less regulated law area or when the companies' certification standards of environment protection don't represent a priority from their point of view. Besides pursuing profit, which means that their activity respects the economic principles, businessmen should also be concerned about moral norms so as their activity be accepted regarding its implications for society and natural environment. [1, p.50].

From a strict economic view it is cheaper pollute the environment than to protect it. The real cost of pollution is dramatically underestimated.

Our paper is focused on water quality in the context of human life quality indicators. Professor Ioan Mărginean, in his book *Quality of Life in Romania*, offers a list of 100 indicators grouped in XXI categories [3, pp.50-55]. The 3rd group includes indicators for the natural environment: quality of the natural conditions of life. „Even considered as a component or just a premise of the quality of life, the natural environment is included in all investigations and analyses pertaining to the quality of life, as well as the programs aiming to preserve the conditions of human existence. Usually, indicators that show different aggressive factors (noise, radiation, noxious matters in the air, soil, **water**, food) and their effects on the human organism, proportion of affected population and perception of the natural environment conditions are used.”[3, p.45]

Unlike other resources that we can reduce or increase, water is the one whose quantity we cannot influence but whose quality is dramatically altered. Even though

theoretically there is enough water, many times it is not on the right place or moment according to our needs. Man, by his economic activities, and not only, overuses it without considering the fact that water is a loan from our children and a legacy with which we cannot do whatever we want.

In comparison to the other European countries, Romania seems to be a country with reduced water sources. The volume of still water is modest and rivers have a relatively low flow. The hydrologic potential is of about 1750 square meter/inhabitant/year in comparison to the European average of 4800 square meter/inhabitant/year. Water price in Romania is still very low compared to that of other European states which sometimes leads to wasting. For the last years, water consumption has been reduced in industry and agriculture. On the other hand the percent for supplying in the centralized system has increased; at present over 60% of country population is supplied with drinking water. The main source is represented by surface water and there are recorded almost one million wells as individual supplying systems. There are a lot of problems regarding the quality of the water consumed by the population.

The most relevant studies regarding the situation of groundwater are those made by drilling. For the purpose of following the pollution level of phreatic groundwater reservoirs caused by anthropogenic activities and for measuring the impact that different pollution sources may have on the phreatic level, there are performed periodical measurements and observations in the drilling wells situated around the major pollution sources, in each hydrographic basin.

The drillings performed by the Water Division reveal that the maximum allowed concentrations of pollutants are exceeded in many cases in all areas of the Mures county.

2. Water pollution in the Mures River

We mention some of the results obtained by the Hydrology and Water Management National Institute of Mures County.

In 2004, the quality of phreatic water from Mures hydrographic basin was monitored through 89 drillings, out of which 67 hydro-geological drillings for the phreatic and 22 control drillings placed on the major industrial platforms, from where 191 samples were selected for physical and chemical analyses. On the whole, the observed drillings are placed along the Mures River and its main streams, covering a relatively large area and different relief forms.

The superior part of the Mures River covers the area between Gheorgheni and Ludus. From this area 14 drillings were selected for physical and chemical analysis as follows: the variation of mineralization level, the chemical consumption of oxygen, the ammonium and manganese ion. From one selection to the other high differences were recorded for a series of indicators because of the equilibrium between the aquifer layers, because of the close water streams and the hydro-meteorological conditions.

The main pollutants for land, water and air - as the nitrates and the ammonium, are coming from *AZOMURES industrial platform*.

The presence of sodium and calcium chloride is owed both to the natural environment and to the dejections from the *poultry and cattle farms*.

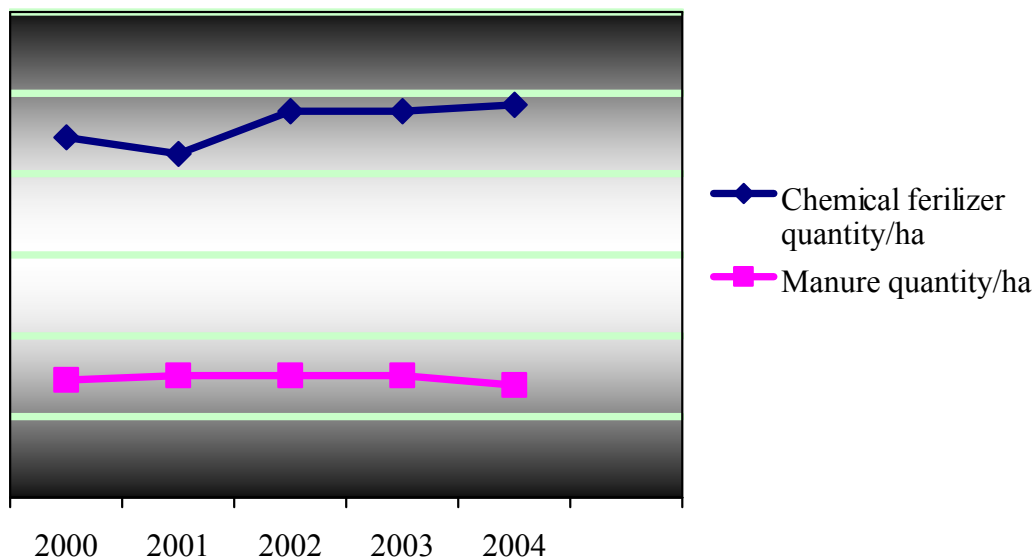
In general, the water from Targu- Mures area has *a high level of mineralization* and its *hardness* sometimes reaches a maximum value at drilling site 4 in Cristesti. At the same time the *chlorides* have values between 408 mg/l at drilling site 3 in Sangeorgiu de Mures and 1205 mg/l at drilling site 3 in Cristesti, because of a salt block that exists in that area. The sulfates are also on a high level because of the existence in that area of gyps deposits with high solubility.

The *livestock farms* of this area have a negative impact on phreatic water quality through their dejections. The maximum values of CCO-Mn were recorded at drilling site 4 Ludus, and for NH₄ ion, maximum values were recorded at drilling site 4 Cristesti and at drilling site 4 Ludus.

As it doesn't function yet on the same structural and organizing level with the subsystem of flowing surface water, the evaluation of phreatic water quality is briefly made and only for the areas that have significant information. The drillings from

Mures county where there are performed analyses of *groundwater* are those from Reghin, Gornesti, Sângeorgiu de Mureş, Cristeşti, Ungheni, Luduş and Cuci. Of all 7 mentioned places, in 2004, 5 exceeded the maximum concentrations allowed for substances resulting from *land fertilization with artificial fertilizers* (nitrates and ammonium). The AZOMURES plant is the major agent who develops un-ecological economic activities, but there is not a connection concerning the phreatic water and surface water placed upstream to it. In Reghin, for instance, the nitrates from the phreatic water exceeded the maximum quantity allowed for drinking water, from 10 mg/l to 98,5 mg/l.[9.p.17] According to the annual records of Mures Environment Protection Agency, the total surface of the lands used for agriculture has increased unlike the quantity of fertilizers which has grown far greater.

Chart 1. *The evolution of the fertilizers' quantity used for the last years*



Source: *The Annual Report* of Mures Environment Protection Agency/ 2004

It is not only the water of the Mures River that is affected by the chemical fertilizers and which cannot be eliminated for the moment from the drinking water supplied to consumers. Groundwater and phreatic water are also affected; therefore the water of

wells and of some springs has become dangerous especially for children and pregnant women.

According to the data of Environment Protection Agency, the quantity of chemical fertilizers increases year by year at the expense of the natural ones.

3. Survey on water quality in Gurghiu – Targu - Mureş area

At present, the pollution of surface waters is a major problem which on the global scale will amplify. One of the reasons is agriculture which makes use of more and more chemical substances. Agriculture is a major branch of the economy of Mures County. The agricultural lands cover 62% of the total county surface. Of the agricultural surface, about 53.64% is represented by arable lands, 44% by pasture-land and hayfield (183270 ha), the difference representing vines and orchards.

This paper concentrates on water pollution caused by agricultural practices. A direction less investigated in our area is the impact of chemical fertilizers on surface waters and especially on the groundwater, correlated with consume of water from wells and springs. Most water table of the county has a concentration of nitrates and nitrites that exceed the one allowed for consume. The same situation is with the groundwater where periodical drillings are performed by Mures Waters Division.

In this respect we designed *a questionnaire* with 18 questions [see the Annex] which we administered to the villagers that sell agricultural products and live around the Mures and Gurghiu rivers.

The survey was made in the following villages: Ernei, Dumbrăvioara, Gornesti, Petelea, Solovăstru, Jabenita and Caşva, on 86 agricultural households so as to represent both wealthy families and modest ones which usually or constantly sell agricultural products.

Of the questioned villagers, 18% use spring water and 70 % use the drinking water from the wells, yet this is not always drinkable; 33% of the interviewed ones had never made analyses of the water they consume. Therefore they are most affected

by the pollution of water table, then it reaches the downstream water table and consequently the spring water of Tg. Mures becomes undrinkable.

Of all the villagers that answered to the questions the majority of them grow wheat, maize, potatoes, vegetables and some of them beetroot, lucerne, barley and rye.

Concerning *the type of the fertilizer*, most of them (70%) use for the land they own both natural and artificial fertilizers; 21% use only artificial fertilizer.

Only 6% use manure for the land (Chart no.2).

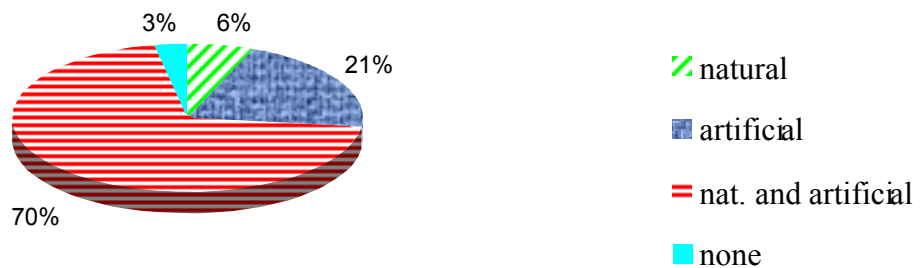


Chart no. 2. *Types of fertilizers*

The answer to question “*Why do you use this fertilizer?*” was: for increasing production in a percentage of 73 %. The reason for using natural fertilizer or for not using any, was the lack of money. Only 6 % of the interviewed said that they use this method for practicing ecological agriculture.

The information about what ecological agriculture means don't reach the villagers as it should. Of all 84 interviewed villagers, only three answered Q6 that they use types and quantities of fertilizers for ecological reasons, either for the health of those who consume the vegetables and cereals, or for preserving the soil under proper conditions.

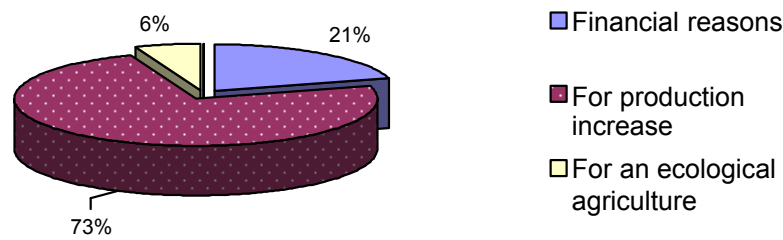


Chart no. 3. *The rationale for selecting the fertilizer type*

The type of the chemical fertilizer has a great impact on the pollution level. Most artificial fertilizers used by the people living in Mures are complex and nitrate based. The complex ones have an efficient result and the nitrate based ones are suitable to many types of crops and are cheaper.

Of the interviewed ones, 43 % use for the land artificial fertilizer once a year and 41% twice a year (Q7).

Regarding Q 8, 48% manure the land in spring and autumn as they should, but a quarter of the interviewed tend to manure the land in summer which results into the pollution of the soil and waters without good effects on plants and on the environment.

In chart no. 4 we can observe *the share of each chemical fertilizer* that the interviewed villagers use.

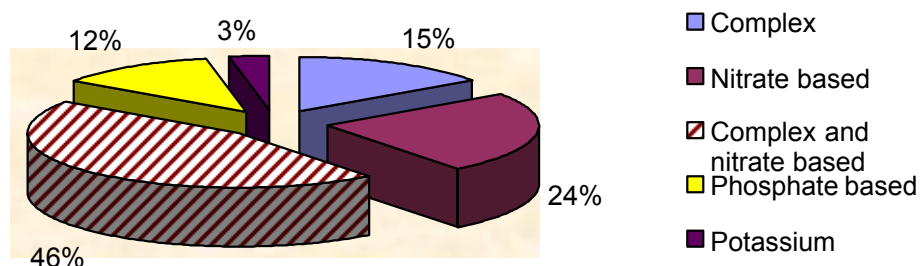


Chart no. 4. *The type of chemical fertilizer used*

To the question „Have you ever measured the quantity of nitrate form the soil?” 96 % answered that they never had. It would be very important to have such

annual measurements because for many times the land has the enough quantity of nutrients and an additional quantity does nothing but harms the environment, the crops and especially the animals and the people who consume the plants grown on these lands. Yet, the 4 % of those who usually measure the nitrate quantity do this yearly.

On average, the interviewed use the following quantities of artificial fertilizer/ha according to the types of crops (Q 12):

Corn	170 kg
Wheat	200 kg
Potatoes	200 kg
Beetroot	120 kg
Vegetables	150 kg
Barley, rye and two-row barley	150 kg
Hay	150 kg

Most villagers add between 1 and 25 tones of manure to these quantities of artificial fertilizer, a fact that leads to a considerable increase of the nitrogen in the soil.

The reason for which the above quantity is used (Chart no.5):

- This is the optimum quantity- 14 answerers;
- It depends on the price of the fertilizer - 56
- They use a bigger quantity than necessary for a better effect - 6
- This is the way the neighbors fertilize the land -10.

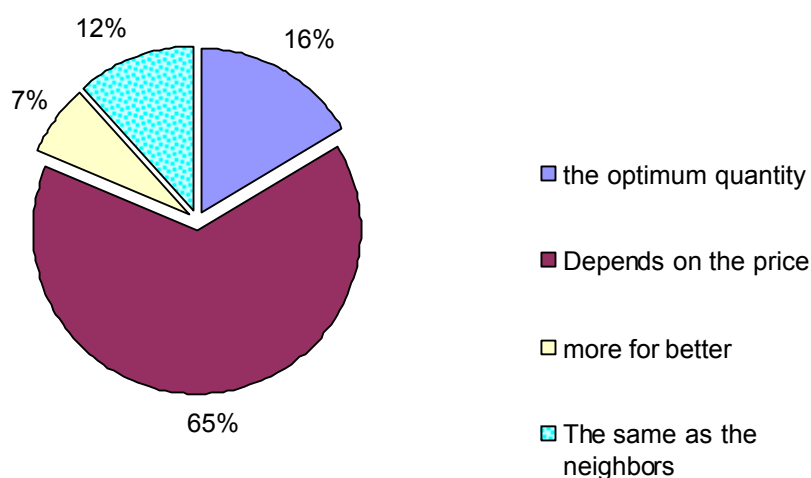


Chart no. 5. *Reasons for using the quantity of fertilizer*

To draw a parallel between the way chemical substances were used on agriculture lands in the past and the way they are done at present, we asked the people working in agriculture *what kind of manure they used 20-25 years ago*. Half of the questioned ones are over 50 years old and 24 % are between 40 and 50, the others being younger.

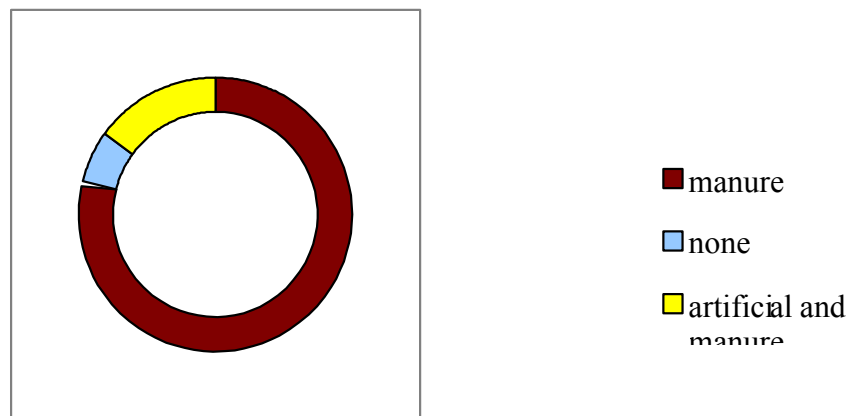


Chart no. 6. *The share of fertilizers types used 20 years ago*

79% of the villagers said that they had used manure, 6% hadn't used any kind of fertilizer and only 15% had used manure combined with artificial fertilizers.

As the economic activity is concerned, 47% sell occasionally the products they grow, 37% usually sell vegetables, fruits or cereals in markets or in front of the entrance gate.

4. Conclusions:

After the application of the performed study, we can synthesize that:

1. 1/3 of the interviewed have never done analyses of the water they consume from their wells;
2. Of the interviewed people working in agriculture, only 6% use strictly natural fertilizers and 70% combine the two types, which is however better than the exclusive use of the chemical substances;

3. Also 6 % answered that they use natural fertilizers, or that they combine chemical substances with manure for an ecological agriculture, for health.
4. Almost half of those interviewed fertilize the land as it is ideal, meaning in spring and autumn, but a quarter fertilize the land in summer, too. This doesn't have good effects and harms the environment, the plants and those who consume them.
5. 96% have never measured the quantity of nitrate from the soil. It would be very important to perform such measurements because for many times the land has the sufficient quantity of nutrients.
6. Concerning the economic activities, 47% sell their products occasionally, 37% sell annually vegetables, fruits and cereals in markets or in front of their entrance gate.

Compared to the year 2000, the quantity of chemical fertilizer/ ha has increased by over 8 kg/ha in 2004, at the expense of the natural one which has decreased by 1,2 tones/ha. The use of artificial fertilizers has increased not only quantitatively/ha but also extensively as chemical fertilizers are used for 10,000 more hectares than four years ago. The surface of the land fertilized with manure has also extended by almost 10,000 ha but the quantity of manure has decreased.

Compared to the average quantity of fertilizer calculated on the county level for a period of 4 years, this is exceeded with 70kg of artificial fertilizer/ha.

As a rule, by agriculture “modernization” we think of mechanization, artificial fertilization, irrigation, etc. From an ecological point of view, at present modernization should mean for the more developed states the transfer to bio-agriculture, the reduction or even gradual giving up to “industrial” agriculture characterized by monocultures, massive fertilization and use of genetically modified plant breeds, no matter how tempting the “abundant crops” could be [5, p98]. And of course stress should be laid on the problem of water for preventing the pollution of the water table, soil salination, swamping or the overuse of water by too pretentious plants. On the other hand, the “modernization” of agriculture practices doesn't mean only production increase but also holding down practices that harm the environment for the simple reason that this affects the quality of life.

In the context of sustainable development, the increase of performances shouldn't be made by laying stress on intense artificial fertilization or mechanization because this would mean to repeat the mistakes and the exaggerations made by the developed countries where they are now working on correcting the effects [2, p.246]. For this purpose it is necessary to better inform the people who grow different plants; this informing should primarily be made through mass-media. The documentaries, the articles and the publications on agriculture matters should insist on ecological agriculture and on the effects of the uncontrolled use of chemical substances on consumers' health and on soil and waters.

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ANNEX: Questionnaire

1. From where do you usually drink water?

- a. From the well
- b. From the spring
- c. From a supplying network

2. Have there been made analyses to the water you consume?

- a. Yes
- b. No
- c. I don't know

3. What have the analyses results been?

- a. Good, the water is drinkable
- b. The water is not good
- c. I don't know

4. What are the plants you cultivate on your land?

- _____
- _____

5. What type of fertilizer are you using at present?

- a. Natural
- b. Artificial
- c. I don't use any type of fertilizer

6. Why do you use a/b fertilizer?

- a. Because of lack of money
- b. For increasing production
- c. For an ecological agriculture
- d. Other reasons.....

7. How many times a year do you fertilize the land?

- a. Once
- b. Twice

- c. Several times

8. In what seasons do you usually manure the land?

- a. In spring
- b. In summer
- c. In autumn
- d. In winter

9. If you use artificial fertilizers what type are they?

- a. Complex
- b. Nitrate based
- c. Potassium based
- d. Phosphate based

10. Have you ever measured the quantity of the nitrate from the soil?

- a. Yes
- b. No

11. If yes, between what periods of time do you measure the nitrate quantity?

12. What quantity of fertilizer do you use per hectare, according to the crops?

13. Why do you use the above quantity?

- a. This is the optimum quantity for the crop
- b. The used quantity depends on the fertilizer's cost
- c. I use a bigger quantity than necessary for getting better effects
- d. This is the way my neighbors fertilize the land

14. Try to remember how you used to fertilize the land 20 years ago.

- a. I used chemical fertilizers
- b. I used natural fertilizers
- c. I didn't use any fertilizer

15. What is the surface of the arable land you own?

- a. Under half a hectare

- b. Between half a hectare and one hectare
- c. Between 1 and 2 ha
- d. Between 2 and 5
- e. Over 5 ha

16. In what village do you live?

17. How old are you?

- a. Between 20 and 40
- b. Between 40 and 50
- c. Over 50

18. Do you usually sell the products you grow?

- a. Yes, most of them in the market
 - b. Yes occasionally, a part of them
 - c. No, never
-

TRADE LIBERALISATION AND ECONOMIC PERFORMANCE

Associate Professor PhD. Mirela MINICĂ, „Eftimie Murgu” University, Reşiţa
Assistant Jeanina Biliana CIUREA, „Eftimie Murgu” University, Reşiţa

Abstract

Trade liberalisation has been a prominent component of policy advice to developing countries for the last two decades, and among the benefits claimed to spring from it, economic growth is probably the most important. And yet economists continue to argue about, and conduct research on, the connection between them. This paper samples the resulting literature with a view to assessing the current state of the evidence that trade liberalisation enhances growth and identifying the key steps in actually reaping such benefits.

The paper comprises two parts. The first considers some of the empirical evidence linking trade liberalisation and openness to trade on the one hand with higher incomes and economic growth on the other. The evidence suggests that openness enhances growth, at least over the medium term, but the methodological problems preclude our being wholly certain. Cross-country studies face problems in defining and measuring openness, in identifying causation and in isolating the effects of trade liberalisation. Case-studies avoid some of these problems but cannot confidently be generalised.

Attempts to model the links explicitly - specifically to relate productivity to openness - face similar problems of identification, but on the whole provide a somewhat more convincing account of the benefits.

Part 2 considers explicitly the role of other policies and institutions in connecting openness and income. While trade liberalisation alone is unlikely to be sufficient to boost growth significantly, in two important dimensions - corruption and inflation – it appears to improve other policies. The paper then stresses the importance of investment - and hence of other policies affecting investment - in translating trade liberalisation into growth, and the importance of institutions in permitting growth. I argue that openness can enhance institutional development, although not through the external imposition of institutions on unwilling developing country governments. The final sub-section of the paper briefly considers the implementation of trade liberalisation. It stresses the virtues of simple trade policy (e.g. uniform tariffs) as a means both of achieving transparency and predictability and of releasing skilled administrative and political resources for other tasks. I argue that while a binding commitment to liberalisation should not wait for other policies to be in place, the timing of liberalisation should recognise possible interaction with other policies.

1. Trade Liberalisation and Growth: the Evidence

1.1 Levels vs. Growth Rates

The literature on trade and growth is rather casual about which of levels or changes it is referring to. The most obvious relationship is that from openness to the level of income. Simple theory predicts a positive relationship, at least if we can measure real income appropriately, although the situation becomes more complex once one allows for effects such as those on the capital, dynamic comparative advantage and agglomeration.¹ If there is such a relationship, taking first differences

¹ Real GDP is a poor measure of the gains from trade. It misses the consumption gains and, by valuing output and pre-reform prices, under-estimates production gains.

of it gives us one between trade liberalisation and the growth of income, and, as noted above, this could actually be very long-lived.

More recent theory, has also explored whether openness could affect steady-state growth rates. Thus, for example, if greater competition or exposure to a larger set of ideas or technologies increased the rate of technical progress, it would permanently raise growth rates. This is an immensely attractive view of the world, but one which is difficult to maintain empirically. Jones (1995), for example, argues that since the US growth rate has displayed no permanent changes over the period 1880-1987, one must conclude either that it cannot have been determined by factors that change substantially, such as trade policy or openness, or that changes in such factors have been just off-setting, which is not very credible.² More positively Hall and Jones (1997) argue that "there is a great deal of empirical and theoretical work to suggest that the primary reason that countries grow at such different rates for decades at a time is *transition dynamics*" (italics in original, p. 173). Solow (2001) also makes the same point and it is the starting point for what follows.

1.2 A Priori Reasoning

If the growth effects of trade liberalisation are "just" transitional dynamics, it is still worth asking how large they are likely to be. Suppose that the transition is spread over, say, twenty years, the issue is essentially what is the income gain due to liberalisation.

Simple Harberger triangles from a competitive model rarely identify losses from trade restrictions larger than 2% of GDP. These are far too small to produce significant changes in growth, but there are several reasons for expecting more.

Recognising some rectangles, as in Krueger's (1974) model of rent-seeking, considerably increases the static gains. Similarly, if we add imperfect competition to the model the consumption and production gains from trade reform will tend to

increase. For example, in CGE modelling exercises, adding in increasing returns and large group monopolistic competition often more than doubles the estimated effects of trade reform (e.g. Francois, McDonald and Nordstrom, 1996). If one assumes small group models of oligopoly – surely more appropriate to developing countries – the gains are usually larger still as rationalisation effects occur (e.g. Rodrik, 1988, Gasiorek, Smith and Venables, 1992). Allowing investment and the capital stock to increase following the efficiency gains from trade liberalisation, as in Baldwin (1992), further doubles or trebles the estimated GDP effects (although not the welfare effects), see, for example, Francois, McDonald and Nordstrom (1996) or Harrison, Rutherford and Tarr (1997).

According to Romer (1994) the principal effect of trade restrictions is to reduce the supply of intermediate goods to an economy. Recognising that this can have infra-marginal effects on productivity he argues that overlooking this effect leads to a several-fold under-estimate of the production penalty of protection. Romer’s effect will show up in the data as a positive relationship between trade liberalisation and productivity and one can think of further reasons why opening trade may give a one-off boost to productivity – e.g. competition stimulating technology adoption and adaptation, or the elimination of x-inefficiency.

The upshot of all this is that, while eliminating Harberger triangles alone seems unlikely ever to boost transitional growth rates detectably, more sophisticated models of international trade do appear to promise gains that would be significant over two or three decades. One direct verification of this is Rutherford and Tarr (2002) who implement a ‘Romeresque’ model over a more-or-less infinite horizon.³ They find that reducing a uniform 20% tariff to 10% increases the underlying steady-state growth rate of 2% p.a. to 2.6% p.a. over first decade and 2.2% p.a. over the first five decades, and that even after these fifty years the annual growth rate is 2.1% p.a.

² Jones finds the same constancy of growth in other OECD countries once he allows for a gradually subsiding post-world-war II catch-up.

³ They model a 54 year horizon explicitly and set end conditions to roughly reflect optimisation to infinity.

None of this modelling guarantees significant returns to trade liberalisation, but they do suggest that is worth looking for them empirically. Moreover, although Rutherford and Tarr's model contains only level effects and transitional dynamics, their very long duration suggests that it will be difficult to distinguish them from changes in steady-state growth rates empirically, especially in post-war data. Given that levels of openness reflect previous trade liberalisation (since all economies were pretty closed in 1945), it is easy to imagine empirical studies that link openness to observed growth rates even though over an infinite horizon it should have no such effect. For this reason in discussing the various results from this literature below I do not make much out of whether they relate openness or liberalisation to growth, although of course in principle it is a very important distinction.

2. The Direct Evidence

Over the 1990s the conviction that trade liberalisation or openness was good for growth was fostered by some visible and well-promoted cross-country studies, e.g. Dollar (1992), Sachs and Warner (1995), Edwards (1998) and Frankel and Romer (1999). These, however, received, and by and large deserved, pretty severe criticism from Rodriguez and Rodrik (2001), who argue, inter alia, that their measures of openness are flawed and their econometrics weak.

Establishing an empirical link between liberal trade and growth faces at least four difficulties – see Winters (2000a). First, there is the definition of 'openness'. In the context of policy advice, it is most directly associated with a liberal trade regime (low tariffs, very few non-tariff barriers, etc), but in fact that is rarely the concept used in empirical work. Thus, for example, Dollar's (1992) results rely heavily on the volatility of the real exchange rate, while Sachs and Warner (1995) combine high tariff and non-tariff measures with high black market exchange rate premia, socialism and the monopolisation of exports to identify non-open economies. Pritchett (1996) shows the trade indicators are only poorly correlated with other indicators of openness, while Harrison (1996), Harrison and Hanson (1999) and

Rodriguez and Rodrik (2001) show that most of Sachs' and Warners' explanatory power comes from the non-trade components of their measure.⁴

Second, once one comes inside the boundary of near autarchy, measuring trade stances across countries is difficult. For example, even aggregating tariffs correctly is complex - see Anderson and Neary (1996), whose measure depends on imports being separable from domestic goods and services and on an assumed elasticity. Then one needs to measure and aggregate quantitative restrictions and make allowances for the effectiveness and predictability of enforcement and collection. Such measurement problems are less significant for panel data measuring changes in trade policy for a single country, although even here Anderson (1998) shows that different measures point in different directions. Nonetheless, Vamvakidis' (1999) results, based on a forty year panel for over one hundred countries, are more convincing than those of purely cross-section studies. Vamvakidis concludes that multilateral liberalisations over the period 1950-89 were associated with increases in rates of growth, while discriminatory regional trading agreements were not.⁵

Third, causation is extremely difficult to establish. Does trade liberalisation result in, or from, economic growth? Frankel and Romer (1999) and Irwin and Tervio (2002) address this problem by examining the effects of the component of openness that is independent of economic growth. This is the part of bilateral trade flows that is explained by the genuinely exogenous variables: population, land area, borders and distances. This component appears to explain a significant proportion of the differences in income levels and growth performance between countries, and from this the authors cautiously suggest a general relationship running from increased trade to increased growth. The problem, however, as Rodriguez and Rodrik (2001) and Brock and Durlauf (2001) observe, is that such geographical variables could have effects on growth in their own right, and that this alone could explain the

⁴ The use of policy-measures equates trade liberalisation with laissez-faire, but for outcome measures, e.g. trade shares, openness might be induced or at least accompanied by considerable intervention, as, for example, is asserted to have applied in East Asia, e.g. Rodrik (1995, 1997).

⁵ Vamvakidis considers liberalisations only up to 1989 in order to leave enough post-reform data to identify growth effects.

significance of the instrumental estimate of trade constructed out of them. For example, geography may influence health, endowments or institutions, any one of which could affect growth. These concerns have, however, recently been answered by Frankel and Rose (2002) who repeat the instrumental variables approach of Frankel and Romer and show that the basic conclusion is robust to the inclusion of geographical and institutional variables in the growth equation. This suggests that openness does indeed play a role even after allowing for geography.⁶

Causation is a particular problem in studies that relate growth to openness measured directly - usually, these days, as (exports + imports)/GDP. Such openness could clearly be endogenous for both the export and the import share seem likely to vary with income levels. It could also be a threat even when one works with directly measured trade policy, such as average tariffs, for, at least in the short run, the pressure for protection increases as growth falters - see, for example, Bohara and Kaempfer (1991).

The fourth complication is that for liberal trade policies to have a long-lived effect on growth almost certainly requires their combination with other good policies such as those that encourage investment, allow effective conflict resolution and promote human capital accumulation. Unfortunately the linear regression model, which is standard to this literature, is not well equipped to identify the necessity of variables rather than their additivity in the growth process. Hints of the importance of these policies, however, can be found in exercises identifying the structural relationships through which openness effects growth. Thus, for example, Taylor (1998) and Warziarg (2001) both find that investment is a key link and thus imply that poor investment policies could undermine the benefits of trade liberalisation.

I return to other policies below, but two methodological points might usefully be made at this stage. Brock and Durlauf (2001), in a fairly complex discussion of the the statistician's concept of exchangeability, argue that growth theory is too open to be adequately tested with the economists' traditional regression tools. There are too

⁶ I return to this issue in section 2.4 below.

many potential variables and too little theory about model structure to allow classical inference to work. Moreover, they argue, the usual search for robustness - the significance and consistency in sign of a particular variable across a range of specifications - is futile if the true determinants of growth are, in fact, highly correlated. Rather, Brock and Durlauf suggest using policy-makers' objectives to identify the trade-offs between different types of error, and from this conducting specification searches and estimation in an explicitly decision-theoretical way, recognising the wide bounds of uncertainty. This is challenging advice, which has yet to be applied to the role of trade liberalisation in growth, but it is a salutary warning about just how cautious we should be about growth econometrics.

The second general observation comes from Baldwin (2002), who argues that the quest to isolate the effects of trade liberalisation on growth is misguided. He argues that trade liberalisation has never been advanced or implemented as an isolated policy so that the only useful question is how it fares as part of a package including, say, sound macro and fiscal policies. Baldwin concludes that, in this context, openness is a positive force for growth. There are clearly questions as to what such packages comprise and it is not difficult to invent examples in which the benefits of other policies are mis-attributed to trade policy. Nevertheless, that liberal trade policy generally has a role within effective stabilisation and structural packages seems hard to deny completely.

Despite the econometric difficulties of establishing beyond doubt from cross-sections that openness enhances growth, the weight of the evidence is quite clearly in that direction. Jones (2001) offers a measured assessment and one might also note the frequency with which some sort of openness measure proves important in broader studies of growth - e.g. Easterly and Levine (2001). Certainly, there is no coherent body of evidence that trade restrictions generally stimulate growth, as even Rodriguez and Rodrik concede. The question, then, is where else can we turn for evidence?

First, there is further evidence from detailed case studies of particular countries and/or growth events. Pritchett (2000) argues that these offer a more promising approach to empirical growth research than do cross-country regressions, and Srinivasan and Bhagwati (2001) chide the economics profession for forgetting these in their enthusiasm for the latter.⁷ Case studies find a wide variety of causes and channels for growth, and frequently find openness at the very heart of the matter – see, for example, the NBER study summarised in Krueger (1978). As before, however, the case for openness in general is stronger than that for trade liberalisation alone.

3. The indirect evidence - Trade and Productivity

Second, there is also indirect evidence that examines the steps in the causal relationship between trade liberalisation and growth. The main issue here is the effect on productivity. An influential cross-country analysis is Coe, Helpman and Hoffmaister (1997). Developing countries are assumed to get access to their OECD trading partners' stocks of knowledge (measured by accumulated investment in R&D) in proportion to their imports of capital goods from those partners. Thus import-weighted sums of industrial countries' knowledge stocks are constructed to reflect developing countries' access to foreign knowledge. Coe et. al. find that, interacted with the importing country's openness, this measure has a statistically significant positive effect on the growth in total factor productivity (TFP).

While these results are instructive, Coe et. al. do not formally test trade against other possible conduits for knowledge, and Keller (1998, 2000) has suggested that their approach is no better than would be obtained from a random weighting of countries' knowledge stocks.⁸ One way of reconciling these conflicting results is to relax the strong bilateralism in Coe et. al.'s access to knowledge measure. The latter

⁷ They argue that Rodriguez and Rodrik's strictures on the cross-country studies should not undermine one's confidence that openness enhances growth, because that view should never have been based on those studies in the first place.

⁸ Coe and Hoffmaister (1999) have, however, challenged the randomness of Keller's 'random' weights.

implies that the only way for, say, Bolivia to obtain French knowledge is to import equipment from France. But if the USA imports from France (and so, by hypothesis, accesses French knowledge), then Bolivia's imports from the USA should give it at least some access to French. Lumenga-Neso, Olarreaga and Schiff (2001), who advance this explanation, show that recognising such indirect knowledge flows offers a better explanation of productivity growth than any of the earlier studies.

A second approach to the link between trade liberalisation and productivity is cross-sectoral studies for individual countries. Many of these have shown that reductions in trade barriers were followed by significant increases in productivity, generally because of increased import competition, see, for example, Hay (2001) and Ferriera and Rossi (2001) on Brazil, Jonsson and Subramanian (1999) on South Africa, and Lee (1996) on Korea. Kim (2000), on the other hand, also on Korea, suggests that most of the apparent TFP advance is actually due to the compression of margins and to economies of scale. Import competition makes some contribution via these effects, and also directly on "technology", but overall Kim argues that it was not the major force.

The sectoral studies relate a sector's TFP to its own trade barriers and thus imply that competition is the causal link. But for general liberalisations it is likely that barriers on imported inputs also fall and this could be equally important. At an aggregate and sectoral level Esfahani (1991) and Feenstra et al (1997) suggest such a link, as do Tybout and Westbrook (1995) at the firm level. The last suggest, for Mexico over 1984-90, that there were strong gains from rationalisation (the shrinking or elimination of inefficient firms), that cheaper intermediates stimulated productivity, and that competition from imports stimulated technical efficiency (with the strongest effects in the industries that were already the most open).

Firm level data also allow us to test the perennial claim that exporting is the key to technological advance. While macro studies or case-studies have suggested links to productivity, enterprise level data have shown a much more nuanced picture. Bigsten et al (2000) find positive stimuli from exports to productivity in Africa, and

Kraay (1997) is ambiguous for China; Tybout and Westbrook (1995) and Aw, Chung and Roberts (1999), however, find little evidence for them in Latin America and Asia, respectively. The fundamental problem is, again, one of causation: efficiency and exporting are highly correlated because efficient firms export⁹. Hence researchers must first identify this link (by carefully modelling the timing of changes in exports and productivity) if they are then to isolate the reverse one. Tybout (2000) suggests that the differences between his results and those on Africa and China may arise because data shortages obliged the latter pair to use much simpler dynamic structures than he used.

I return now to the substantive aspects of the interaction between trade liberalisation and other policies in generating economic growth. Liberal trade policies are likely to boost income most circumstances, because they enlarge the set of opportunities for economic agents,¹⁰ but a long term effect on growth requires combination with other good policies as well. The latter point is regularly made by the Bretton Woods institutions in their policy advice, although Mosley (2000) argues that their attempts to prove it have not been very successful.¹¹

It is now widely recognised that institutions play a pivotal role in economic growth and development. This sub-section briefly examines the interactions between institutions and openness. Early contributions identifying the centrality of institutions came from luminaries such as Douglass North and Mancur Olsen – see North (1990) and Olsen (1996) for summaries. However, in the context of openness and growth the main protagonist has been Rodrik.

This paper has documented the strong presumption that trade liberalisation contributes positively to economic performance. For a variety of reasons, the level of proof remains a little less than one might wish, but the preponderance of evidence

⁹ The same causation difficulty arises in interpreting the observation that where a region exports heavily, all firms are more productive: is it positive spill-overs or comparative advantage?

¹⁰ The main exception is in the presence of severe second-best complications.

¹¹ Mosley goes on to argue that growth responds positively to higher levels of effective protection (at least in poorer countries). Unfortunately, however, his empirics seem flawed. Effective protection is significant only when weighted by total factor productivity (TFP) growth, which is clearly likely to be correlated with growth itself.

certainly favours that conclusion. Part of the benefits of trade liberalisation depends on other policies and institutions being supportive, but there is also evidence that openness actually induces improvements in these dimensions. Given that trade liberalisation is administratively simple to implement – indeed a transparent and liberal policy releases administrative resources for other tasks – the case for making it part of a pro-growth policy cocktail is very strong.

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DOMESTIC CURRENCY REDENOMINATION – COMPARATIVE ANALYSES IN DEVELOPING COUNTRIES

Lecturer Alina Mihaela DIMA, Academy of Economic Studies, Bucharest

This paper investigates the conditions under which developing and transitions countries engage in currency redenomination. Given that many governments of developing countries experience high levels of inflation and deterioration in their currency's value against other currencies, why do some choose to redenominate, while others not? And why do some governments wait many years after a bout of hypersinflation or after their cuurrency is priced at 1000 or 5000 units to the dollar, to redenominate, while others do so relatively quickly? Explanations rest in a combination of economic and political factors, including inflation, governments' concerns about credibility, and the effect of currencies on national identity. Using a set of data for developing and transition countries covering the 1960-2003 period, we could find that inflation is an important predictor of redenomination, but this is also related to political variables, including governments' time horizons, the governing party's ideology, the fractionalisation of the government and legislature and the degree of social heterogeneity.

The past experience in redenomination

Since 1960, governments of developing and transitions countries have redenominated their currencies on approximately seventy occasions. These redenominations generally involve reducing the value of the currency by a factor of ten. For instance, in January 2005, Turkey replaced its currency (the lira) with the new Turkish Lira (YTL), with a conversion rate of one million old lira to one new lira. And in July, Romania introduced a new heavy version of its currency, the leu, with four fewer zeros. In both cases, governments noted that redenomination would send a signal to citizens, as well as to the international community, that economic policy mistakes were in the past.

While decision about denomination and design of currencies may seem more technical than political, a government's control and administration of its currency, and more broadly, of transactions within its boundaries, is one of the hallmarks of the modern nation state. Governments began to achieve such monetary control in the mid-nineteenth century; today many struggle to maintain this control, particularly in the face of civil conflict or economic collapse. Currency redenomination, then may come as part of a broad package of economic and political reforms, as was in case of Afghanistan in October 2002; following years of decline in the currency's value, a new afghani was introduced, with three zeros removed. The introduction was meant to herald, along with a series of other measures, the emergence of Afghanistan from years of civil conflict and its movement toward modern nationhood.

Currency redenomination also can be a means by which governments attempt to reassert monetary sovereignty. If citizens lose confidence in the national currency, they may begin to use foreign currencies, particularly those with greater prestige. This may be both a psychological and economic blow to the government: with widespread foreign currency substitution (or more extremely full dollarization), the central bank no longer controls the money supply, rendering it unable to provide lender of last resort functions. Economic policy is influenced not only by international capital markets, but also by foreign central banks. Currency

redenomination then is a means by which governments can attempt to reverse this currency substituting behaviour: if citizens are confident that the new Turkish lira will hold its value, they may be willing to shift from using euros and dollars to using lira.. While the act of dividing a currency's value by a factor of ten is somewhat symbolic, it also can help to convince citizens of currency's worth. As a result, redenomination often occurs after economic crisis, as governments attempt to convince citizens and markets that hyperinflation is a thing of the past. In some cases, the timing is correct, in that redenomination caps off high level of inflation. In other cases, governments are not able to reign in inflation immediately after redenomination, and they may make multiple efforts at currency reform. Argentina and Brazil during the 1980s and 1990s exemplify this pattern.

Redenomination has a long history: in the 19th century, when governments faced shortage of gold and silver, they sometimes adjusted the value of their coins accordingly. Among developing and transition countries, currency redenomination was employed on 60 occasions during 1960-2003 period. These redenominations varied in size, from removing one zero from the currency to removing six zeros. The median redenomination was three zeros, dividing currency by 1000. Nine countries have used redenomination on one occasion, while ten countries have redenominated twice (sometimes with many years in between, as in Bolivia, in 1963 and 1987; in other cases, redenominations follow rather quickly, as in Peru in 1985 and in 1991, Argentina (4), the former Yugoslavia/Serbia (5), and Brazil (6) are the most frequent users of redenomination.

The perspective of Romanian redenomination based on other countries' experience

The process of denomination of the existent national currency (ROL) in the new national currency, the new leu (RON), started on March 1st, 2005 and will end on December 31st, 2006. Starting with the first day of 2007, the national currency will be exclusively the new leu (RON).

Beginning with 1 July 2005, the the national currency has lost four zeros, thus making an important step towards the adoption of the European single currency, expected to occur in approximately seven years' time.

The event through which ROL gains increased credibility with foreigners is very important for both financial markets and for the population, its advantages including a significant reduction of banks and business operators' operational costs, and simplification of people's lives. While introduction of the hard leu "simplifies" all operations conducted with this currency, the impact on the population is still questionable, as there are fears it would lead to prospective price round-off and difficulties with calculations in cash payments. Officials for the National Bank of Romania (NBR) have repeatedly stated that there are no reasons to fear price round off will occur: the dual price display, as of March 1, in both the old and the new currency, counteracts any attempt made by retailers to raise prices.

The new money coming into circulation will be used in parallel with the old ones until December 2006, as retailers will be bound to accept both types of currencies.

The denomination process is, essentially, a test for the banking system's stability and flexibility, for financial mechanisms, business operators and the population. The new leu also simplifies the future adoption of euro, the psychological impact upon the population being significantly diminished. On short term, some additional costs will be incurred, related to the new technological requirements for the implementation of the new currency. On medium and long-term, the production, transport and processing costs for Central Bank and for the Romanian banking system will decrease considerably.

Romania is not the only country to appeal to this kind of process. Recently, another country with views towards the EU's integration, Turkey went over through a similar process of denomination. A number of economic crises in the 1970's and policies instituted throughout the 1980's and 1990's were factors that led to high, chronic inflation in Turkey. The Central Bank of Turkey had a difficult time stabilizing interest rates due to the inflation, and, the subsequent short-run capital

flows that were visible through large public-sector borrowing and the floating exchange rate. Reforms attempt to control inflation often failed. The combination of failed reforms and high inflation led to increasing demand for cash, which was temporarily solved by introducing banknotes in larger denominations. Since 1981, larger denominated banknotes have been put into circulation almost every two years. As a result, the highest denominated banknote of 20,000,000 is used only in Turkey. This fact had a negative effect on credibility of the currency and has proven to be technical problem for accounting and statistical records, data processing software and payment systems as well as transactions for cashier offices. With inflation finally coming down and the market becoming more stable, the Turkish Government submitted plans in September 2003 to re-denominate the Turkish Lira. The benefits of removing zeros from Turkish Lira were numerous. The technical and operational problems arising from the use of figures with multiple zeros were solved. Inflation is better comprehended in single digits, and the credibility of the currency was restored

Rationales for redenomination

Why do governments engage in the redenomination of their currencies? One can suggest that there are two types of redenomination. The more common case in which redenomination is motivated by hyperinflation and the less common case, when redenomination is motivated by the governments' desire to squeeze additional resources from society. This does not predict that democratic governments will be more likely, in general to redenominate; but it does suggest that redenomination in the absence of high inflation is more likely in authoritarian societies, or during instances of civil conflict (as in Nicaragua in 1998 or in Rwanda in 1993).

Governments often are interested in establishing their credibility in establishing a commitment to low inflation to their own citizens. Enhanced credibility can improve a government's electoral fortunes, as citizens reward economic growth and macroeconomic discipline. For countries that seek to join regional currency areas (e.g. EMU), assuring international markets of their commitments is essential. Romania's central bank, for instance, portrayed its redenomination as indicating that

the days of hyperinflation are over and the new currency will help keep things that way. Romania has established a goal of joining EMU by 2012, and a currency that was worth 29,890 to the dollar was seen as an impediment to doing so.

The use of redenomination as a means of improving credibility is ultimately an account rooted in domestic politics. Governments want to keep inflation low because they are rewarded by voters for strong economic performance, and low inflation helps the economy. Alternatively, governments want to impress international markets, as this allows them to borrow more cheaply and to attract foreign investment, which in turn facilitates governments spending and domestic economic growth.

Many observers view money largely as a medium of exchange: territorial currencies are instruments that facilitate transactions in the economy and assist governments in macroeconomic management, while also providing revenue at the time of printing. Others take a broader view of national currency: it not only facilitates economic interactions, but also affects citizens' identity and subsequently the legitimacy of the national government.

The economists expect that currency substitution will be more widespread as financial globalization intensifies. Financial globalisation places national currencies into direct competition with one another, and financial openness allows citizens to engage more easily in currency substitution. A recent study reports that in the mid-1990s, foreign currency notes accounted for 20 percent or more of the local money stock in more than thirty nations; another study cited 18 nations in which foreign currency comprised at least 30 percent of the broad money supply.

The potential symbolic link between currency and respect for the national government also suggests that different types of societies will be more or less willing to engage in redenomination, as a means of reestablishing the value of their territorial currency. That why, maybe, in heterogeneous societies, where building a common national identity is more challenging, governments will be particularly anxious to promote the use of national money. And in the newly independent nations, where

national identity is quite nascent, governments will want to ensure that citizens see the territorial currency as credible.

For those nations that adopt redenomination as a strategy and particularly those that redenominated at the end of an economic reform process, there are substantial variations in timing. The lag between the appearance of high inflation or of high local currency/dollar ratios, and the removal of zeros from the currency varies. Poland for instance, experienced its highest levels of inflation in 1989 and 1990. redenomination did not occur until 1995. Similarly, Romania's inflationary years were in the early and mid-1990s, but its redenomination occurred in July 2005, perhaps more as a signal of its interest in taking part in EMU than as an effort to reassure its citizens that hyperinflation was no longer a threat.

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**CONSIDERATIONS REGARDING THE EMERGENCE OF
TRANSYLVANIAN ROMANIAN BANKING CLERK ELITES AT
THE BEGINNING OF THE 20TH CENTURY
CASE STUDY**

Professor PhD., Vasile DOBRESCU, “Petru Maior” University of Tîrgu-Mureş

Keywords: elites, banks, modernity

Establishing a connection between the already published scholarly literature and the balance sheets and statistic tables of the Romanian banks, the present article will refer to the emergence and the growing evolution of the personnel within the Transylvanian trading-financial and crediting field, particularly to their intellectual background. Following the statistic printed in Anuarul Bancilor Romane [The Yearbook of the Romanian Banks] for the year 1913, we gain the best possible evidence regarding the socio-professional as well as the education's level of the 201 managers, attaché managers or high clerks in charge of the 152 national crediting institutions and their branches. We notice that despite of a considerable number of financial teaching institutions from the Austrian-Hungarian monarchy, the big majority of the banks managers had other professional training than that required. Thus, most principals of the banks had studied law or theology, which demonstrates the traditional mentalities of the Romanians and talks about the prestige conferred to these jobs that guaranteed the acceptance among the middle class.

The scholarly literature – articles or monographs - dedicated to the evolution of the Romanian credit system from the Austrian-Hungarian monarchy, quantitatively represented by a number of 168 banks and 104 credit cooperatives, concentrated its interest mainly in the system’s organization and management, highlighting the consequences and the implications within the modernization process underwent by the Transylvanian society¹.

Investigations concerning the professional qualification of the staff catering for these financial-banking institutions were only secondarily made, even though some attempts in this regard can be traced in the literature dating from the beginning of the 20th century. This interest was initiated mainly by the contemporary clerks in their stringent need to answer some organizational problems, as well as to delineate their social status, as practitioners of a special profession, from that of the head of the banks, already represented in the Management and Audit Committees².

The spectacular boost in the number of the Romanian banks registered at the end of the 19th century - 75 in 1898 to 168 at the break of the First World War -, not including the number of the cooperatives of credit, and the diversification and amplification of the financial operation’ levels, determined a quantitative increase in the number of clerks. This phenomenon automatically led to a more severe selection undertaken by the head offices of the banks, which started recruiting their personnel according to the applicants’ experience and professional skill. Contemporary statistics printed in *Anuarul băncilor române* (The Romanian Banking Yearbook) and in *Revista economică* (The Economic Review), offer a valid outlook of the number of clerks. Though, it is worth mentioning that these statistics also collected the information corresponding to the cooperatives of credit which used to publish their balance sheet.

¹ Nicolae N. Petra, *“Băncile româneşti din Ardeal şi Banat”*, Sibiu, 1936; Mihai Drecin, *“Banca “Albina” din Sibiu”*, Ed. Dacia, Cluj Napoca, 1982; Vasile Dobrescu, *“Sistemul de credit românesc din Transilvania” 1872-1918*, Ed. Universităţii Petru Maior, Tîrgu Mures, 1999; Lucian Dronca, *“Băncile româneşti în perioada dualismului austro-ungar (1867-1918)”*, Presa Universitară Clujeană, Cluj Napoca, 2003.

² *“Calendarul portativ al funcţionarilor de banca români pe anul 1910”*, Anul II, redactat de Vasile Babi, Arad, 1909, p. 43-73.

Thus, for some years i.e. 1891/1899 had been registered 260 clerks³, in the year 1904 their number reached 424⁴, while in 1909 and 1910 one could count 658 respectively 702⁵ clerks hired by the Romanian banks and cooperatives of credit which have published their balance sheet corresponding to the fore mentioned years in *Anuarele băncilor române*. Referring to the global estimation of the number of clerks for the year 1918, Nicolae Petra Petrescu (a senior Romanian bank' clerk) believed that the personnel of the Romanian banks and cooperatives of credit exceed 1000 persons⁶.

Investigating the accounts provided by the *Anuarul băncilor române* from 1913, which mentions the foundation of two more banks and of three cooperatives of credit, one could count 152 trading banks with a staff of 927 persons, including the 38 employees labeled as servants⁷. Part of the servants had to fulfill activities like the maintenance of the banking institutions, security activities, other of warehouse men and carriers, therefore, frequently enjoying the income advantages of the low clerks, sometimes being assimilated to their status, as happened in the internal regulation of some banks such as Bistriţeana Bank.

Their intellectual background, economic potential, as well as their social and political goals placed most of the banking clerks within the intellectual elite, their economic independence conferring them a position within the Romanian middle class. On the other hand, thanks to their front position within the Romanian credit system even though their share ownership remained quite limited, clerks contributed directly and decisively to the modernization of the Romanian financial banking system. This modernization process had been already initiated by the leaders of the banks at the beginning of the 20th century in the context of positive evolution of the institutions to

³ Mihai Drecin, "*Date pentru un repertoriu al funcţionarilor români de bancă din Transilvania epocii moderne*", in *Studii de istorie. Omagiu profesorului Camil Mureşanu*, Cluj Napoca, 1998, , p. 318; Arsenie Vlaicu, "*Institutele noastre financiare*", in *Revista economică*, Sibiu, I, 1899, nr. , p. 5-12.

⁴ Vasile Dobrescu, "*Sistemul de credit românesc din Transilvania 1872-1918*", Ed. Universităţii Petru Maior, Tîrgu Mureş, 1999, p. 45, *Revista economică*, Sibiu, 1904, nr. 2, p. 66.

⁵ "*Calendarul portativ al funcţionarilor de bancă români pe anul 1909*", Anul I, întocmit de Vasile Babi, Arad, 1908, p. 156, şi "*Calendarul portativ ...*", pe anul 1910, Anul II, Arad, 1909, p. 168.

⁶ Nicolae Petra Petrescu, "*Societăţii financiare la românii din Ungaria, Chişinău*", 1918, p. 10.

⁷ "*Anuarul bancilor romane*", Anul XVI, Sibiu 1914, p. 2-173, 183-184, 252-255.

such parameters compatible with the modification visible on the financial market, at the same time trying to answer the competition of other banks. Not surprisingly, the initiative of the reformation of the Transylvanian Romanian credit system belonged to the executive managers who called in the Romanian' banking managers conferences for a better professional instruction of the personnel and for the necessity to institute a general retirement fund⁸.

An outline of the socio-professional structure of the banking clerks is vital for the definition of their role and place in the flowing bank operations and to the sensible matter represented by the development and success of the Romanian banking system at the beginning of the 20th century. Statistics offered by the yearbooks of the Romanian banks bring only evidence for the functions undertaken by the nominated clerks and say few about each one's qualification. Exception to the rule concerns the executive managers, who could be found among the Directory Boards, in whose case was compulsory to specify their names along with the professional training. Therefore, in most cases the scholars have only appreciated the clerks' positions within the financial system and no more than speculated about their intellectual background.

Our investigations, based on the information got from the *Anuarul băncilor române* representative for the year 1913, could not avoid this impediment; instead we operated a selection of the banking clerks only, excluding references to those employed in the cooperatives of credit, thus, breaking up with the model inaugurated by Vasile Babi and tagged along until recently. As a result, we succeeded in establishing the professions of the majority of the executive managers, or of the branch attaché, as well as that of the clerks in charge with the banking operations in those institutions where the executives' positions remained empty.

As a matter of fact, the top position held by a clerk within the banking system was of executive manager, while in the branches the highest position was of branch director or of attaché of that particular bank. The last mentioned completed the tasks of an executive manager in the field, having to inform periodically the central about the

⁸ Lucian Dronca, *op. cit.*, p. 422-448

ongoing of the activities of the branch also, having restrictions in making decisions in case of major financial operations, which could have been settled only after the agreement of the directory boards. Though an exception, in case of 26 of the smaller credit institutions, one can detect the absence of a position of executive manager, in this case decisions being reached by bank's secretaries, accountants or cashiers⁹.

Probably the non-appointment of anybody on the chair of executive manager was motivated by the deficit in the number of qualified clerks and mainly because of the particular interests of the main stockholders, employed themselves as clerks in these banks. The same explanation can be advanced in the case of the smaller banks, financially comparable with the cooperatives of credit, which had their executive manager designated by the stockholders or from among some personalities influential among the region's population.

In 1913 within administration of the banks, one could count up 126 executive managers, 49 branch directors, branch and agency attaché along with other 26 principals, who even if undesignated executive managers, fulfilled correspondent obligations, in reality occupying only secondarily positions of accountants or cashiers. Examples of this type were Casa de păstrare from Sălişte and Cetatea from Cohalm which were initially founded as credit reunions but lately developed financial operations similar to those undertaken by the share - based trading banks. Consequently, the number of the persons involved in the head office of the banks in 1913 reached 201 high-clerks from a sum of 927 registered, representing 21,68% of the total personnel of the Romanian banks. On average, for one head clerk we have four subordinate clerks, but the reality in every bank taken independently reflects a profoundly different picture. Large Romanian banks employed tens of clerks (e.g. Albina Bank had 104 clerks) having different attributions. On the contrary, small banks had about 2-3 clerks, Surul Bank from Racoviţa having only a single clerk, with undetermined attributions because simultaneously he was also the president of this bank's directory board¹⁰.

⁹ *“Anuarul bancilor romane”*, Anul XVI, Sibiu 1914, p. 2-173, 183-184, 252-255.

¹⁰ *“Anuarul băncilor române”*, Anul XVI, Sibiu, 1914, p. 7-8 and 152.

The executive managers were recruited and designated by the directory boards, sometime after an examination or even elected by the General Assemblies of the Shareholders and were in charge to direct the financial-banking business and the administration of the credit institutions, according to the trade law from 1875 and of the internal regulation of every individual bank. They conveyed information to the bank's management that had to approve major financial operations, suggesting on topics like the employment and remuneration of the clerks, supervising the destination of the credit, having to respond and report all the businesses carried out in front of the head office of the bank. Employed with a contractually stipulated salary established between them and the directory board, these clerk-directors, common presences in the directory board, were consulted and took part to the head offices sittings without having a deliberative vote. As a result of these activities, they and other clerks who worked hard were given extra salary compensations consisting of a significant quota of the bank's profit. When doing wrong, executive managers were suspended and even dismissed, being not able to enjoy retirement funds if they had brought credit institution's financial losses.

Due to their clerk executive positions, the executive managers should not have entered the directory boards. In reality, taking advantage of a gap in the Trade Law stipulations, which left undefined these cumuli of responsibilities as incompatible, a significant part of the clerks (namely 67 managers and branch directors that represented 33.33%) had full membership in the directory board of their banks and 39 even cumulated the job of president of the directory board, situation meet mostly in the small banks. The last circumstance can not be generalized. "Grănicerul" Bank from Dobra or "Someşana" Bank from Caransebeş, some middle class financial institutions, account for another conclusion. In general terms 19,40% of the 201 clerks were in charge with the main executive and administrative tasks.

This exceptional situation is somehow abnormal especially in those cases which show a cumulus of executive manager and president of the directory board, since the president had to supervise and control the manager's activity, or had to approve the risky businesses and to assess manager's activity. This control activity could be not fulfilled if

the manager and the president of the directory board were the same person. In such circumstance the other members of the directory board had to assume these evaluative tasks or to assess the activity of the president –executive managers, even though they lacked such competent knowledge in the field.

The presence of the executive managers in the directory boards has two major reasons. The first can be traced back to the foundation process of the banks' themselves. Being the initiators and at the same time among the most important shareholders, the future executive managers benefited of the confidence of the members in general assemblies and of the directory boards. Other advantages were their wealth, intellectual education, and their prestigious profession, even though many had not graduated financial training. Such was the case of the managers of “Silvania” and “Bihoreana” Bank, Andrei Cosma, lawyer and landowner, respectively Coriolan Pop cofounders and main shareholders of the fore mentioned credit institutions¹¹. The second reason, determined by the internal financial activity of the bank, derived from the necessity of the executive manager to partake in the directory board's assemblies, continuingly informing and motivating about the credit operations undertaken and anticipated. Next to this consultative role one can mention its prestige and professional training, the manager having an influential role in the decision making process of the head offices of the bank, mainly because he was directly connected to the financial and administrative problems.

The smaller the bank, the smaller the transactions it carried out. Consequently, in order to make some savings, by not employing a trained and expensive executive manager, banks entrusted this position to an unqualified person justifying that the volume of the credit operations did not require such a specialist. In other instances an excuse was the shortage in the number of specialists in financial banking field. Small banks 'case document that the need to save funds lead to a cumulus of additional executive positions attributed to the executive managers (e.g, Lazăr Vraciu was executivemanager and accountant of Orientul Bank from Dobra; Nicolae David covered

¹¹ Lucian Dronca, op. cit., p. 107, 134-136; pentru situația de la “Bihoreana” a se vedea Ioan Crișan “*Activitatea Institutului de credit și Economii “Bihoreana” (1898-1918) în Istorie financiar – bancară*”, vol. I, Ed. Dacia, Cluj Napoca, 1996, p. 121-122.

the positions of executive manager and that of first accountant in Detunata Bank from Bucium; George Vasu Senior was executive manager and cashier of Voileana Bank from Voila, etc.); in some cases the situation may be clearly distinguished as a result of a nomination, while in others it can only be inferred, if one corroborates this practice with information about an undersized number of the clerks employed.

The incomplete information collected in *Anuarul băncilor române* for the year 1913 concerning the professional training of the bank managers or the clerks in charge with similar responsibilities confirm the already mentioned presumptions. Furthermore they present, even though not fully certain, records about high-clerk's professions and consequently about their intellectual background.

Hence, from the 201 executive managers of the banks, of their branches and agencies, only for 103 could be given hints about their profession. For the other high clerks, the *Anuar* (Yearbook) conveys information about their present position within the bank's system only, without any specification regarding their intellectual background¹². Other sources dedicated to the academic training of the Transylvanian Romanian intellectuals confirm the high education for an extra number of 44 high clerks, most of them graduates of law faculties or commercial schools from the Austrian - Hungarian Monarchy, others attesting a medium level training in the seminars from Brasov¹³. Considering those supplementary records, the number of the managers and attaches having a clear specification of their profession and intellectual background reaches 147 members (73,13%) as compared to the rest of 54 (26,87%) members, for whom, at this particular moment of our researches we can not provide any definite details about their intellectual and professional competency. Following a decreasing order one may notice that 53 (26,37%) were lawyers, 31(15,42%) priests, 22(10,95%) medium school graduating economists, 9 (4, 48%) (large)landowners, 8 (3,98%) teachers and professors, 8 (3, 98%) public notaries, 4 (1,99%) physicians, 4 (1,99%) engineers, 2 (1%) wealthy peasants, 6 (2,99%) having other professions like butchers, postmen, fabric owner,

¹² *“Anuarul băncilor române”*, Anul XVI, Sibiu, 1914, p. 2-173.

watchmen, stockholders, etc. The general table reveals that a big majority of the Romanian executive bank managers lacked education in financial banking field.

We also notice that within large banks such as Albina, Victoria, Ardeleana, Economul, Bihoreana, Silvania, Timișana, etc., as well as in numerous middle size credit institutions, banks' managers were trained as lawyers, having graduated law and political sciences faculties from Cluj and Budapest, where courses in general economy, accounting, and statistic, in trade and financial law had been also taught¹⁴. This situation favored these alumnae in gaining a significant amount of knowledge in financial field, consequently enabling them to be designated in front positions of the Romanian credit system. Moreover, the law graduates were familiarized with matters regarding the property' status and their implications in achieving mortgage loans. Hence, their competence was undisputed when it came to decisions concerning the risks involved in approving credits to the future debtors, most of them peasant-landowners, who guaranteed their mortgages with their property or with the value of these properties.

The significant number of ministers (priests and archbishops) active as managers of smaller and sometimes middle-size banks was the result of their direct involvement in the foundation of these banks, backed up by their moral prestige within the communities from a particular area of activity of the bank, as well as by their personal wealth. In spite of having graduated high-law studies Andrei Cosma, the manager of Silvania, Emeric Pop from Sălăjeana or Mihai Bohățel de Glod, manager of Codreana, are registered not as advocates or lawyers but as major title-holder.

The ministers, who graduated the theological institutes from Sibiu and Blaj had at least a minimum of knowledge in financial matters if we consider that within syllabus of the theological institutes, practical accounting courses became compulsory. Furthermore, at the beginning of the 20th century, following ASTRA's advice, courses in rural cooperation were introduced, thus responding the future involvement of the priests in the

¹³ Cornel Sigmirean, *“Istoria formării intelectualității românești din Transilvania și Banat în epoca modernă”*, Presa Universitară Clujeană, Cluj- Napoca, 2000; Anuarele Scolii Comerciale confesionale Greco- catholice din brasov din anii 1897-1918.

¹⁴ Ibidem, p. 131-132.

establishment of the cooperatives' credit units and of the market orientation of the agriculture¹⁵.

The intellectual qualification of the notaries in special medium schools, their initiation in civil law and ordinary accounting allowed them to work as clerks of the modest banks, thus, replacing some highly qualified employees. The relatively small number of physicians and engineers provided the rule; however, their presence is the consequence of their jobs' prestige and their knowledge in economic field, gained during their lyceum studies. Physicians like George Prunaş, manager of Brădetul from Orlat, or Ioan Elekes, manager of Sebeşana from Sebeş, attended the courses of Orthodox Romanian Superior Gymnasium from Brasov; here the science classes of mathematic included an introduction in accounting¹⁶.

Except from Ion I. Lapedatu, general manager of Banca generală de asigurare Sibiu, trained in The Trade Academy from Budapest, there are only few proficiency schooled managers. Among them *The Anuar* from 1913 mentions as managers, without referring to their profession, the names of Vasile C Osvadă manager of Agricola (Hunedoara) who had studied economy in Viena, of Ioan Iosif manager of Cetatea (Rupea) and alumnae of Trade Academy from Budapest, and Gregoriu Boca dirigent of Țibleşana who did not finalized his training in economy in Budapest.

To conclude, the big majority of the managers and of their deputies, as graduates of higher or medium educational institutions of so different intellectual background, had to compensate their lack of knowledge in banking field through personal studies paralleled by their practicing of such careers. Thus, lawyers like Partenie Cosma (Albina), Nicolae Oncu and Sava Raicu (Victoria), Amos Frâncu (Economul), Coriolan Pop (Bihoreana), Andrei Cosma (Silvania) etc., thanks to their competence, earnestness, exigency and ability have created themselves a name in financial banking field, contributing to the prosperity of the banks, which until their retirement entrusted them with the position of executive managers.

¹⁵ “*Transilvania*”, Sibiu, 1912, nr. 1-2, p. 135-147; nr.3-4, p. 237-266.

¹⁶ Andrei Bârseanu, “*Istoria şcoalelor centrale române gr. or. din Brasov*”, Brasov, 1902; p. 404-426, Virgil Şotropa, dr. Nicolae Drăgăan, “*Istoria şcoalelor din Năsăud*”, 1913.

Romanian banks' leaders, regardless of their studies, proved fully aware of the stringent need of constant improvement in the financial banking area; the regular publication of specialized articles in *Revista economică*, written by professionals, were directly interested in augmenting the state of affairs in the field, both at practical and theoretical level. Consequently, high or medium level graduates of economic schools, as clerks with a rich experience in banking - like Ion I Lapedatu, Arsenie Vlaicu (professor of accounting with the Greek Orthodox Trade School from Braşov and graduate of The Trading Institute from Anvers) or Vasile Osvadă (who studied trade in Vienna), Emil Tişca (graduate of the Oriental Trade Academy from Budapest), Constantin Popp (clerk of Albina and chief editor of *Revista economică*), Virgil V. Bonţescu (clerk of the Bohemian savings bank - Brno branch), Iosif Diamandi first accountant of Bihoreana, Corneliu Diaconovici secretary of the Albina and one of the initiators and theoreticians of the reformation of the Romanian banking system (alumnae of law in Oradea and Budapest), Adrian Oţoiu (with studies in economy and politics in Budapest, respectively in Berlin) – edited some works in bank' accounting, introducing in the specificities of the system of credit, in banking procedures. Simultaneously they wrote other articles in *Revista economică*, analyzing aspects regarding Romanian banking structures, giving competent suggestions, intending an faultlessness functionality of the financial operations and being primarily interested in standardization of the crediting and recovery procedures.

In general terms, a systematization of the clerks' jobs and their attributions had been carried out by following the example given by Albina's "*Regulation for a systematization of the regular clerks*" which dated from 1888 and which was later improved. It distributed bank's personnel in 5 classes; the first was that of the executive manager, the second grouped the branch directors, the chief accountants, secretaries, regular law consultants, the third gathered the cashier of the central bank as well as the branch cashiers, the fourth class referred to the accountants of the central and to the

branch’ accountants; finally the fifth comprised the officials, regular clerks, archivists, etc. Obviously each one’s salary depended on the class one belonged to¹⁷.

For most of the Romanian banks, mainly middle and small institutions, apart from the positions of executive manager were mentioned other posts like those of the chief accountant, or accountant, cashier and regular clerk. Moreover, in case of the smaller banks we have nominated only the positions of accountant and /or cashier.

In 1913 executive crediting operations had been managed by 927 banking clerks; among them a heterogeneous group of 175 were distinguishable due to their intellectual and financial background. Representing 18,88% of the total of clerks, they took over position of executive managers, branch directors and branch attaché. In their immediate hierarchical position one could count: 206 (22,22%) chief accountants and regular accountants, 22 (2,37%) bank secretaries, 14 (1,51%) permanent juridical consultants, 185 (19,95%) central and branch cahiers, 24(2,58%) count liquidators, 91 (9,8%) regular clerks and some 48 (5,17%) officials having to a certain extent related preoccupations with the regular clerks. There were also registered 10 (1,07%) archivists, 15 (1,6%) chancellors, 6 (0,64%) scribes which probably had to transcribe all the approved credits and money orders, all employees of Victoria Bank. One also counts some 12 (1,18% censors, daily workers and warehouse men, 81 (8,73%) apprentices and finally 38 (4,09%) servants¹⁸. Compared to the number of 12.000 banking clerks from the 1908 Hungary, admitting a minor temporal difference of several years, the percentage of the Romanian clerks represented 7,72%. If one considers that in 1900 the number of the Romanian banks (81 units) represented only 2,85% of the total number of financial institutions from Hungary, and only 260 clerk employees¹⁹, after only few years the situation was positively altered.

If from the total of 927 clerks registered in 1913 one subtracts 175 representing the number of executive managers, branch directors, branch and agencies’ attaché as

¹⁷ Nicolae Petra – Petrescu, *“Monografia Institutului de Credit și Economii „Albina” (1872-1897)”*, Sibiu, 1897, p. 199-203.

¹⁸ *“Anuarul băncilor române”*, Anul XVI, Sibiu, 1914, p. 2-173.

¹⁹ Mihai Drecin, *“Date privind un repertoar al funcționarilor români...”*, p. 318, Vasile Dobrescu, op.cit, p. 46.

well as the 38 registered servants who sometimes lacked even the minimal intellectual training remains a number of 714 clerks who theoretically should have had the least instruction in the banking field. Actually this happened only in the case of the 100 large and middle Romanian banks. Being short of financial means, small banks could not afford to employ personnel with special qualification. Small payments could have been pleasing only for those who at the moment of their employment lacked even the probationers training

The Transylvanian Romanian printing press as well as the “Solidatitatea” Banking Union became aware of the deficient economic culture of many clerks. In order to change this situation they put forward a plan of editing practical synthesis or founding a library dedicated to this field. By these means the Romanian clerks could educate themselves. Alternatively, they suggested the institution of a series of courses or conferences meant to familiarize the clerks with the banking’ operations requirements. The need of qualified personnel is even more emphasized by the requirement of some self-educated executive managers, who pretended that candidates in a bank position should have graduated a medium level commercial school, or at least, to have completed their probationers training in a large national bank, in case that they had other intellectual background.

The statistic table of the Romanian banking clerks printed in *Anuarul* for the year 1913 offer little hints regarding the professional training of the 714 clerks. The few accounts concerning the middle and small size banks’ clerks, attest that positions of cashiers or accountants were given to teachers, priests, notaries, traders, wealthy peasants, middle and large landowners²⁰.

We also mention that the 14 juridical consultants, with no exception, had graduated law faculties from Austria-Hungary, some of them having a doctoral title in economy. It was the case of Octavian Rusu, the chief of law chancellery of Albina Bank, who was a doctor in law and political sciences, degree awarded by the university from Cluj.

²⁰ “*Anuarul băncilor române*”, Anul XVI, Sibiu, 1914, p. 2-173.

Other studies dedicated to the formation of the Romanian elite²¹ complete the picture regarding the Romanian banking employees. Some clerks seemed to have benefited from an exceptional training in law and trading schools of the time. Such was the case of Emil Borcea, Tişca Emil, Groza Liviu, Cristea Avram who graduated Trade Academies from Budapest, Vienna or Munich, or Miculescu Ioan, Pinteau Augustin, graduates of the Faculty of law and political sciences from Cluj; all could be found later in positions of chief accountants or regular accountants of the Romanian banks. There were others like Iosif Diamandi (first accountant of Bihoreana bank), Vasile Babi (cashier of Albina) who had studied in trade or notaries' schools (as in the case of Emil Lupea accountant of Ardeleana Bank). There were others who did not graduate financial schools, but had plenty of knowledge in finance thanks to their self educated training. Among them Gavril Todică (who studied chemistry in Bucharest and agriculture in the Faculty of Altenberg) or Dumitru Lăpădat were leading voices in the theoretical debates as well as in editing practical finance guides; they occupied the position of accountant of Georgeana bank respectively bank secretary of Casa de păstrare [The Savings House] - Sălişte.

The bank's clerks were required to: conscientiously do their ascriptions, to respect every orders of the directory board, to keep the secret of the financial operations carried on, to have an exemplary behavior in the firm and in public life, to respect the clients and to promote bank's interests. In turn, the principals of the banks offered them a salary (increased every 3 years), gave them a percent from the clear profit, alimanted them a retirement fond whose level was determined in accordance to the years within the bank and their position; they also gave them promotions up to their achievements.

High-qualified and experienced clerks assured the security climate required for the efficiency of the Romanian banks; they also gave advices to banks with a qualitatively inferior staff. Hence, such authorities in financial banking field were designated among Audit Committees or chosen by the directory boards of newly founded banks to periodically control the quality of the financial banking business. In

²¹ Cornel Sigmirean, op. cit., 344 -771.

order to have more authority they were designated as censors of the Banking Union Solidaritatea. A documented example is that of the lawyer Domininc Raţiu, dirigent of the Albina's branch from Lugoj, and auditor within Solidaritatea. Simultaneously he was also a member or president of 10 other Audit Committees (Sălăgeana, Corvineana, Crişana, Sebeşana, Codreana, etc.) as well as of other 2 directory boards (Făgeţeana and Grăniţerul). Iosif Lissai, chief accountant of Albina was member or president of the Audit Committees in 6 banks (Bistriţeana, Corona, Economul, Mielul, Banca Populară, Dej, Somesana, Arieşana) and the president of the directory board of Cordiana. Coriolan Pop, the executive manager of Bihoreana was member of the directoryboards of 4 banks and the head of “Şoimul”. Iosif Rebeaga, cashier of Albina, was member of the Audit Committees in 3 banks. In the same way Iosif Diamandi (chief accountant of Bihoreana – Oradea) or Nicolae Căciulă (chief accountant of Economul from Cluj) could be found in positions of auditor of Solidaritatea, thus, controlling the activity of many other Romanianbanks from Transylvania²².

Thanks to the professional qualities resulting from an academic training or simply tangent to the trading-banking area and to a practical experience in this field, as satisfactory proven by a majority of the Romanian banking clerks, Romanian credit system succeeded to quantitatively and qualitatively grew, thus responding to an increasing requirement for capital of a society experiencing modernization.

²² *“Anuarul băncilor române”*, anul XVI, Sibiu, 1914, p. 2-173.

THE BANKING SYSTEMS OF DIFFERENT COUNTRIES IN THE CENTRAL AND EASTERN EUROPE DURING THE EUROPEAN INTEGRATION PROCESS

Lecturer PhD. Magdalena RÂDULESCU, University of Piteşti

Lecturer PhD. Daniela PÎRVU, University of Piteşti

Abstract

This paper presents the banking systems and the efficiency of the commercial banks in three relatively homogenous groups of countries with different level of economic development and different involvement in the process of European integration. The first group consists of Portugal and Greece, the second group is represented by the Czech Republic, Hungary, Poland and Slovakia and the third group includes Bulgaria and Romania. The paper aims to reveal whether the differences among regions and countries in the stage of European integration and economic situation are visible also in banking efficiency. The higher degree of European economic integration and economic development goes hand in hand with higher banking efficiency. Thus, low level of financial intermediation efficiency in Central and Eastern European countries may undermine their effort to boost the economic growth and catch-up the forerunning countries. The importance of the efficiency gap is underscored by the fact that only some of the catching-up countries recorded higher growth of efficiency than the forerunners.

1. INTRODUCTION

Enlargement of the European Union (EU) that took place in May 2004 along with the proposed joining of Balkan countries in near future and gradual implementation of euro in ten new EU-member countries are the principal economic and political phenomena on the European continent. Europe is consequently divided into several groups of countries that differ in the achieved stage of integration and level of economic development. The one tail of the integration path is occupied by countries which belong to the prestigious group of the most developed economies and have also achieved the final stage of integration process - membership in the European Economic Monetary Union (EMU). This group consists of countries such as Germany, France or Italy. On the other side, there are countries standing at the very beginning of their integration to the European structures since the only step made is a declaration of interest to become member of the EU. This group is represented mainly by poor post-Soviet countries such as Ukraine or Moldova. However, many more or less numerous groups of countries with similar economic progress and stage of integration process are positioned somewhere between these two extremes of the development path. Thus, majority of Europe resembles a pursuit competition where each group aims to catch up with the group being ahead as fast as possible.

Financial sector is a backbone of every market economy. An important and in some countries even a dominant role is played by banks.¹ Stable and efficient banking sector is therefore an essential precondition for both to increase the economic level and to secure a smooth course of integration process crowned by the adoption of euro. During several past years, banking have changed significantly due to irreversible processes such as liberalization, globalization, privatization, mergers and acquisition or implementation of modern information technologies. However, the transformation of savings into loans and credits financing consumption and

¹ See Polouček (2004) for more about structure of the financial sector in selected European countries.

investment of banks' customers can be still considered as a core of banking business and foundation of banks' existence.

The aim of the paper is to estimate and compare the banking systems and the efficiency of banking intermediation in eight countries representing three relatively homogenous groups at different stage of the European integration and different economic level during the period 2002-2003. The analysis is supposed to verify or reject the hypothesis that advanced phase of integration and higher economic level is associated with higher efficiency of banking intermediation. Thus, the paper should answer the question whether the banking sector fulfills its intermediation function sufficiently to catch-up the forerunners or the low efficiency of intermediation may be an obstacle in the convergence process.

First group under estimation consists of Portugal and Greece - not only long-time members of the EU and countries that have adopted euro as a common currency but also countries with the lowest GDP per capita in the traditional part of the EU (EU-15). The second group is represented by the Czech Republic, Hungary, Poland and Slovakia - Central European countries that became members of the EU in May 2004 and are on the way to adopt euro in 2010 at latest. Their economic level is below the EU-15 average and figures of Greece and Portugal are the most easily attainable. The third group includes Bulgaria and Romania - countries with a clear perspective to join the EU in 2007 and GDP per capita far below the EU. Selection of such countries is backed up by the fact that each group is a moving target for the next group's efforts in the integration and convergence process.

2. THE BANKING SECTOR OF ANALYZED COUNTRIES

Greek and Portuguese banking sectors substantially resemble each other and differ mainly in the degree of financial intermediation since Portugal posts almost twice as high level as Greece. Activity of both banking sectors increased and solvency and profitability indicators enhanced in 2002-2004. Such developments confirm that Greek sector coped with the downturn in the Athens Stock Exchange in 2000-2002 that led to a

slump in banks' capital adequacy and profitability and that the Portuguese banking is resilient in the face of the economic conditions stemmed from the down stage of the business cycle. The number of banks is stable as well as the share of banks with foreign ownership and the banking sector concentration. However, there have been a parallel decrease in the share of foreign capital and increase in the concentration. Both of them occurred in moderate and steady pace in the analyzed period. Concentration rose due to some acquisitions of small local banks by the largest domestic banking groups. Whereas the one fifth of banking capital under foreign control is almost in accordance with the EU-15 average (22.3 per cent), the share of top five banks surpassing two thirds is considerably higher than the EU-15 average of 53 per cent. The other indicators of the banking sector's shape exhibited in Table 1 correspond with the usual values in the EU-15 and the EMU. It is acceptable also for the interest rate spreads in Greece and Portugal that followed a general downward trend coming through the whole euro area.

Table 1: Selected indicators of banking sectors in Greece and Portugal

	2002	2003	2004	2002	2003	2004
	Greece			Portugal		
number of banks	61	59	59	60	62	61
share of foreign capital in %	19.5	19.0	18.1	21.2	19.3	18.5
share of five largest banks in banking sector assets in %	66.2	67.0	67.4	64.8	69.2	69.9
total assets in % of GDP	140.3	139.6	140.4	264.2	266.7	268.9
capital adequacy in %	12.5	12.9	12.9	9.8	10.0	10.3
NPL in % of total loans	4.1	3.8	3.7	2.7	2.5	2.6
ROE (tier 1 capital) in %	8.4	12.8	13.5	11.7	13.9	13.3
interest spread in %	5.0	4.6	4.5	4.8	4.2	4.0

Note: NPL is Non-Performing Loans; ROE is Return on Equity
Source: ECB (2004b), Bank of Greece, Banco de Portugal

Restructuring and transformation of the banking systems in the V4 countries have been completed for the very most part. Overriding some minor issues, one may

accept this statement also for Bulgaria and Romania. However, the way towards a functioning banking sector has not been easy and all the countries have had to face serious changes and challenges. Since the banking sectors have not been able to absorb such fundamental shifts smoothly, most of the countries in the region suffered banking crises in the course of 1990s affecting economy and society more or less painfully. The crises were caused in majority of cases by a combination of the entire economic system transformation, wild and non-regulated increase of number of small banks funded by domestic capital, lack of banking expertise and high share of non-performing loans partly inherited from the communist past and partly originated as new. The phase of consolidation that took place afterwards comprised state participation in cleaning banking portfolios from bad loans and raising the capital of state-owned banks, collapses of small and medium-sized banks, mergers and acquisitions, improvement of legal and regulatory framework, and privatization. Although the speed of consolidation and selection of applied measures have varied among countries, banking sectors in all of them can be nowadays characterized as consolidated, universally-based, and under dominant control of strategic foreign investors.²

Despite the success achieved in recent years, banking sectors in V4 countries, Bulgaria and Romania (CEE-6) are quite modest compared to that in the EU-15 or the euro area. In 2003, the banking sectors in the CEE-6 countries consisted of 225 banks and total assets were about EUR 290 billion³. This is equivalent to roughly two per cent of the consolidated balance sheet of all banks in the euro area (Bruckbauer *et al.*, 2004, p. 4). The depth of banking intermediation measured as a share of total banking assets on GDP was at 69.5 per cent in CEE-6 countries in 2003, which means considerably lower than 280 per cent in the EU-15. The low degree of intermediation is pronounced also in Bruckbauer *et al.* (2004, p.5) using total loans as a percentage of GDP. While the indicator's value was 120 per cent in the EU-15 in

² For more about banking sector transformation in transition countries, see Kulhánek *et al.* (2004), Bonin and Wachtel (2002) or Fries and Taci (2002) among others.

³ Both figures do not include institutions from the cooperative sectors.

2003, the same share did not exceed 25 per cent in CEE-6 countries. Such situation demonstrates that even now, 15 years after the beginning of transition, the CEE-6 banking markets still exhibit vast potential.

Table 2: Selected indicators of banking sectors in Visegrad countries

	2002	2003	2004	2002	2003	2004
	Czech Republic			Hungary		
number of banks	37	35	35	37	36	36
share of foreign capital in %	81.9	84.9	85.1	78.3	81.9	82.0
share of five largest banks in banking sector assets in %	66.9	68.0	68.2	56.1	56.9	57.1
total assets in % of GDP	113.3	107.0	107.8	70.2	72.5	74.1
capital adequacy in %	14.3	14.5	13.2	14.0	13.7	13.8
NPL in % of total loans	8.1	4.9	4.3	3.5	3.5	3.7
ROE (tier 1 capital) in %	27.4	23.8	22.6	19.6	21.1	25.9
interest spread in %	2.1	2.0	2.2	2.8	2.5	2.4
	Poland			Slovakia		
number of banks	62	60	59	20	21	21
share of foreign capital in %	67.4	67.8	67.6	85.3	88.9	89.5
share of five largest banks in banking sector assets in %	53.4	52.3	51.6	66.9	67.5	65.8
total assets in % of GDP	60.4	60.0	59.9	97.4	96.2	95.7
capital adequacy in %	13.8	13.7	15.7	21.3	21.5	20.5
NPL in % of total loans	21.1	22.2	18.1	11.2	9.1	7.8
ROE (tier 1 capital) in %	5.2	5.4	18.5	29.4	27.1	33.7
interest spread in %	8.5	7.6	6.7	5.3	4.8	4.5

Note: NPL is Non-Performing Loans; ROE is Return on Equity,

Source: Golajewska and Wyczanski (2002), Bruckbauer *et al.* (2004), Czech National Bank, Hungarian Financial Supervisory Authority, National Bank of Poland, National Bank of Slovakia

Regarding number of banks, no dramatic fluctuations can be seen and such development can be considered as a sign of banking sectors' stability. Due to large scale of privatization of the state-owned banks, all CEE-6 banking sectors are to a great extent controlled by foreign credit institutions originating mainly from the EMU member countries. Increase of the foreign capital importance in the CEE-6 banking sectors has been also facilitated by the fact that there have been few local institutional investors and the desire to import banking know-how via privatization and foreign strategic investors. Thus the share of banks with majority foreign ownership is noticeably higher in this region than in the Greece, Portugal or the euro area as a whole. Concentration of the CEE-6 banking markets is relatively high owing to unique market position of traditional banks persisting from the communist era. However, thanks to successful effort of medium-sized banks (mainly subsidiaries of foreign banks such as Citibank, Raiffeisenbank, HVB or ING) in winning larger market shares, the level of concentration has been stagnating or decreasing in several past years.

Problems associated with non-performing loans have been already solved in all CEE-6 countries, though the share in Poland is still quite non-standard. Large bulks of non-performing loans have been shifted from banks' portfolios to special consolidation institutions harming the government budgets and public finance significantly.⁴ In some countries such as Bulgaria, Romania or Poland, high inflation in the early and middle phase of transformation also helped to alleviate the bad loans problems. Consequently, the capital adequacy in the region raised and actual figures of the ratio are in some cases more than twice as high as required. Similarly, the level of capital adequacy in the CEE-6 countries exceeds the EU-15 average of 12.3 per cent evidencing the substantially higher levels of own funds with respect to the extent of active banking operations. With the improving quality of the credit portfolio, the

⁴ Consolidation of the Czech banking sector is discussed for instance in Hájková *et al.* (2002), the Hungary's consolidation program is analyzed in Szapáry (2001), Balcerowicz and Bratkowski (2001) pay attention on the Polish consolidation and Tkáčová (2001) deals with banking sector stabilization in Slovakia. An in-depth analysis of banking sector transformation in Bulgaria and Romania is provided in Andronova-Vincelete (2001) and Tsantis (1997) respectively.

need for loan loss provisions has been steadily declining and profitability of the banking sectors has been boosting. The last values of ROE ratios recorded in the CEE-6 are notably higher than the average return on equity of 10 per cent in the EU-15. The interest rate spreads vary among the CEE-6 banking sectors due to different level of inflation and interest rates. However, the common trend of narrowing of the difference between lending and deposit rates can be revealed in all CEE-6 countries. The nominal convergence and strong competition on the credit market are the main reasons of that.

Table 3: Selected indicators of banking sectors in Bulgaria and Romania

	2002	2003	2004	2002	2003	2004
	Bulgaria			Romania		
number of banks	35	35	35	39	38	37
share of foreign capital in %	77.2	91.1	92.2	64.8	65.4	69.1
share of five largest banks in banking sector assets in %	55.2	54.6	54.1	62.8	63.0	63.1
total assets in % of GDP	45.0	50.2	54.8	31.6	32.6	34.2
capital adequacy in %	25.2	22.0	22.1	25.0	18.2	19.3
NPL in % of total loans	5.5	4.2	4.6	2.3	8.3	7.9
ROE (tier 1 capital) in %	15.6	16.9	17.3	18.3	15.6	16.6
interest spread in %	7.1	6.4	5.7	16.5	14.6	13.3

Note: NPL is Non-Performing Loans; ROE is Return on Equity

Source: Bruckbauer *et al.* (2004), Bulgarian National Bank, Bank of Romania

3. CONCLUSIONS

A problem in the CEE-6 countries is the noticeably high scale inefficiency of large banks. These banks are too big with respect to their real output production and the way towards higher efficiency does not lead through establishment of new branches and engagement of new employees. Such a conclusion is extremely important in the context of generally lower number of bank branches and consequently lower direct accessibility of banking services in the CEE-6 countries if

compared with EU-15. Therefore, large banks may either consolidate the input base or make a progress in its utilization. Closing of branches is highly improbable because medium-sized banks have started expansion to the retail market recently and large banks are not likely to lose their market shares. Consolidation can neither be done by a wave of mergers. Nearly all large banks in the CEE-6 countries are owned by strategic foreign investors and it is absolutely out of question to proceed a merger of daughter banks without the same process involving the parent institutions. Thus, the adequate approach to improve efficiency is the better utilization of existing inputs in financial intermediation. A complex menu of banking products and services of the highest quality is the only possibility to attract well-renowned and long-established companies and manufacturers which are the most credible and demanded bank customers. Since this market segment is extremely competitive, the credit institutions should extend their lending activities particularly in the sector of households and small and medium enterprises.

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CONSEQUENCES OF THE INFLATION OVER THE CONTINUITY OF ENTERPRISES' ACTIVITY

Lecturer Diana IGHIAN, University of Nord Baia Mare

ABSTRACT: *In conditions of inflation, the historical costs accounting, related to a basic principle of accountancy, that is the caution principle, lead to the enterprises decapitalization, with serious consequences over the continuity of the activity in conditions of economic efficiency. Therefore, finding new alternatives which could lead to the removal of this deficiency in the traditional accounting model, in conditions of inflation, is an imperative. In this context, the major objective of the firms that carry on their activity in an inflationist environment is to maintain their capital, as well as to secure a profit which can ensure the maintenance of the capital, the continuity of the activity depending mainly of its fulfillment.*

Key words: *inflation, financial capital, physical capital*

The inflation is a self sustained phenomenon of an overall price increase, which affects the economy of a state, having important implications not only at an economical level, but also to the social one. The inflation has as effect the corrosion in time of money value, as well as the sustained price growth in economy.

In most countries, the financial statements are produced on the basis of the historical costs, without taking into account the changes of the overall price level or the individual change of the owned assets prices, except for the fixed assets, that were reassessed. Thus, the assets elements, the capital accounts, the debts, the incomes and the expenses are expressed in accordance with the value existing at the date when these elements appeared. The impact of the inflation is consequently ignored.

The inflationist phenomenon distorts the accounting information presented through the financial statements in two ways:

- it diminishes the accounting information's capital accounts;
- it over values the results of the accounting period;

In conditions of inflation, the historical costs accounting, related to a basic principle of accountancy, that is the caution principle, lead to the enterprises decapitalization, with serious consequences over the continuity of the activity in conditions of economic efficiency. Therefore, finding new alternatives which could lead to the removal of this deficiency in the traditional accounting model, in conditions of inflation, is an imperative. In this context, the major objective of the firms that carry on their activity in an inflationist environment is to maintain their capital, as well as to secure a profit which can ensure the maintenance of the capital, the continuity of the activity depending mainly of its fulfillment.

The distinction between profit and capital is extremely important in inflationist conditions. As long as the source of obtaining the profit is the capital, this one can not be consumed without affecting the future profits. So, the capital must remain intact in order to be able to produce the same profit level.

“In general terms, an enterprise maintained its capital if at the end of the period, it has a capital that is equal tot the one from the beginning of the period. Any other supplementary value besides the needed one in order to maintain the level from the beginning of the period is considered to be profit.”¹

¹ General Framework for the Preparation and Presentation of Financial Statements issued by the International Accounting Standards Board, pct. 107, overtaken in OPFM no. 94/2001 (O.G. no. 85/20.02.2001)

“The concept of capital preservation decides the extent to which an enterprise can allot the accruals obtained during the year without prejudicing its future²”.

Consequently, the profit is the maximum value that an enterprise can allot during the year, so that it can preserve intact the capital owned at the beginning of the period.

Within an economy which is not affected by inflation, the profit obtained at the end of the period represents the real profit, and it can be consumed entirely, without the fear of impoverishing the capital. The capital is expressed in the same monetary units as at the beginning of the period and remains intact during all this time.

But in an inflationist environment, taking into account the fact that the incomes are expressed in real monetary units (in terms of the value of money from the moment of their recognition), and the expenses which are to be connected to these incomes are expressed in nominal monetary units (in terms of the value of money from the moment of achieving the assets which generated the expense), in order to find the real profit and to compute an unitary result of the activity, the expenses must be expressed in real monetary units.

The overall expenses adjusted to inflation will represent the sum of the value of expenses expressed in nominal monetary unit, and the price variations between the real monetary unit the nominal one due to the assets which generated the respective expenses.

Therefore:

$Cr = Cn + v$ where: Cr – expenses expressed in real monetary units,

Cn – expenses expressed in nominal monetary units;

v – price variations due to the assets.

The real profit will be:

$$Pr = V - Cn - v$$

² Lavinia Olimid, *Măsurarea rezultatului contabil*, Economic Publishing House, Bucharest, 1998, page 60

The historical costs profit (Pci) will represent the sum of the real profit and this price variations, which is in fact the gain resulting from the owning of the assets that generated the expense.

$$Pci = Pr + v$$

This owning gain represents the sum that needs to be invested in the enterprise, so that the capital level stays the same. In other words, the existence of the owning gain determines the issue of the capital preservation concept.

The question is: *this owning gain must be regarded as a constitutive part of the profit which is to be distributed later on, or as an element of the capital account under the form of a resource?*

The answer to this question can be found depending on the means of capital measurement. From the point of view of the desired objective of the enterprise, there are two perspectives regarding the capital measurement:

- the owner's (shareholders)
- the enterprise's

1. The owner's capital (financial) and its maintain

The owner's capital is found in the specialty literature under the name of financial capital. *The paragraph 102 from the Conceptual Framework IASB defines the financial capital: "the financial capital is synonym with the net assets or with the entity's capital account".*

The concept of financial capital maintain is defined in the paragraph 104 from the Conceptual Framework IASC³, where it is specified that *"according to this concept, the profit is secured only if the financial value of the net assets at the end of the period is higher then the financial value of the net assets from the beginning of the period, after the exclusion of all distribution towards the owners and of any contributions of the owners during the analyzed period."*

³ General Framework for the Preparation and Presentation of Financial Statements issued by the IASC Board and adopted IASB, International Financial Reporting Standards, page 54, CECCAR Publishing House, Bucharest, 2005

In other words, the increase of the assets value, which exceeds the overall price increase, is to be recognized as profit.

The preservation of the financial capital can be measured in nominal monetary units, by using the concept of nominal financial capital or stable value of money, through the real financial capital.

When the prices are stable, we can talk about the preservation of the nominal financial capital. The sharable profit represents the difference between the capital accounts existing at the end of the period and those from the beginning of the period, taking into account the possible capital increases or decreases which appeared during the year due to the owners' contributions or withdrawals.

When the prices are variable, the term of real financial capital becomes operational. As the preservation of the nominal capital becomes insufficient, the capital accounts from the beginning of the accounting period are adjusted according to the variation of the overall price index in order to preserve the real capital.

The financial concept of the capital must be adopted if the users of the financial statements are concerned mainly with maintaining the invested nominal capital or maintaining the value of the invested capital.

According to this concept, the profit is recognized only after the value of the capital accounts is maintained. All the adjustments that need to be done to the financial statements, so that the enterprise's financial capital (capital account or the net assets) stay stable, are the objectives of the conversion based methods (methods based upon the current value of money). This methods aim to adjust the financial statements expressed in nominal unitary methods, with the purpose of expressing them in stable monetary units , and also the quantification of the result owned to the national currency depreciation.

In order to exemplify the above mentioned, let's take the following hypothetical example:

At the beginning of the N accounting period, an enterprise has a share capital of 300 m.u., representing a building with the value of 200 m.u., stocks in value of 80 m.u. (40 pieces * 2 m.u./piece) and money supply in value of 20 m.u. The building is subjected to a straight-line amortization for a remaining period of 20 years. At the end of the N accounting period, the enterprise sells 20 pieces of stock at the price of 3m.u./piece.

During the N period, the overall price increase was of 20%.

(Historical costs) Balance sheet at the 1st of January N

Table no. 1

Fixed assets	200 m.u.	Share capital	300 m.u.
Stocks (40 pieces*2 m.u./piece)	80 m.u.		
Money supply	20 m.u.		
Total assets	300 m.u.	Total liabilities	300 m.u.

Loss and gain account at the 31st of December N

Table no. 2

Elements	In historical costs	In historical costs modified depending on the evolution of the overall value of money
Sales incomes	60 m.u. (20*3 m.u.)	60 m.u. (20*3 m.u.)
- the cost of the sold stocks	-40 m.u. (20*2 m.u.)	-48 m.u. (40*1,2)
- the building amortization	-10m.u. (200*5%/year)	-12 m.u. (10*1,2)
Losses from owning monetary elements (money supply)		-4 m.u. (20*0,2)
Profit	10 m.u.	-4 m.u.

The balance sheet from the end of the N accounting period expressed in current value of money will be:

Balance sheet at the 31st of December N

Table no. 3

Gross fixed assets (200*1,2)	240 m.u.	Share capital (300*1,2)	360 m.u.
- amortization	-12 m.u.		
Net fixed assets	228 m.u.	Profit/Loss	- 4 m.u.
Stocks (40*1,2)	48 m.u.		
Money supply (20 + 20*3 m.u)	80 m.u.		
Total assets	356 m.u.	Total liabilities	356 m.u.

The real profit computed as a difference between the capital accounts from the end of the accounting period and the capital accounts from the beginning of the accounting period adjusted with the overall price index is:

$$Pr = 356 \text{ m.u.} - 300 \text{ m.u.} * 1,2$$

$$Pr = -4 \text{ m.u.}$$

The monetary elements (cash assets and debts) stay recorded at their nominal value in the financial statements from the end of the accounting period. The difference between them will determine the gain/loss from owning monetary elements, which will appear as a different position in the loss and gain account.

In what concerns the non monetary elements, these will be recorded in the financial statement at their new value adjusted in counter trade with an element of expenses or incomes, from case to case, for the adjustments of the current year, and a resources account for the adjustments of the previous years.

In conclusion, the adjustment of the financial capital, with the purpose of its maintenance, will be done through the overall prices index. This perspective admits the effect of the inflation over the patrimonial monetary and non monetary elements as a component of the enterprise's result.

2. The enterprise's capital (physical) and its maintain

The general framework IASB defines in the paragraph 102 the concept of physical capital or "the exploitation capacity" as it follows: "*the capital represents the production capacity of the enterprise expressed, for instance, in production units per day*".

The concept of maintaining the physical capital is defined in the paragraph 104 as it follows: "*according to this concept, the profit is secured only when the productive physical capacity (exploitation capacity) of the enterprise at the end of the period surpasses the productive physical capacity from the beginning of the period,*

after the exclusion of all distribution towards the owners and of any contributions of the owners during the analyzed period."

The profit determined on the basis of the historical cost does not make the distinction between the profit resulting from exploitation and the profit resulting from owning goods whose current cost is higher than the cost to which they were achieved. These owning gains are not gains obtained during the maintenance of the goods in enterprise's possession, and when they are to be sold, they will be entirely recognized in the gains and losses account, even if they are due to more accounting periods.

The concept of maintaining the physical capital decides the extent to which these gains are included in the sharable profit. With the purpose of maintaining the productive capacity of the enterprise, the increase of the assets value, and the latent additional value, will be recorded in the resources category, in a distinct account "adjustment reserves". The maintenance of the enterprise's physical capital is possible only if these reserves are not sharable.

With the purpose of establishing the production capacity which needs to be maintained, the goods that are used within the production process (fixed assets and stocks) must be expressed in current values, and also in values into which they can exchange at a certain point using real basis.

Among the assessment bases which can be used in the assessment of the financial statements (historical cost, current cost, realizable value and present value), the current cost, the realizable value and the present value can be considered as forms of the current value.

As it is determined based on some objective values (book value, specific price index), the current cost is the assessment base used the most often in order to express the present value of the goods. *The current cost* is the delivered cost of an equivalent new good, to which a rectification for depreciation is applied. The current cost can also be determined by multiplying the book value of the good with a price index specific to that category of goods.

Starting from the previous numerical example and knowing that, at the end of the accounting period, the stocks replacing cost is of 2, 5 m.u./piece (it grew with 25% from the beginning of the period), and the replacing cost of the fixed assets is of 240 m.u. (it grew with 20% from the beginning of the period), the financial statements will be retreated with the purpose of maintaining the physical capital as it follows:

Loss and gain account at the 31st of December N

Table no. 4

Elements	In historical costs	In current costs
Sales incomes	60 m.u. (20*3 u.m.)	60 m.u. (20*3 m.u.)
- the cost of the sold stocks	-40 m.u. (20*2 m.u.)	-50 m.u. (20*2,5 m.u.)
- the building amortization	-10 m.u. (200*5%/year)	-12 m.u. (240*5%/year)
Profit	10 m.u	-2 m.u

Determining the capital gains

Table no. 5

Realized yield from the sold stocks owning (20*(2,5-2))	10 m.u.
Realized yield from the building owning – interest from yearly amortisation ((240-200)*5%/year)	
Unrealized yield from the unsold stocks owning (20*(2,5-2))	2 m.u.
Unrealized yield from building owning ((240-200)-2)	10 m.u.
	38 m.u.
Total owning income	60 m.u.

The balance sheet of the N period, expressed in current costs is:

Balance sheet at the 31st of December N

Table no. 6

Gross fixed assets	240m.u.	Share capital	300 m.u.
-amortization (240*5%/year)	-12 m.u.	Profit/Loss	
Net fixed assets	228 m.u.	Reserves of capital	-2 m.u.
Stocks (20*2,5 m.u)	50 m.u.	maintaining	
Money supply (20+20*3m.u.)	80 m.u.		60 m.u.
Total assets	358 m.u.	Total liabilities	358 m.u.

The real profit, computed as the difference between the capital account from the end of the accounting period and the capital accounts from the beginning of the accounting period, adjusted with specific price index of the non monetary assets, is:

$$Pr = 358 \text{ m.u.} - (200 \text{ m.u.} * 1,2 + 80 \text{ m.u.} * 1,25 + 20)$$

$$Pr = -2 \text{ m.u.}$$

The non monetary assets are presented in the balance sheet at present value, and the profit will be recognized by the enterprise only after its operational capacity was maintained.

The adjustments made to the financial statements with the purpose of maintaining the enterprise's production capacity, represent the objectives of the assessment based methods (current costs based methods). These methods are oriented towards the usage of the specific index for the value correction of different categories of goods, of the amortisements and of the sales cost.

In conclusion, the maintenance of the enterprise's physical capital is done through the specific price index of the non monetary assets, recognizing the profit only after the capital was maintained.

3. The maintenance of the owners' and enterprise's capital

As resulting from those mentioned above, the adjustments made in order to maintain the financial capital do not take into account the fact that most prices of certain goods can surpass the overall price changes, and this prejudices the maintenance of the physical capital.

Moreover, with the purpose of maintaining the physical capital the inflation impact is quantified only in the case of non monetary assets, without taking into consideration the influence that the inflation has over the monetary elements of the enterprise, and this way, the complete maintenance of the financial capital is not ensured.

In order to maintain the financial capital, as well as the physical capital, the profit must be corrected with the gain or with the loss from monetary elements

owning and diminished with the gain owed to the value increase of the non monetary assets over an overall price increase.

In the balance sheet, the non monetary assets are to be presented to an adjusted value, adjustment made through the overall price index or through the specific price index, depending on which one is higher, and the non monetary liabilities are to be adjusted through the overall price index. The monetary elements will stay recorded in the balance sheet at their nominal value.

The gains resulting from the non monetary assets owning, whose specific price index surpasses the overall price index, will be recorded under the form of non sharable reserves, which will rise the enterprise’s capital accounts.

With the purpose of preserving the financial and the physical capital, the capital accounts from the beginning of the accounting period are to be adjusted with the overall price index, except for the non monetary assets whose prices are higher than the overall prices increase, which are to be adjusted through the specific price index to the respective assets.

Starting from the same numerical example, the financial statements adjusted with the purpose of maintaining the financial capital, as well as the physical capital, are as it follows:

Loss and gain account at the 31st of December N

Table no. 7

Elements	In historical costs	In historical costs adjusted with the purpose of maintaining the physical capital and the financial capital
Sales incomes	60 m.u. (20*3 m.u.)	60 m.u. (20*3 m.u.)
- the cost of the sold stocks	-40 m.u. (20*2 m.u.)	-50 m.u. (20*2,5m.u.)
- the building amortization	-10m.u. (200*5%/year)	-12 m.u. (10*1,2)
Losses from owning monetary elements (money supply)		-4 m.u. (20*0,2)
Profit	10 m.u.	-6 m.u.

Determining the capital gains

Table no.8

Realized yield from the sold stocks owning (20*2,5-40*1,2)	2 m.u.
Unrealized yield from the unsold stocks owning (20*2,5-20*2*1,2)	2 m.u.
Total owning income	4 m.u.

Balance sheet at the 31st of December N

Table no. 9

Gross fixed assets	240m.u.	Share capital(300*1,2)	360 m.u.
-amortization (240*5%/year)	-12 m.u.	Profit/Loss	- 6 m.u.
Net fixed assets	228 m.u.	Reserves of capital	4 m.u.
Stocks (20*2,5 m.u)	50 m.u.	maintaining	
Money supply (20+20*3m.u.)	80 m.u.		
Total assets	358 m.u.	Total liabilities	358 m.u.

$$Pr = 358 - (200*1,2+80*1,25+20*1,2)$$

$$Pr = -6 \text{ m.u.}$$

The capital accounts from the end of the accounting period expressed in real monetary units are of 358 m.u, and those from the beginning of the accounting period, adjusted with the purpose of expressing them in real monetary units are of 364 m.u., the difference between them representing the real loss, of 6 m.u.

If we compare the historical costs accounting system with the three accounting systems which have as purpose the maintenance of the capital in inflation conditions, we can see that historical costs profit is of 10 m.u., which is equal to a 4 m.u. loss if the financial capital is maintained, a 2 m.u. loss if the objective was the maintenance of the enterprise's production capacity and a 6 m.u. loss if the objective was the maintenance of the owners' capital, as well as of the enterprise's capital.

The choice of one of the capital preservation concepts is motivated by the requirements of the accounting information users, as well as their interest in maintaining the financial power of the invested capital or the operational capacity of the enterprise.

The maintenance of the financial capital is mainly preferred by owners, as it leads to the attainment of a maximum profit and to the maintenance of the capital value.

The physical concept of capital preservation is more attractive for an enterprise' managers and employees, which can consider that the objective of an enterprise is to perpetuate its existence, by providing future goods and services similar to those in the present.

Even if the enterprise's main objective is to maintain the physical capital, as the prices increase, the physical capital needs a higher financial capital, and this capital can be achieved by reinvesting the profit from the previous years or it can be brought by shareholders.

We can conclude that the objective which should be followed is to maintain the owners' possession in an inflationist environment and to maximize it, and this objective is also in compliance with the employees' requirements (jobs availability, safe wages, etc). This thing is to be achieved by the implementation of the inflation adjustment procedures of the enterprise's financial statements items.

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L'APPORT DES CALL CENTERS EN MATIERE DE DEVELOPPEMENT SOCIO – ECONOMIQUE DU MAROC

Hassan ESSADKI , Economiste Consultant, - Maroc

Dans un contexte de mondialisation des services, la création de centres d'appel est une réponse aux besoins de services exprimés par les clients, mais aussi à la rationalisation de la relation client-fournisseur , et à la maîtrise du coût de ces services en les externalisant. L'expérience marocaine est un exemple intéressant pour le développement d'activités nouvelles en Roumanie.

Introduction

Le Centre d'appels et la relation client a distance au cœur de la nouvelle économie

Plus un secteur ne pourra y échapper. plus une entreprise. l'établissement de relations privilégiées avec ses clients est en train de devenir le passage obligé pour se développer dans ce que l'on appelle aujourd'hui couramment la « nouvelle économie ».Et, lorsque l'on sait que, de plus en plus, le client qu'il soit grand public ou entreprise entend être actif et veut prendre l'initiative dans le cadre de ces relations, on imagine facilement la place incontournable que vont occuper les centre d'appels, Sera-t-il d'ailleurs encore « correct » dans peu de temps de dénommer « centre d'appels » ces

services qui , à la mesure des avancées technologiques , évoluent clairement vers d'autres finalités que le contact purement téléphonique ? centre de contacts clients, centre de contacts multimédia, centre de multi-contact....

Ce qui est évident, c'est que tous les canaux, qu'il s'agisse du téléphone classique , de la téléphonie sur Internet, du fax, des e-mails.... Convergeront vers un point unique de gestion de relation client .Point qui sera également une source de recueil de données client et donc d'enrichissement du système d'information marketing et d'exploitation active de ces dites données.

Pas surprenant dans ces conditions que l'on ait assisté en 2002 à de grandes manœuvres à tous les échelons mondiaux , européen et franco- français et entre tous les intervenants autour de ce que l'on aime appeler le CRM, (Customer Relations Management). Alliances, rachats, fusions.entre grands et plus petits de l'informatique, de la téléphonie, du conseil ont émaillé l'année 2002. Et le mouvement n'est certainement pas terminé. Il témoigne des formidables enjeux, nés de cette prise de conscience du caractère éminemment stratégique de la relation client à distance.

Véritable investissement, à long terme, la gestion de la relation client implique que les entreprises ne se trompent pas dans leurs choix de solutions et de partenaires.

Nouveau marché marocain

Au-delà du simple plateau téléphonique, le call center (centre d'appels) devient un pôle d'activité majeure pour un nombre croissant d'entreprises, au même titre que la production, la comptabilité ou l'activité commerciale.

Constituant le moyen incontournable d'approfondir et de rationaliser la relation avec la clientèle (prospection, information, promotion, télévente, télé-recouvrement, assistance technique), le call center est aujourd'hui le pivot de la relation client de l'entreprise et, de ce fait, se trouve au cœur de l'organisation commerciale et de la stratégie marketing de l'entreprise.

D'ailleurs, toutes les grandes sociétés ont intégré le rôle essentiel et déterminant des call centers dans leur stratégie, entraînant dans leur sillage les PME-PMI, de plus en plus nombreuses à vouloir soigner et optimiser leur relation avec le client réel ou potentiel.

Aujourd'hui, les call centers prolifèrent dans le monde entier. Arrivé à maturité aux Etats Unis, le marché des call centers est par contre en pleine croissance en Europe, de l'ordre de 30 à 20% par an entre la grande Bretagne et la France, en passant par l'Allemagne, les Pays Bas, etc...

L'Afrique du Nord n'est pas en reste avec principalement le Maroc où s'installent de plus en plus de call centers pour des sociétés locales ou des firmes étrangères.

Ce nouveau marché marocain ouvre des perspectives très intéressantes pour les différents acteurs du marché, producteurs, importateurs, distributeurs de matériels et servicesdits de technologie (télécoms, informatique, réseau, CTI...)

LE CALL CENTER AUJOURD'HUI

Le call center est une entité dont la vocation est de gérer à distance la relation que les entreprises souhaitent entretenir avec leurs clients et prospects. C'est un ensemble de moyens humains, organisationnels et techniques, mis en place afin d'apporter à la demande et aux besoins de chaque client une réponse adaptée.

Entité de relation à distance, le call center optimise l'outil téléphonique et ses connexions avec l'informatique et d'autres médias (courrier, fax, minitel, Internet, Intranet, Extranet...).

Sa spécificité réside dans le fait qu'il est dédié, non à uniquement une campagne, mais à la relation de l'entreprise avec sa clientèle ou sa cible naturelle de prospection.

Il met en jeu 4 composantes majeures :

- les ressources humaines qualifiées (téléconseillers, superviseurs, managers, formateurs...
- la technologie (téléphonie, informatique, Internet, logiciels, serveurs multimédia...

- la logistique (immobilier, mobilier, ergonomie de l'environnement de travail ...)
- une culture et des méthodes marketing (stratégie de l'entreprise, relation client, profitabilité...).

Comme le démontré la répartition des vocations des call centers selon le type d'entreprise, les call centers ont une finalité ou une origine très variable en fonction de l'activité et de la stratégie de l'entreprise. En effet, même si la fidélisation client apparaît de loin comme l'objectif évident et commun à tous les call centers, l'objet d'un call center entre dans 3 catégories principales :

- * la vente (prospection, commandes, réservations, télémarketing...)
- * le support, l'assistance (, assistance technique, gestion des comptes client...)
- * l'information (renseignements téléphoniques, actions promotionnelles, suivi commandes).

Concernant les secteurs d'activité, on note une pénétration plus forte des call centers dans les services financiers, les télécomset le tourisme.

Bien sûr, les grandes compagnies sont les plus intéressées par ces nouvelles structures mais il ne faut pas négliger l'attrait des PME-PMI, soucieuses d'améliorer leurs relations avec leurs clients, ainsi que les organismes à but humanitaire ou social ou il semble exister un véritable potentiel de développement pour les call centers de petite taille.

L'APPORT DES CALL CENTERS EN MATIÈRE DE DÉVELOPPEMENT SOCIO – ÉCONOMIQUE DU MAROC

Le call center n'est plus seulement un outil pour accroître la qualité de service apportée aux clients, il est devenu un canal de vente extrêmement prometteur.

- Facilité et simplicité d'utilisation pour le client ou abonné « simple comme un coup de fil »

- Proximité pour le client. Le client peut appeler pour faire une réservation, demander un renseignement ou se faire assister de chez lui sans se déplacer.
- Rapidité, bien sûr. Par un simple appel, le consommateur aura une réponse à sa question
- Efficacité. Non seulement les avancées technologiques ont permis de voir apparaître des produits efficaces, améliorant en amont la distribution des appels et en aval le traitement des informations, mais de plus le call center est source de profit. Il peut générer un volume de vente considérable dans de nombreux secteurs pour un coût tout à fait raisonnable. Dans un environnement où pour lutter contre la concurrence, les entreprises, quelque soit le secteur, doivent apporter toujours plus de services, toujours plus vite, à des consommateurs de plus en plus exigeants et économes de leur temps, le call center est apparu comme une réponse particulièrement bien adaptée à ces nouvelles données.
- Autre avantage déterminant du call center : son coût est raisonnable comparé à ce qu'il peut rapporter et aux autres moyens de communication avec le client (Internet). Ceci est dû en grande partie à la pression concurrentielle qui s'exerce sur les opérateurs de télécommunication et qui s'est intensifiée avec la déréglementation du secteur.
- Avantage également par rapport à la grande distribution : utiliser un call center pour générer des ventes permet aux entreprises d'éliminer ou de réduire l'importance des intermédiaires distributeurs dans la chaîne de distribution de leurs produits et services.

Le call center est devenu non seulement un moyen de vente mais aussi un moyen de fidélisation. En améliorant toujours la connaissance de leurs cibles, les entreprises ont été et sont toujours les championnes dans le domaine de l'innovation marketing.

Marketing direct, communication below the Fine, one-to-one marketing, constituent les facettes d'un même objectif : construire une relation personnalisée avec le consommateur afin de l'amener à acheter.

Les outils qui permettent de construire ce type de relation sont assez nombreux, publipostage, couponing dans les magazines et journaux, télévision interactive.

Mais le téléphone, avec le télémarketing (appels sortants), multiplie les avantages simplicité et rapidité, coût, interactivité.

LES CRITERES ECONOMIQUES, JURIDIQUES ET SOCIAUX DU MAROC POUR LA CREATION D'UN CALL CENTER

Sous l'impulsion du Jeune Souverain, Sa Majeste Mohamed VI, le Maroc semble avoir changé de catégorie : d'un pays en voie de développement, il est passé à un statut de pays en plein développement économique, démocratique, et social.

Avec l'Afrique du Sud, il se dispute ainsi le leadership du continent africain à tous points de vue (politique, économique ...), y compris sportif avec l'organisation de la Coupe du Monde 2006.

Le Maroc a pris l'option d'une économie libérale plus ouverte vis à vis des marchés internationaux et particulièrement européens. L'adéquation de la qualité des services et des prix des télécommunications est indispensable à cette ouverture. L'économie marocaine souffre en effet de coûts de l'énergie élevés par rapport à ses concurrents. Cet handicap ne pourra pas être levé rapidement, puisque le Royaume doit importer plus de 90% de son énergie primaire. L'obstacle du détroit de Gibraltar et les coûts élevés des transports aériens constituent des handicaps supplémentaires à la compétitivité de l'économie nationale. Par contre, ses principaux atouts sont, entre autres, une infrastructure de télécommunication performante et fiable, une main-d'oeuvre qualifiée et surtout peu coûteuse.

En outre le Maroc mène une politique d'encouragement à l'externalisation des services des entreprises, le call center peut constituer un créneau surtout pour les PMI et

PME ; il consiste pour l'entreprise à faire appel à un prestataire de service qui dispose d'une infrastructure de traitement des appels et/ou de personnel qualifié pour la réception et/ou émission d'appels.

Dans ce contexte, de plus en plus de sociétés au Maroc font appel aux sociétés de télé-services pour étendre leur champ d'action à l'international. Les call centers multilingues se développent : c'est le rêve de la vente mondiale pour beaucoup d'entreprises marocaines exportatrices qui n'ont pas les moyens d'être physiquement installées à l'étranger.

Ce nouveau statut fait du Maroc une des principales destinations des fonds d'investissements des grandes sociétés européennes et américaines, qui voient en ce pays une opportunité intéressante de se développer. Certaines espèrent, à juste raison, y trouver des débouchés substantiels, voire un nouveau marché à conquérir. D'autres y voient une possibilité intéressante de diminuer leurs coûts de production via la délocalisation des moyens de production vers le Maroc.

En effet, depuis 1993, le Maroc s'est lancé dans un vaste programme de privatisation et attire les investissements étrangers dont la France et l'Espagne qui restent des partenaires privilégiés.

La présence industrielle au Maroc s'illustre à travers près de 800 sociétés établies sur place. La France est de loin au premier rang des implantations étrangères.

Thomson, qui produit à Casablanca des composants électroniques, compte 2500 employés. Les différentes filiales du cimentier Lagarde emploient plus de 1000 personnes.

Les effectifs de Carnaud Maroc, spécialisé dans l'emballage métallique, tournent autour de 600 personnes, etc..... En résumé, plus de 65 000 salariés travailleraient dans les sociétés françaises.

Plusieurs agents de communication sont présents : Reuters, Havas, Publicis et des agences de marketing direct (GPSA Marketing et promotion).

D'importantes sociétés internationales sont présentes à Casablanca (Microsoft, McDonald's, Coca-cola etc...). Wanadoo connaît un vif succès au Maroc avec Internet et compte plusieurs milliers d'abonnés.

Cette nouvelle vision des télécommunications au service de l'économie marocaine en mutation à grande vitesse (la compétitivité, l'emploi, les exportations, l'attraction des capitaux et des investissements, la rapidité de réaction aux opportunités et évolutions des marchés) a récemment fait l'objet d'une volonté politique déclarée par SM le ROI. Mais cet élan des priorités devrait être beaucoup plus fort et bénéficier d'une plus grande mobilisation pour avoir toute son efficacité. Il devrait se traduire par des mesures concrètes vis à vis des clients professionnels et par la libéralisation des services et infrastructures qu'elle implique.

Les multiples avantages offerts, la fiscalité, le coût de la main d'oeuvre etc., font en effet du Maroc une destination idéale pour y implanter ses usines de production, ses ateliers de fabrication, et son call center.

LES CRITERES SOCIO-POLITICOECONOMIQUES DU MARCHE MAROCAIN

Le Maroc est une monarchie, dotée d'une constitution et d'un parlement. Le pluripartisme est reconnu. Les options économiques sont libérales et les plans servent de cadres d'organisation plus que de calendriers impératifs. Le poids de l'Etat est pourtant manifeste (phosphates, ONE, ONEP, ONCF, RAM, Régie des Tabacs, banques économiques, politiques des grands barrages, offices agricoles). Mais il laisse place à une multitude d'initiatives privées (industries, immobilier, tourisme, domaines agricoles) qui ont conforté le pouvoir d'une grande bourgeoisie riche, entreprenante, souvent issue de la bourgeoisie traditionnelle. Les classes moyennes apparaissent réduites, bien qu'ayant largement progressé (fonctionnaires, commerçants, professions libérales etc...).

Les classes pauvres sont nombreuses, souvent soumis au déracinement et amplifiées par une forte croissance démographique.

Situé au Nord Ouest de l'Afrique, le Maroc dispose d'une façade maritime sur l'Atlantique et d'une autre sur la Méditerranée. Le pays s'étend sur 710 850 Km² et dispose de 3 400 Km de côtes. L'ensemble montagneux se compose du Rif au nord, du Moyen Atlas à l'est, du Haut Atlas au sud. Au sud du Maroc se trouve le désert du Sahara. Difficiles à pénétrer, les montages ont joué un rôle important tout au long de l'histoire ; elles sont en effet autant d'obstacles franchis en quelques passages privilégiés contrôlés autrefois par des forteresses ou des tribus entreprenantes mais la gêne qu'elles opposent à l'établissement de voies de circulation modernes est considérable elles restent également les milieux de vie traditionnelle.

Le Maroc est aussi un pays de hautes terres, froides l'hiver, facteur limitant qui élimine très rapidement bon nombre de plantes cultivées, agrumes, canne à sucre, oliviers, relégués dans les régions basses. Le réseau hydrographique est important, essentiellement tourné vers l'Atlantique.

En ce qui concerne le climat, l'alternance d'une saison sèche et chaude et d'une saison humide, fraîche ou froide rythme l'année. La sécheresse de l'été dure généralement de 3 à 5 mois de juin à septembre mais dépasse 6 mois au sud.

CRITERES COMMERCIAUX

Les secteurs moteurs de l'économie marocaine d'aujourd'hui et des prochaines années, particulièrement en tant que producteurs de devises fortes, sont les suivants, par ordre d'importance, après les revenus des travailleurs marocains à l'étranger:

- le tourisme
- la confection et le textile
- l'agriculture, la pêche et les produits dérivés

Parmi ces secteurs, le tourisme qui a encore de grands potentiels de développement exigera, de plus en plus, des moyens de télécommunications importants et à bas prix: centrales de réservations de moyens de transports et d'hébergements, appels bon marché à l'étranger des touristes sur le réseau fixe, rooming des touristes en voitures équipées de GSM, liaisons avec leurs pays d'origine des retraités s'installant au Maroc, etc.

De même, la confection et l'agro-industrie devront pour lutter contre la concurrence, pouvoir s'intégrer de façon étroite aux réseaux sophistiqués de leurs clients et donneurs d'ordres.

Comme la plupart des pays arabes, l'approche et la prospection du Maroc exige, en plus de la connaissance de la structure commerciale du marché, celle de sa culture, de ses traditions et de ses sensibilités locales ou régionales. Par ailleurs, la participation aux expositions et aux salons spécialisés est très importante car elle permet une prise de contact entre les différents partenaires commerciaux.

Les grossistes ou détaillants sont la plupart du temps des entreprises familiales adaptant leurs services commerciaux aux marchandises ou aux acheteurs.

La plupart des produits fabriqués sont importés par des entreprises locales ayant leurs propres siège social et entrepôt. Les compagnies distribuent les produits par l'intermédiaire de filiales, soit directement au public, soit à d'autres grossistes et détaillants.

Les produits peuvent aussi être importés par des agents rétribués à la commission qui se chargent de contacter directement les détaillants et de livrer la marchandise dans leurs entrepôts.

Les produits fabriqués au Maroc sont distribués par les entreprises aux grossistes et aux détaillants grâce à leur propre système de transport.

Une large gamme de produits donne lieu à des sous-traitances (textile) ou à une fabrication sous licence (boissons gazeuses, parfums, produits de beauté ...)

L'abondance et, souvent, la qualité d'une main-d'oeuvre bon marché constituent de bons atouts pour une délocalisation partielle des achats de firmes étrangères.

LES CRITERES SOCIAUX

De nombreuses entreprises nationales développent progressivement un savoir-faire remarquable en réseaux privés de télécommunications et en téléinformatique. Elles recrutent de plus en plus de techniciens et d'ingénieurs marocains spécialisés en télécommunication et informatique. L'Institut National des Postes et Télécommunications (INPT) leur destine une grande partie de ses lauréats.

Ceci ne pourra qu'accroître la pression en faveur d'un développement permettant à de nouvelles entreprises et de nouvelles compétences nationales de s'épanouir dans le secteur. La qualité des ressources humaines disponibles dans le secteur des télécommunications est donc un facteur important pour permettre aux entreprises d'investir dans ce secteur.

Au niveau des cadres supérieurs, la mise en place d'une formation d'ingénieurs à l'INPT (la première promotion de 35 élèves est sortie en 1994, les suivantes ont compté environ 40 lauréats) et ont permis d'accroître de manière significative les effectifs. Environ la moitié de chaque promotion est absorbée par l'opérateur traditionnel, le reste a intégré le secteur privé.

On peut noter, par ailleurs, le développement des formations orientées vers l'électronique, l'informatique ou les techniques de communication au niveau des autres écoles d'ingénieurs, de l'université et de l'enseignement professionnel. Dans la mesure où la courbe des recrutements de l'opérateur traditionnel a progressivement baissé, un véritable marché de main d'oeuvre qualifiée dans le secteur est constitué.

Recevoir ces cadres ou techniciens pour les familiariser avec la maintenance et l'exploitation des services commercialisés par leur entreprise. A ce niveau, un partenariat avec un opérateur extérieur sera souvent indispensable, afin d'opérer progressivement le transfert de compétence de cet opérateur vers le Maroc .Il

conviendra toutefois de porter une attention particulière à la formation complémentaire que doit subir l'entreprise marocaine exploitant le service.

ELEMENTS FAVORABLES A UNE IMPLANTATION DE CALL CENTER AU MAROC

Le marché marocain en général et Casablanca en particulier, peut séduire les professionnels du télémarketing à plus d'un titre :

➤ Casablanca est la capitale des affaires (représentant plus de 50 % de l'économie du Maroc) et compte plus de 5 millions d'habitants. Elle est à 3 heures d'avion de Paris et de Dubaï.

➤ Un positionnement géographique stratégique sur toute l'Afrique du Nord (Algérie, Tunisie)

➤ Toutes les grandes entreprises y ont leur siège social.

➤ Le français est la première langue étrangère enseignée dans les écoles et la majorité des habitants de Casablanca sont bilingues

➤ Les infrastructures en matière de télécommunications y sont bonnes même si la fibre optique n'est pas présente sur toute la ville et si la banlieue reste à moderniser.

➤ Un marché encore dans les starting-blocks mais des perspectives de croissance intéressantes avec peu de concurrence .

➤ Une fiscalité souple et adaptée

➤ Les coûts de production faibles

➤ Un personnel peu cher, qualifié et multilingue

➤ La jeunesse de la population

➤ Le taux de chômage (8,7 % de la population active) incitent les entreprises de services à se délocaliser.

Sur le sillon des grands pays industrialisés, le Maroc a choisi la voie du libéralisme et a procédé à l'ouverture de ses services publics au secteur privé. Le secteur des télécommunications n'a pas échappé à ce processus avec la privatisation partielle de

l'opérateur national, ITISSALAT AL MAGHRIB, devenu depuis peu MAROC TELECOM.

Secteur stratégique, il est jugé vital pour le développement des activités privées et publiques du pays, l'information constituant de nos jours un facteur de plus en plus important dans les processus de commercialisation et un instrument de compétitivité décisif pour l'entreprise.

De plus, la libéralisation des télécommunications internationales a incité le Maroc à s'investir dans les télécommunications de demain. Doté maintenant d'une structure réglementaire indépendante (Agence National de la Réglementation des Télécommunications : ANRT) et d'un réseau numérique généralisé et en développement constant, le pays pourrait s'avérer être un candidat sérieux pour devenir une des plaques tournantes des télécommunications africaines, avec l'Egypte qui nourrit la même ambition ainsi que l'Afrique du Sud. C'est tout du moins la volonté affichée par les décideurs marocains .

LES AXES DE DEVELOPPEMENT D'UN CALL CENTER AU MAROC

Il est indispensable de développer le centre sous deux axes complémentaires

a) Le développement du marché

Trouver des partenariats locaux (agences de communication), prospector avec une force de vente les entreprises de taille importante (les plus petites sont trop familiales pour consacrer un budget) et développer des relations avec les médias, les Marocains y sont sensibles.

Par exemple, ALIF spécialiste du co-branding, qui gère le budget télévision de grands comptes est qui fait souvent appel à des partenaires, DRIVE, filiale d'un groupe Saoudien qui gère le budget importation Toyota pour le Maroc, Publicisetc....

Le choix des prestations:

Il faut savoir proposer l'ensemble des services clients à une entreprise marocaine qui a souvent des filiales en France et en Europe (téléservice, télémarketing, e-business, fax, saisie). Ce genre de call center multimédia appelé à se développer en Europe

n'existe pas au Maroc. Proposer l'ensemble des prestations, c'est se positionner en leader du marché dès aujourd'hui.

La majorité des sociétés au Maroc qui font appel à des call centers sont des sociétés d'assurances et des établissements financiers.

Un marché encore voué à se développer:

L'essor économique du pays va encourager les entreprises à utiliser le marketing comme axe de développement mais elles n'ont pas aujourd'hui le réflexe des entreprises européennes et américaines. Beaucoup d'entre elles pensent que ces opérations coûtent de l'argent mais n'en rapportent pas. Un gros effort de formation et d'apprentissage est à faire mais il devrait être gagnant rapidement.

b) Le développement par le biais de l'outsourcing

Les faibles coûts de production sur place vont rendre les offres sensiblement plus compétitives pour le client situé en Europe. La crédibilité de AZ LINK enlèvera toute interrogation sur des éventuelles défaillances techniques et de viabilité.

Il est indispensable pour la viabilité du call center au Maroc de déléguer des ingénieurs (commerciaux, techniques, etc ...) de France dont le rôle serait de développer l'outsourcing pour le call center en proposant ses services à des clients locaux, européens et français soit:

- à des entreprises qui ont des difficultés à recruter en France (help desk),
- à des entreprises européennes qui ont des activités en Afrique du Nord : le call center serait la passerelle idéale entre les filiales,
- à des sociétés de conseil dans l'e-business.

Cet axe de développement est à privilégier, car il favorisera immédiatement la viabilité du centre, la prospection locale devant naturellement prendre un minimum de temps.

Les facturations n'échapperont pas à une remise comprise entre 18 et 25 % du prix payé en Europe. Mais elle sera largement compensée par les coûts salariaux du Maroc, ce qui permet d'envisager une marge nette comprise entre 35 et 50 %.

Le marché local est très loin du marché européen en termes de volume de facturation: près de 300 % de moins. Malgré tout, les marges restent sensiblement les mêmes qu'en Europe.

L'outsourcing au bénéfice de clients européens produira un effet de levier important du fait des faibles coûts salariaux et d'une relative préservation du volume de facturation par rapport à l'Europe: une marge de 40 % est envisageable.

Société utilisant le call center implantées au Maroc H2A, société française de télémarketing a créé une entreprise à Casablanca en association avec une agence de marketing. Ils ont mis en place pour l'opérateur téléphonique IAM Marocco un call center de 200 positions.

Telefonica a installé le plus grand call center d'Afrique avec 1000 positions pour leurs besoins internes, avec un objectif de 2000 positions à court terme. Il représente sans doute le plus sérieux concurrent sur le marché africain.

Mondial Assistance a créé un call center à Casablanca qui pourrait gérer jusqu'à 200 positions. Il a reçu le label Iso 9002. Il existerait donc 3 centres d'appel capables de gérer plus de 1 00 positions à l'heure actuelle.

Les services clients sont quasi inexistantes au Maroc. Il y a très peu de numéros verts. Il n'existe au Maroc qu'environ 80 numéros verts dont la majorité n'est pas exploitée. Ils sont gérés pour l'essentiel par des établissements financiers et des compagnies d'assurances.

En tout état de cause, le nombre de call centers existant reflètent une certaine réalité du marché local. Les besoins sont énormes mais la présence très faible des professionnels européens laisse à penser que le marché n'en est encore qu'à ses balbutiements et qu'un apport important en prospection et en pédagogie est à faire.

Toutefois, les nombreux projets des concurrents font penser que le marché devrait se développer très fortement dans les cinq ans à venir.

Des difficultés subsistent

S'implanter au Maroc et plus particulièrement à Casablanca est facile mais:

- les bureaux de grande superficie (plus de 2000 m') sont difficiles à trouver au centre ville,
- une mentalité encore peu adaptée au marketing (un effort pédagogique est à faire),
- des risques d'impayés de fait du peu d'efficacité et de la jeunesse des tribunaux de commerce,
- un problème technique à résoudre (indispensable): il est impossible de connaître les risques de coupure des lignes et des qualités des transmissions,
- il n'y a pas, de supervision pro-active de la part de l'opérateur marocain. Il faudra contrôler la qualité des lignes, et mesurer les éventuelles coupures de communication et ses fréquences,
- de trop fréquents échecs de transmission deviendraient rédhibitoires pour le bon fonctionnement du call center.

On ne peut pas dire que jusqu'à aujourd'hui, les télécommunications aient constitué un des handicaps majeurs dont souffrent l'économie marocaine et ses entreprises. Mais ils pourraient dans le futur et malgré toutes les augmentations de densités téléphoniques devenir un handicap au développement économique si elles ne s'adaptent pas assez rapidement aux contraintes croissantes de la compétitivité internationale.

L'insuffisance actuelle d'informations sur les aspects micro-économiques des télécommunications marocaines

De nombreuses informations indispensables pour situer le rôle des télécommunications publiques au sein de l'économie marocaine sont absentes ou très insuffisantes. A titre d'exemple:

Les télécommunications comme consommation finale et comme facteur de bien-être de la population.

Informations sur les taux de pénétrations résidentiels: quelles populations, quels pourcentages des habitants urbains et ruraux sont aujourd'hui raccordés ? Quels sont leurs revenus, leurs coefficients budgétaires consacrés aux télécommunications...

Les télécommunications comme consommations intermédiaires et facteurs de production et de compétitivité des entreprises et de l'économie nationale:

Informations sur les consommations des télécommunications par secteurs économiques (telles qu'elles existent pour l'électricité), par les grandes entreprises et les grands comptes.

Informations sur les produits et coûts des divers services locaux, interurbains, internationaux, offerts aux diverses catégories d'utilisateurs ruraux ou urbains.

Les seules informations disponibles sont la répartition entre produits des trafics nationaux et internationaux et une estimation de la répartition des produits. Faute d'une comptabilité analytique appropriée, les coûts des divers services rendus aux divers utilisateurs, et donc les subventions croisées entre eux sont très mal connues.

On ne dispose aujourd'hui que d'indices, ou de tests de cohérence qui permettent de faire certaines hypothèses et certains premiers diagnostics qui mériteraient évidemment d'être précisés: saturation proche de la demande solvable, qualité de service insuffisante pour les grandes entreprises, tarification très déséquilibrée ne reflétant pas les coûts, avec des prix des communications longue distance et internationales trop élevés et des redevances de raccordement et d'abonnement insuffisantes.

CONCLUSION: Opportunités économiques des Nouvelles Technologies d'Informations pour le Maroc

Saisir les opportunités qui nous sont offertes par les nouvelles technologies d'informations et particulièrement par l'Internet et les call centers est un vrai défi pour le Maroc, et peut servir d'exemple pour la Roumanie.

➤ un défi pour l'emploi: les nouvelles technologies ont un impact fort sur la croissance et l'emploi

Une étude récente, publiée par le Wall Street Journal, leur attribue le tiers de la croissance enregistrée aux Etats-Unis l'année dernière. Plus récemment, une étude réalisée par le cabinet Booz-Allen et Hamilton estime à un million d'emplois le manque à gagner dû au retard de l'Europe dans les technologies de l'information.

➤ un défi pour nos entreprises: les NTI sont une opportunité économique pour les Marocains que nous sommes et nos PME-PMI ne peuvent ignorer ces nouveaux outils qui leur permettent, à un coût modeste, de toucher un marché mondial et de coopérer avec des partenaires éloignés.

➤ un défi pour la culture marocaine: le call center est un formidable outil de rayonnement du Maroc au plan international.

➤ un défi pour l'Etat: l'utilisation des nouvelles technologies dans l'Administration doit être le pivot de la modernisation de l'Etat pour que le service public travaille mieux, coûte moins et apporte un plus grand service pratique aux citoyens.

Le Maroc ne peut se permettre de manquer le grand rendez-vous de la société de l'information et doit faire le choix de s'y préparer dans les meilleures conditions. Il possède pour cela des atouts qui devraient lui permettre de réagir et de rattraper son retard: un réseau national, de télécommunication totalement numérisé. Le gouvernement marocain a d'ores et déjà pris certaines mesures dans ce sens et nous ne pouvons que nous en féliciter. Mais il est nécessaire d'aller plus loin et plus vite. C'est pourquoi le Gouvernement soutient plusieurs rencontres visant à développer au Maroc l'utilisation des nouvelles technologies et le développement des services à valeur ajoutée pour bâtir la société marocaine de l'information concernant l'ensemble des secteurs : éducation, culture, administration, particuliers et entreprises. Si nous en avons la volonté, nous pouvons, en l'an 2020, faire de notre pays l'un des exemples mondiaux dans l'utilisation des nouvelles technologies.

Ce défi marocain peut s'appliquer à la Roumanie, dans le cadre de son intégration dans l'Union Européenne à partir de 2007. Des partenariats peuvent être établis avec des transferts de savoir faire.

BARRIÈRES DE COMMUNICATION DANS LE MILIEU D’AFFAIRES

Dr. Gabriela BODEA, Maître de conférences

Candidat au doctorat Adina REBELEANU, Chargé de cours

Université „Babeş-Bolyai” Cluj-Napoca, Roumanie

***Termes clef:** les barrières dans la communication; la réaction du feed-back; le milieu des affaires; la communication éthique.*

Résumé:

*Au moment où un fait, une chose, une personne ou un processus diminue ou interrompt (ent) le procès de transmission d’un message, cela signifie que les ainsi nommées **barrières dans la communication** se manifestent. En quel contexte peut-on en parler? Les problèmes apparaissent déjà du moment où la réaction au feed-back est détériorée, respectivement au moment où la réponse à un stimule soit s’attarde à apparaître, soit est erronée, soit elle n’intervient plus. On se réfère, en fait, à la nécessité de vérifier les manières de transmettre les données et la qualité de l’acte informationnel.*

*Pour parler de manière concrète, le travail aborde les principales **barrières que la communication rencontre dans le milieu d’affaires**. Exemplifiées ou*

argumentées, elles accèdent vers des confrontations générées par les notions ou syntagmes suivants: **problèmes vs. personnes; concret vs. général; pragmatisme vs. théorie**; 2. **influence vs. manipulation**; 3. **des conflits**; 4. **l’absence de la communication éthique**; 5. **les facteurs professionnels - comme source des barrières dans la communication d’affaires**.

Conclusion: Contrairement aux apparences, le moyen économique vit à travers les affaires; malheureusement, l’efficacité des affaires – quoi que influencée par les barrières de communication (plusieurs de nature éthique), n’est pas obturée par celles-ci, en étant motivée par le profit.

1. Regard général sur les barrières de la communication

Selon Michel Foucault, dans la culture occidentale, „il avait été impossible pour l’homme et pour le langage de coexister et de s’articuler mutuellement” [3, p. 351]. En surpassant l’aspect philosophique du problème – l’éternelle contradiction entre la forme et le fond – la communication est celle qui facilite, qui entrave ou qui interdit la liaison entre l’individu et le langage, en effet entre l’homme et ses proches.

Au moment où un fait, une chose, une personne ou un processus diminue ou interrompt (ent) le processus de transmission d’un message, cela signifie que les ainsi nommées **barrières dans la communication** se manifestent. En quel contexte peut-on en parler? Les problèmes apparaissent déjà du moment où la réaction au *feed-back* est détériorée, respectivement au moment où la réponse à un stimulus soit s’attarde à apparaître, soit est erronée, soit elle n’intervient plus. On se réfère, en fait, à la nécessité de vérifier les manières de transmettre les données et la qualité de l’acte informationnel (partir des capacités de l’émetteur et de la voie de communication choisie, jusqu’aux traits du récepteur du celui auquel le message est arrivé).

Les barrières communicationnelles peuvent être intégrées dans les catégories suivantes: *linguistiques* (une langue inconnue pour l’auditeur); *sémantiques* (des difficultés à exprimer quelques notions; des confusions); *éducationnelles* (des sens

qui surpassent la compréhension du récepteur; des différences dans le degré de préparation de l'émetteur / récepteur); *psychologiques* (des sentiments de manque de confiance ou d'antipathie à l'égard de la fonction, âge ou sexe de l'émetteur; l'absence d'une réaction de la part des interlocuteurs; la passion pour la lutte des contraires); *d'attribution* (la fausse perception ou le manque d'attention; la stéréotypie; l'effet de *halo*); *techniques* (des difficultés dans la sonorisation, la fidélité de l'envoi d'un message); *professionnelles* (la préparation inadéquate dans le domaine d'activité; l'échec dans la tentative de faire accepter sa propre idée); *de management* (le désir de pouvoir; la bureaucratie; le manque d'objectivité dans l'évaluation); *de l'ambiance* (l'atmosphère désagréable au lieu de travail; l'adaptation aux conditions des grandes villes; les déficiences dans la mobilité professionnelle).

2. Présentations concrètes: Des barrières dans la communication d'affaires

2.1. Problèmes vs. personnes. Concret vs. général. Pragmatisme vs. théorie.

Le principe de la séparation¹ est une des normes *transgressées le plus souvent*. Il s'agit de ne pas respecter, dans le milieu économique, les concepts *d'équidistance*, de *fermeté de l'opinion* et de *sélection des informations*, à un niveau qui puisse justifier les aspects suivants:

a) La séparation du *problème de la personne qui le manifeste* (la différence entre le fond et la forme), afin de garder l'impartialité de l'analyste: *D'habitude, la relevance du problème surpasse celle de la personne, parce qu'elle essaye de faire abstraction de son porteur, que nous connaissons plus ou moins – et cela peut rendre notre situation encore plus difficile. En dehors du problème de base un autre peut apparaître, celui d'éthique, et plus tard, ils se „battraient” pour la suprématie.*

b) La séparation *du concret des aspects généraux*, afin de se concentrer sur la structure de base de la communication – et non pas de dissiper de l'énergie vers des informations connexes: *Les cas concrets sont la cause du fait que la généralisation*

¹ La dénomination nous appartient.

acquiesce de la profondeur. On se réfère au fait que le caractère donné par „le cachet” généralement valable s’assortit à une situation qui, apparemment, ressemble à une autre, déjà résolue.

c) La séparation du pragmatisme de la théorie, dans l’idée de l’augmentation du degré d’applicabilité des concepts identifiés par la recherche: ***Le pragmatisme offre de la stabilité et de la valeur augmentée à toute théorie.*** *Il est vrai que, parfois, on est tenté d’accepter la beauté d’une expression ou d’une conception artistique, seulement parce qu’elle fait preuve d’harmonie et de logique dans la forme, dans l’exposition. Mais, en comparaison avec les théorèmes de mathématiques, la communication interhumaine a besoin d’un autre type de poids fondé sur les faits. Il est possible de transmettre des informations et / ou des sentiments, seulement si on se fixe dans la réalité immédiate, exemplifiant et comparant des cas pareilles.*

Chacun des trois éléments présentés (*et trop souvent transgressés*) est une option de l’individu ou de la société. On n’essaye pas d’imposer une perspective ferme, car elle serait unilatérale. Cependant, on mise sur l’importance réelle de la communication, en ce qui concerne *la délimitation de notre sphère d’intérêt.*

2.2 Influence vs. manipulation

L’influence suppose de favoriser une réaction dans le comportement des interlocuteurs, qui provoque le changement de leur opinion et, parfois, même du caractère de ceux-ci. Elle détermine des actions *prévisibles* (anticipées) et des expressions modifiées (faciales et corporelles), en consonance avec le but de „l’initiateur”. On dit même que l’influence est „un phénomène de médiation, dans laquelle les acteurs construisent ensemble une situation commune de référence, les objectifs cognitifs de celle-ci permettant, à travers la relation qui existe entre eux, la production de l’action finale désirée” [8, p. 192]. Dans des termes comparatifs, on constate que *l’intention* est beaucoup de fois plus diabolique que *l’action* et que *le rôle du mot* surpasse très souvent la simple *transmission de quelques informations.*

„Tout mot constitue une tentative d'influencer l'autrui. Lorsque j'affirme cela, j'essaye d'imposer ma propre idée.” [8, p. 11]

Les mots et les actions nous montrent que *influencer* et *induire* sont des verbes qui changent notre comportement au moins dans trois modalités, toutes *persuasives*: la première, appuyée sur l'élégance de l'esprit et sur la confirmation de la discrétion (voir *la diplomatie* et *l'art* – comme domaines de référence pour ce type de communication); la seconde, dirigée par la compassion et le sentiment (voir *les cas sociaux* de mendicité, d'abandon et d'autres); la troisième, centrée sur la manipulation. Si les premiers deux repères visualisent la communication *positive*, le troisième exemplifie exactement une des barrières de la communication et, en conséquent, nous allons nous concentrer là-dessus.

L'influence *négative* ou *par altération*² est générée par l'interaction, mais non *pas toute interaction signifie communication*; elle le devient, au moins si l'émetteur d'une idée lui *aussi* – pas seulement le récepteur- est marqué par ce qu'il affirme. Il ne doit pas être nécessairement *affecté*, mais il doit s'impliquer dans la discussion, *sans induire son partenaire en erreur*. Et, cependant, de *la conviction* jusqu'à *l'influence* et d'ici jusqu'à *la manipulation* il n'y a qu'un seul pas: plus petit ou plus grand, plus simple ou plus difficile à réaliser.

Manipuler se traduit avec *manoeuvrer*, c'est-à-dire avec déterminer quelque'un à exécuter une action ou à dire quelque chose. Probablement, la personne dont on parle ne ferait pas la chose respective par initiative personnelle, sans l'apport insidieux d'une „personne bien intentionnée”. Mais, quand, l'homme se laisse accaparé par des tentations, quand il se montre comme étant vulnérable – et cela résulte de l'attitude – il est passible de doute et il cède aux facteurs extérieurs.

Si un homme d'affaires est influençable, ses valeurs personnelles perdent du terrain en faveur „des chuchotements” glissés à son oreille, et il est manipulé comme une marionnette, dans un véritable théâtre de marionnettes. C'est une sorte de jeu, mais la nature imprévisible, l'aspect problématique et l'impact stratégique du jeu

² Le syntagme nous appartient.

typique restent valables (et ils s'accroissent même, sur leur pente **négative**), au détriment d'un élément essentiel, qui se perd le long de la manipulation: le caractère agréable de la **compétition**.

Les attitudes ou les gestes résultés de la manipulation *induisent* une communication *calculée*, subtile. Ce n'est qu'ainsi que l'influence *sera acceptée de soi et elle aura du succès*. Si les manipulateurs ne sont pas de professionnels, les personnes visées se rendront compte du péril dans lequel elles se trouvent, et le *processus insidieux* sera rejeté. On note le fait que „la réponse” des interlocuteurs est générée par leurs qualités de décorateurs des messages *implicites*, par leur degré d'intelligence et d'éducation, mais aussi par un ... *n*^{ième} sens.

Il ne faut pas oublier un aspect: celui selon lequel le péril extrême de la manipulation réside dans ses *conséquences*. Très souvent, la simple affirmation de quelques faits (qu'ils soient vrais ou faux) ou la publication d'une nouvelle, peuvent déclencher des guerres médiatiques, des crises sociales ou même politiques. Le risque d'une telle initiative est immense, prenant en considération ses conséquences, parfois de longue durée. C'est au moins à cause de cette sorte de raisons que la manipulation – sous-entendue ou évidente – devient, *in extremis*, un aspect du manque de respect vers sa propre personne et / ou vers la communauté.

N'importe la manière de laquelle elle est réalisée, *l'influence négative du processus de communication* (la manipulation) est tributaire au moins aux caractéristiques suivantes [d'après 9, pp. 125-128]: le contexte *d'espace et de temps et celui social*, le contexte *culturel (d'expressivité)* et le contexte *sensoriel*.

2.3. Les conflits

Parmi les principales *causes des conflits* on remarque au moins les suivantes, qui affectent *visiblement* la capacité de communication:

➤ La source de base des intérêts opposables c'est *l'hétérogénéité des composants* d'un tout [2, p. 20], chacun porteur d'une autonomie *relative*. D'où vient

ce caractère relatif? Il faut trouver une solution intermédiaire entre *l’asservissement complet* et *la lutte hiérarchique de chaque individu contre tous les autres*.

Le désordre n’est pas l’antonyme du terme ordre, mais sa notion complémentaire, sans laquelle le tout rationnel ne serait pas complet. Le désordre ne crée pas de chaos par sa simple existence [4], mais il contourne de manière plus prégnante le caractère ordonné de la vie.

➤ *Les déséquilibres* représentent une seconde cause importante des conflits. *La rupture* provoquée par les manifestations négatives d’un groupe social, sur un système reconnu de valeurs, constitue un exemple dans ce cas. Elle dénature le sens même de la communication interhumaine, en promouvant le faux et la mystification.

On parle du conflit entre les générations (des managers „restés en arrière” et des subordonnés éternellement mécontents de l’horizon „étroit” des chefs). Mais les jeunes d’aujourd’hui sont les futures managers et, à leur tour, ils vont apostropher leurs employés, à avoir transgressé les règles préétablies.

➤ La troisième source des malentendus est *la recherche à tous prix de la rationalité* dans la pratique, à condition qu’elle soit une sorte de *Fille Morgana* désirée, mais hypothétique. Il y a, ainsi, un conflit d’intérêts entre les effets attendus, possibles et obtenus, et le résultat n’est pas toujours conforme aux calculs, mais, souvent, *au-dessus* de leur niveau. Et la communication perd son essence.

Dans un jeu économique non coopératif il est difficile de prévoir qui va gagner, car on assiste à la guerre „d’un seul individu contre tous les autres”. Dans le jeu coopératif, le conflit devient collectif.

➤ Les affaires internationales et les causes de grandes conflagrations montrent que les échecs des marchés et de la société sont dérivés non seulement des erreurs technico-économiques, mais aussi de *l’intolérance envers les différences entre les cultures organisationnelles*. C’est ainsi que la communication entre l’Etat et les citoyens / entre les pays évolués et ceux moins développés est altéré.

En admettant les étalons de la culture organisationnelle qu’ils doivent s’assimiler, les employés immigrants sont regardés, presque dans tous les pays du

monde, comme des **pseudo acceptés**. Mais, à leur tour, ils sont les représentants de quelques cultures nationales et ils ne renonceront si facilement aux percepts auxquels ils croient. Les barrières de la communication sont représentées, ici, par des facteurs comme: la difficulté d'utiliser une langue commune, le manque de la collaboration et le racisme.

2.4. Le manque de la communication éthique en affaires

L'éthique est un concept hors du temps. Elle s'impose dans toutes les époques et dans toutes les sphères de l'activité humaine, d'un esprit de décence (non)avoué.

„On émet des jugements moraux avec une fréquence plus grande qu'on l'avait soupçonnée et souvent on le fait presque inconsciemment. (...) De plus, le plus souvent ces jugements spontanés – tant catégoriquement exprimés – ont une forte charge affective, qui déséquilibre leurs motivations réelles aussi que leurs conséquences. Le même comportement nous semble inacceptable si nous en sommes l'objet, mais justifiable si nous en sommes le sujet et une autre personne le supporte. Paradoxalement, le cercle se clôt et les jugements moraux qu'on émet deviennent immoraux juste parce qu'ils sont contredits par nos actions de potentiels agents moraux.” [10, p. 62]

Si on se réfère au **manque de l'éthique en affaires**, on considère la transgression des principes de la communication dans une organisation et – en même temps – dans tout milieu concurrentiel:

↳ **Le manque de la loyauté envers l'organisation:** Un jeune homme démissionne pour travailler dans une entreprise concurrente. Les raisons de son départ sont importantes: s'agit-il **ou non** de la transgression du code moral? Si l'ancien patron n'a pas mis en valeur le capital humain trouvé à sa disposition et s'il ne s'est intéressé qu'à l'accomplissement des attributions de travail, la réponse à la question est négative. L'éthique est, cependant, transgressée, si le jeune homme est parti **après avoir bénéficié** de stages de préparation supplémentaires ou de qualifications payées par l'entreprise. Dans ce cas, aucun argument moral ne justifierait le départ de la „matrice” qui l'a formé comme professionnel, vers une

↳ **L'inexistence de quelques principes de vie et de travail, la disparition de la collégialité et „de l'esprit d'équipe”:** *Le manager d'une entreprise dépend en quelque sorte de l'appui des subalternes. S'ils sont blasés, apathiques et s'ils ne sont pas intéressés, cela signifie qu'ils ne sont pas motivés et que l'équipe de direction doit encore travailler dans la construction de son image.*

↳ **Le manque de la générosité:** *La générosité – qualité rare dans le milieu d'affaires – s'impose surtout lorsque les employés **méritent des récompenses**. Il ne s'agit pas nécessairement d'avantages pécuniaires, mais aussi du sentiment de gratitude qu'ont ceux en cause, quand on leur dit „Bon travail!”. Et cependant...tout homme ne peut pas être généreux.*

↳ **La tentative de sortir, à tout prix, des situations limite:** *Le désir d'échapper à une conjoncture défavorable est propre à toutes les personnes. Ce qui diffère, cependant, est **la modalité** par laquelle on réalise une telle intention. En supposant qu'on est surpris d'une question à laquelle on ne sait pas ou on ne peut pas donner – à l'instant – une réponse, l'une des extrêmes solutions choisies est le syntagme connu „Si on ne peut pas les convaincre, il faut les abasourdir.” [5, p. 29]*

↳ **La transgression des promesses:** *C'est le cas des campagnes électorales où on dépense des tonnes de papier et de plastique – en contenant des programmes pour soutenir la candidature – à la suite desquels restent beaucoup de promesses qui n'ont pas été réalisées (voir le cas „des cycles électoraux”).*

↳ **L'humiliation „gratuite”:** *On se réfère à l'attitude du type: „Je fais n'importe quoi pour avancer”, manifestée pour contenter un supérieur. Soit $S = U / C$ (où: S – le statut d'un individu dans une organisation; U – le nombre des portes que la personne respective doit ouvrir pour accomplir son travail, C – le nombre des clés qu'il possède). Plus la valeur indiquée par le résultat du rapport est élevée, plus haut est le statut social dénoté par la situation en cause (et vice-versa). Par exemple: Un concierge doit ouvrir 20 portes et il a à sa disposition 20 clés ($S=1$). Une secrétaire doit ouvrir deux portes avec une seule clé ($S=2$). En échange, le président*

de la compagnie où travaillent les deux, n'a plus besoin de clés, parce qu'il y aurait toujours quelqu'un à côté de lui pour lui ouvrir les portes ($C=0$ et, théoriquement, $S \rightarrow \infty$) [d'après 5, pp. 32-33].

2.5. Les facteurs professionnels – des barrières de la communication en affaires

La communication managériale a pour but l'application de la stratégie présumée par la culture organisationnelle, et son „interruption” attire au moins les problèmes suivants:

- ✓ Parce qu'elle dépend des qualités et des aptitudes de ceux qui la conduisent, la communication est dénaturée par **le manque du talent de négociateur**.
- ✓ Ayant pour but non seulement la simple transmission de messages, mais aussi le changement de la mentalité individuelle ou de groupe, la communication managériale est tributaire **aux difficultés d'adaptation**.

Analysons „**la guerre**” **du monde des affaires**. Les conflits sont des problèmes de survivance et les manifestations belligérantes ont toujours existés. Le stratège Sun Tzî³ dévoile, cependant, un secret: celui que *toute guerre peut être gagnée **non** par une lutte proprement dite, mais par l'induction en erreur des adversaires* (par la manipulation professionnelle). Selon Sun Tzî, la réussite dans la guerre met en balance plutôt *l'attente du but* que la moralité. Elle dépend de cinq facteurs essentiels: *la voie* – qui vous donne la possibilité de choisir entre suivre „le torrent” ou vous y opposer, à votre dam et dommage; *le temps* – favorable ou non; *le terrain* – accessible ou non; *l'administration* – à travers le courage, la sagesse et la loyauté; *la discipline* – comme facteur de commande et de respect hiérarchique.

Sur des principes pareils au développement des guerres proprement dites, on met en discussion le sujet de la lutte pour obtenir le pouvoir économique sur le

³ Sun Tzî (dans certaines sources Sun Tzu et dans certaines d'autres Sun Tze) a été un célèbre général chinois, devenu „le père de la stratégie de l'armée”. Ses enseignements, conservés à l'écrit du VI^{ème} siècle avant Jésus-Christ, constituent même de nos jours des éléments des stratégies de guerre et ils sont étudiés dans les grandes académies militaires du monde.

marché. La concurrence acerbe, aveugle est – d’habitude – le résultat du manque de communication entre les parties impliquées dans „la guerre”. À l’exception des monopoles, qui limitent le régime et „l’expressivité” du marché, les autres formes de concurrence permettent la collaboration et même la coopération.

Sun Tzî affirme: „L’art entier de la guerre se base sur la tromperie. Pour cela, si vous êtes capable, simulez l’incapacité; si vous êtes actif, simulez la passivité. Si vous êtes proche, laissez croire que vous êtes loin. (...) Attirez l’ennemi pour le faire tomber dans la piège; simulez le désordre et donnez lui un coup. Quand il se concentre, préparez-vous pour lutter contre lui; évitez-le là où il est fort. Énervez-le et déroutez son commandant en chef. Faites sembler que vous vous trouvez en une position inférieure et encouragez-le de se vanter. Ne le quittez pas des yeux ni au moins pour un instant, harcelez-le. S’il est uni, vous le désunissez. Attaquez-le au moment où et là où il n’est pas préparé; actionnez lorsqu’ il ne s’y attend pas.” [11, p. 33]

Le but de la lutte de concurrence est le fait de gagner un profit plus grand que possible. *La confrontation* ne montre pas nécessairement *le manque des relations de communication*, mais, dans beaucoup de cas, *l’échec de celles-ci* ou *les canaux inadéquats / immorales auxquels on a fait appel*. Les mises sont trop grandes, et la fierté des „belligérants” trop accentuée pour céder les uns devant les autres. Les pratiques du genre *esquive* et *encerclément* sont archiconnues, pour *influencer*, pour *convaincre* ou pour *manipuler*. Même si, au début, la technique de conquérir un objectif économique (un marché, par exemple), devrait être pacifiste, elle n’épuise pas tout le spectre des méthodes „classiques”. Ultérieurement, la compagnie en cause recourt à *des trucs* et aux divers moyens *illégaux*, par lesquels elle atteint ses buts.

• Dans la plupart des cas, la victoire *visible* appartient à l’organisation la plus forte (celle subversive), mais ce qui compte est le moment où „la lutte” éclate, comment cela se développe et combien de temps dure cela, qui cède le premier et pourquoi (à cause de l’erreur de l’adversaire ou à cause du fait qu’il ne pût plus résister). Ce qui est important est: l’attention, la maîtrise des techniques

concurrentielles, la précision et la manière de collaboration entre le manager („le commandant”) et son équipe de travail („les soldats”). De ce point de vue, la communication à l’intérieur des compagnies „belligérantes” est initiée par l’intervention volontaire des facteurs de décision. Le degré de communication est *visible* le long „de la guerre”, mais il peut être évalué à peine à la fin.

- Il y a aussi une partie *invisible* de la stratégie belligérante en affaires, qui dépasse les aspects de profitabilité et de productivité. Elle est beaucoup plus sensible de *ce qu’on voit* et elle vise l’impacte d’avoir des relations avec „l’ennemi”.

D’après „le modèle” de la stratégie chinoise de la guerre, on admet que les managers peuvent avoir au moins „cinq défauts dangereux: l’indifférence, la timidité, l’irascibilité, la faiblesse et le soin excessif”[6, p. 98] envers les subordonnés. On mentionne que les défauts rappelés ont une influence non seulement sur les manières de communication, mais aussi sur la confiance des salariés en ce qui concerne les capacités de chef de celui qui les représentent.

D’autres facteurs professionnels qui attirent *des distorsions dans la communication en affaire:*

I.) L’incompétence: *Une personne compétente sait ce qu’elle a à faire, parce que tout homme „a sa place”. Le fait de masquer l’incompétence est réalisé d’habitude par **dureté injustifiée, ton haut dans les discussions ou le changement du sujet.** „Dans n’importe quelle hiérarchie, chaque employé tend vers son propre niveau d’incompétence” (tout poste tend à être occupé par un virtuel incompétent **pour celle position de d’organigramme**), et „l’incompétence ne connaît pas de barrières de temps ou d’espace.” [d’après 5, p. 29] De plus, il ne faut pas oublier que les employés incompétents dans une hiérarchie ont des objections violentes à l’incompétence de leurs collègues [5, p. 29].*

II.) Le manque de reconnaissance de la valeur des subordonnés ou des collègues: *Est-ce qu’on délimite les fonctions selon **la personne en soi (qui nous plaît ou non)**, ou selon des critères de performance? Qu’est-ce qui compte avant*

tout: que l'organisation fonctionne et fasse un profit le plus grand que possible, ou que son activité soit sans aucune tache morale?

Aux obstacles rappelés, qui peuvent empêcher les manifestations déontologiques de la communication dans la sphère économique, on ajoute aussi les obstacles suivants: **la censure; la législation; les réglementations excessives; la bureaucratie; la routine et le conservatisme; le découragement de la créativité; l'empêchement de la manifestation des opinions; l'intention d'obtenir un profit le plus rapide que possible, n'importe comment et de n'importe quoi.** L'impasse générée par la manière déontologique de la communication est conféré, ainsi, par son double caractère: moral (personnel) et publique. On y ajoute, séquentiellement, le rôle du pouvoir d'État et, parfois, celui de la rampe politique.

*La motivation de l'intrusion des institutions de l'État dans problèmes de communication est relativement simple. Elle a aux origines le désir de pouvoir et d'accaparement „des règles du jeu”. Et ce fait est vraiment possible, si on pense que le domaine des **mass média** devient une industrie profitable. D'ici et jusqu'à influencer les électeurs il n'y a qu'un seul pas, sachant que les autorités voient la presse comme une véritable et permanente menace.*

3. Des conclusions concernant l'efficience des affaires dans les conditions de l'existence des barrières de communication

De ce qu'on a observé jusqu'ici, par la réaction stimulus-réponse, la communication peut être, quelques fois, *paradoxe* [7, pp. 105-110]. **La manière la plus fréquente** dans laquelle le paradoxe apparaît dans la communication „est celle d'un ordre qui sollicite un comportement déterminé qui, par sa nature même, ne peut être que spontané” [12, p. 200]. Autrement dit, „l'inadéquation” survient quand la communication faite référence à *deux sens contradictoires du même message* (une composante de contrainte, secondée par une composante affective). **Un autre cas** remarqué est celui du *couple conflictuel langage-gestique*.

L'émetteur d'une idée espère trouver des adeptes parmi les récepteurs, mais leur *feed-back* dépend de la valeur du message pour eux-mêmes et du talent de l'émetteur de motiver son intention. La finalisation du procès – la communication – dénote l'apparition de quelques réactions visibles ou non, directes ou indirectes.

Les effets de la communication en affaires sont multiples. Ceux négatifs (qui ne sont pas désirés), auxquels se réfère l'ouvrage ci-joint, sont déterminés par des facteurs internes et externes: *le rapport entre intention et résultat; la conjoncture défavorable de la communication* (bruit de fond, des sonneries, la chaleur excessive ou le froid, l'atmosphère tendue); *l'état de ceux qui transmettent / reçoivent des informations* (le stress, la fatigue, la nervosité); *le style de communication; l'attitude et le degré d'éducation* de ceux qui participent au processus de communication.

Dans de telles circonstances, peut-on encore parler de **la déficience des affaires**, quand le milieu adjacent de celles-ci est un milieu *plein de vices*? Eh bien, malheureusement...oui.

„Si longtemps que la direction se préoccupe tout d'abord de rentabilité, elle ne devrait pas être chargée de la déontologie Elle peut être tentée de cacher une faute quand cela satisfait ses intérêts ou elle-même peut être, d'ailleurs, celle qui a sollicité son employé. Dans le cas d'un scandale public, le journaliste devient le bouc émissaire, et le code (déontologique, n.n.) peut servir à évincer les employés qui déplaisent.” [1, p. 126]

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LA COMMUNICATION DANS LES ESPACES MULTICULTURELS

Associate Professor PhD. Gabriela VASILESCU

Petroleum and Gas University, Ploieşti

L'évolution du processus de communication met en attention un concept qui permet une analyse plurivalente sur les espaces multiculturels – la culture communicationnelle. Ce concept rend possible le déchiffrement des relations entre ethos, logos et pathos, contient l'échange d'information obtenue par un message dans un contexte qui libère le processus communicationnel des barrières nationales. La culture communicationnelle est une résultante du processus de globalisation, entraînant les acteurs sociaux vers de nouvelles coordonnées axiologiques par l'internationalisation des économies et des cultures. Au niveau global, on observe l'apparition de nouveaux standards éthiques dont les actants de la communication ont besoin au moment du passage au-delà des espaces culturels nationaux. La communication a un caractère bivalent étant un instrument d'émancipation de l'individu mais aussi le moyen de contrôle des autorités économiques et politiques par l'impôt de certains modèles de comportement et de certaines représentations sociales.

L'apparition et le développement de la pensée communicationnelle a été possible par l'affranchissement des frontières entre les disciplines scientifiques et

comme effet de modifications survenues dans la vie politique et dans les pratiques des agents sociaux. La pensée communicationnelle demande des efforts théorétiques pour sa consolidation car elle inscrit dans son contenu les modifications qui ont lieu dans le monde contemporain. La communication occupe une place importante dans les réorganisations à l'échelle mondiale étant l'acteur principal dans le processus des internationalisations des cultures et des économies.

Une réalité naît devant nous, c'est la globalisation qui unifie et divise des professions, des professions, des marches, des destinées. En même temps que ce phénomène tellement étrange, représente un moyen qui encourage son activité – la culture communicationnelle.

La parole n'est qu'un instrument pour exprimer une pensée, un signe que quelqu'un fait pour éveiller dans la tête identique de quelqu'un d'autre la même idée, et lorsqu'on est âpres, ce n'est pas les paroles qui sont âpres, mais la vérité que l'on veut dire. Si la personnalité du poète Mihai Eminescu représente un symbole pour la culture roumaine, le contenu informationnel de son message peut être rendu actuel dans n'importe quel espace culturel. C'est un message universel qui maintient le lien avec l'ethos roumain.

Tout moment historique a besoin d'un dialogue avec la tradition, avec son patrimoine de valeurs. L'histoire de toute culture survit par une continuelle réinterprétation de soi-même, une réécriture des thèmes majeurs fonction des contextes qu'elle parcourt. D'ici, le besoin d'interpréter de nouveau les valeurs nationales, chaque fois qu'apparaît une étape transitoire qui marque une nouvelle façon de comprendre et d'interpréter le monde. La nouvelle façon de penser fait recourir à de nouvelles coordonnées qui rétablissent le patrimoine national, en esquissant les frontières d'une identité culturelle.

Une fois l'identité récupérée, on peut communiquer avec d'autres cultures. Autrement dit, tout en se reconnaissant, on peut communiquer avec les autres cultures

et on peut entrer dans le circuit des valeurs universelles. La communication représente l'identité d'un espace culturel mais aussi la possibilité d'entrer en relation avec les autres espaces culturels. Elle est à la fois unicité et altérité, c'est l'expression d'une subjectivité mais aussi une question d'intersubjectivité.

Si dans l'Antiquité, il y avait des valeurs fondamentales- Le Juste, Le Beau, Le Vrai qui coordonnaient toute action humaine, aujourd'hui plus que jamais, on veut connaître ces valeurs par l'intermédiaire desquelles on articule notre vie politique et sociale, tout en définissant notre existence à côté d'autres présences culturelles. La dimension interactionnelle de la communication synchronise le monde avec *le pouls de l'événement planétaire*. Un tel processus réside de la structure de toute culture qui lie des dialogues permanents avec d'autres cultures, l'élément national ne pouvant avoir d'identité que sur le fonds de l'élément international.

La culture thésaurise et accumule des valeurs, retient ce qui est durable dans le plan spirituel, tout en dépassant les limites de l'espace et tout en défiant le temps. Voilà la raison pour laquelle les valeurs culturelles représentatives pour une époque et qui sont une façon de comprendre le monde, acquièrent de la stabilité et anime l'espace d'une communauté. Ces valeurs manifestent leur pouvoir par l'influence qu'elles ont sur les façons de penser et de chérir de toutes les situations existentielles. *Les valeurs sociales sont des produits de l'esprit* et le fait culturel suppose *la valeur culturelle*. Les valeurs culturelles sont des valeurs inscrites dans l'aire de la civilisation, *parce que la vie acquiert de la valeur par la réalisation des œuvres*.

En dépit de tout cela, les valeurs ne sont pas absolues, mais elles sont rapportées aux contextes culturels, tout en modelant l'esprit des contemporains et tout en éveillant l'intérêt pour d'autres cultures. L'époque moderne a intensifié la communication sociale des valeurs et la communication entre les cultures. Les interférences culturelles sont devenues des réalités, soutenues par le développement des moyens médias. Voilà pourquoi les études culturelles se déploient d'une façon *transdisciplinaire*, afin de théoriser la variété complexe des formes sous lesquelles se

manifestent les trois actants principaux de la communication: les médias, la culture et le processus de communication.

Le phénomène de la globalisation auquel on est pleinement témoins, attire un intérêt accentué pour la circulation des valeurs culturelles. Ce phénomène accentue le caractère irréversible du temps par l'accumulation de la direction de propagation des valeurs: le passé –le présent – l'avenir. On préserve le passé pour pouvoir vivre dans le présent et pour envisager l'avenir, à côté d'autres identités dont le passé a influencé leur présent. L'unité entre le passé et le présent est ressentie par un nouveau concept, la culture communicationnelle.

Dans l'ouvrage *La culture média*, Douglas Kellner appréciait: *les médias, étroitement liés au pouvoir, ont colonisé la culture. La culture ne peut être que communicationnelle*

L'analyse de la culture communicationnelle attire l'attention sur un autre concept qui accompagne le processus de la communication en masse – *la pensée communicationnelle*. Cette nouvelle construction théorique, analysée par Bernard Miege dans l'ouvrage *La pensée communicationnelle*, résultat du processus de la globalisation mais aussi *le plus fort ennemi de celle-ci*, il préserve la nostalgie de l'appartenance à un certain ethos, avec tous les éléments d'identité communautaire. A ce propos, Miege définit la pensée communicationnelle comme *étant attentive aux changements survenus dans la politique des états et dans les pratiques des actants sociaux, profondément évaluative dans le temps et variable d'un pays à l'autre- plus rattachée aux préoccupations immédiates applicables aux Etats Unis et généralement plus critique dans l'Europe Occidentale, au moins à ses débuts*.

Le concept de pensée communicationnelle requiert des fondements de la partie de la connaissance scientifique et ne peut pas être séparé des transformations traversées par la société contemporaine. Voilà pourquoi la pensée communicationnelle apparaît et se manifeste une fois avec les interdépendances requises pour franchir les frontières des disciplines scientifiques, avec le besoin de l'intégration de nouveaux courants théoriques, auxquels on ajoute *les nouveautés*

survenues dans la pratique de la vie sociale des pays développés: des stratégies publiques et privées, des idéaux et des attentes qui engendrent de nouvelles manifestations comportementales des actants sociaux. Dans ces conditions, la communication a une dimension bivalente, en étant à la fois instrument dans l'élargissement de l'accès à l'information ou à l'échange des messages et un moyen d'imposer et de généraliser des modèles par les relations publiques et culturelles généralisées.

L'information et la communication ne peuvent pas exister séparément! La communication ne peut se développer sans communication et l'information ne peut pas acquérir de la valeur si elle est isolée, en dehors du processus de communication. Les deux éléments fondamentaux du processus communicationnel, accompagnés de moyens modernes de communication, ont fondé *une société aux éléments extraordinairement enlacés*, à l'intérieur de laquelle ont lieu des phénomènes contradictoires- unification et fragmentation, continuité sur le fonds des identités distinctes. Grand nombre de *marchés fragmentaires, professionnels et privés* qui divisent les gens vont être consolidés sur le fonds de l'idéal de *consensus* auquel adhère la pensée communicationnelle. L'art de persuader inclut dans son périmètre trois éléments essentiels qui influencent le contenu informationnel du message: le *logos* qui constitue la raison du message, l'*ethos* qui représente ce qui a été donné en amont, ce qu'on attend du discours et le *pathos* qui dévoile le fonds émotionnel de celui qui communique, son style à lui. L'influence sur le récepteur est exercée par l'interdépendance entre le pathos et le logos, entre le fonds émotionnel et la raison. L'ethos n'a rien à perdre de cette connexion; il se trouve au carrefour du collectif et de l'individuel, tout en entraînant le passage du communautaire au singulier, en réunissant les valeurs et en promouvant les idéaux.

Une autre dualité apparaît dans la vie internationale: on promeut soit les valeurs traditionnelles, soit les valeurs mondiales ou fédérales au nom de la modernité. Cette nouvelle réalité attribue à l'ethos un rôle important. L'ethos représente une certaine attente du message véhiculé dans le processus

communicationnel et plus les valeurs ont un périmètre plus large de compréhension, plus on établit un lien entre les différences qui existent dans les espaces culturels. Les frontières deviennent flexibles et la communication englobe les cultures vers la réalisation des idéaux universaux. En même temps, les valeurs culturelles engendrent des identités communautaires à une manifestation autonome.

La culture média offre des images, des façons et des styles de vie à un fort effet d'influence sur le comportement humain. Dans la société contemporaine, l'identité devient mobile tant dans la relation individu et milieu social, que dans les relations avec les autres au fur et à mesure que les opportunités de vie changent. A l'époque moderne, la question de l'identité réside dans la façon dont on se construit, on se perçoit, on s'interprète, on se présente nous-mêmes à nous-mêmes et aux autres. Si la question de l'identité commence avec Parménide, qui fait la distinction entre *Etre* et *Non-être*, aujourd'hui la culture communicationnelle démontre que l'altérité a été négligée et qu'on est dans une zone étrangère aux coordonnées qui nous harmoniseraient dans la poursuite des idéaux universaux. En même temps, notre vie de tous les jours ne peut être conjuguée qu'au pluriel.

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EQUITY VERSUS DISPARITIES IN THE HEALTH CARE ACCESS

**Lecturer Adina REBELEANU, Senior Lecturer Gabriela BODEA,
"Babeş-Bolyai" University, Cluj-Napoca**

Key terms: health insurance system, equity principle, access to medical care

Abstract

After more than a decade from starting the reforms within the economic and social area, and after five years from adopting the social health insurance system, the Romanians are mostly afraid of the disease.

Even the aims of health reform was to increase the quality of health services, to rise the health status of population, to reduce the health disparities, Romania had one of the lowest life expectancy among the reference countries¹, and also comparative with EU average. The infant mortality rate declined from 26.90% in 1990 to 16.60% until 2000, but Romania still had the highest rate among the reference countries. The incidence of tuberculosis decreased until the middle of the 80s and than started to

¹ We mean the "reference countries" for Romania, the ten Central and Eastern European candidate countries for accession to the EU, before 2003- Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia

increase again. Moreover, the equity in the people’s access on health services is still, in our opinion, more intent than real fact.

For these reasons, we tried to propose a syntactical analysis about the changes, which occurred in the health policy field focusing on the past and present trends in the people’s access at the health care, since 1990, in Romania.

Introduction

In the last decade’s literature it has become clearly motivated the fact that in order to adequately understand people’s quality of life it is necessary to use a set of indicators which are as different as possible. They have to underline not only the global elements, but also aspects that concern the households, families and personal life, including the subjective dimension of the existent state, the degree of satisfaction felt, and probably the dissatisfaction and frustration. The health services offered to the population, the access to medical assistance, its costs, the mortality dynamics regarding the death causes and the morbidity dynamics, are indisputably relevant indicators of the life quality.

More and more strongly the idea of approaching health as a central social phenomenon is being imposed. Some authors consider that from this point of view health tends to become a political pledge, in the way of permanent and bi-directional negotiations, but moreover even democratic, between the political persons who have the power to decide the elaboration of the health politics and the persons who are using them, taking into consideration their point of view. (Maria Maillat, 1993, Lacronique, J.F., 1993). From this perspective’s point of view, health does not reduce itself to medical care, in the way of treatment or prevention but it will “slip from producing knowledge to generating norms” (Maria Mailat, 1993, p: 31). Thus, the health system becomes the ensemble of synergic actions of three social actor groups: population, health services suppliers and the ones who decide the elaboration of the

legislative settlements, that generate the legal frame for the display of the medical activities, with the administrative and financial organization of the health system.

One should not let aside the fact that social welfare of the population is often the somatic health condition. Acting isolated, neglecting or ignoring the social pathology aspects inherent to a society (unemployment, poverty, high rate of criminality, different family dysfunctions, alcoholism, etc.) any health strategy will only partially reach its major objective: the assurance of the population’s health state. Social and political disintegration, the high rate of unemployment the increase of migration, alcoholism, criminality are only a few of the factors included in the notion of “social stress” (Sundin, J., Willner, S., 2004, p:154-161).

The social and economic exclusion are negative for the welfare and health of the population within a given frame. The economy, the social structure and the collective actions interact and are mutually depending on each other.

The reforms that started in Romania after 1990 have redefined the fundamental role of the state in all sectors (economic, social, and politic). The transition towards a market economy from a centralized economy was accompanied by a series of oscillations in choosing the options in what concerns the social and economic politics. Their coherence and consistency were to influence, and the evolutions confirmed this aspect, the stability, the development and the extension of the reforms in time. These characteristics have also marked the reform of the health system. The politicians who were to decide had to face both the perennial problems from the past, with their good and bad parts, and also the costs that the transition devolved and which, most of the times, were higher than the estimated ones, and the population had too little information to deal with these costs.

The evolution in the health system after 1990 – overview

During the communist period, the health system was financed and managed by the state, and the population had free access to it. But, because of the inadequate

income of the medical staff, the quality of the medical act was conditioned or influenced by the amount of money received from the patients.

The option for an insurance system appeared in our country in the post-revolutionary period under the pressure of the medical professionals and as a consequence of the total rejection of the communist régime.

The adoption of the project for the social health insurance Law was too delayed, and in the meanwhile important changes appeared in the status and behavior of the main actors from the medical system. The health system in Romania, although highly comprehensible from the services accessibility point of view, was inefficient, poorly administered and poorly endowed in what concerned the technology and the available medical gear.

In 1997 the Law of the social health insurances was approved and it marked the structural and functional change of the financing system for the health services in Romania. The model which was mainly financed through general taxes was replaced by a model based on obligatory insurance bonuses. But the collection of the contributions started only beginning with 1999.

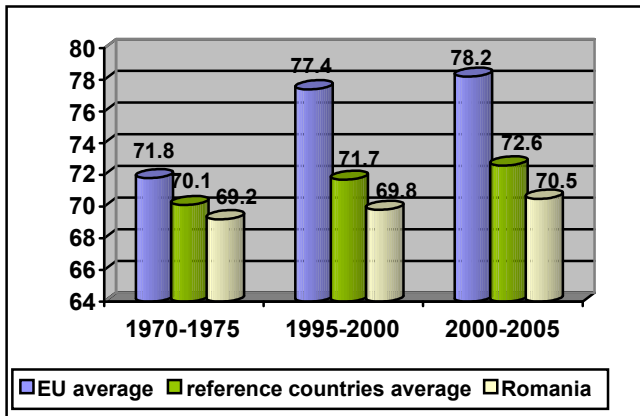
In 2002, this law was abrogated by the Urgent Ordinance of the Govern Nr. 150 that regulates the organization and the functioning of the present health insurance system.

Between the two texts there are some differences, among which the fact that the text in force is more complex and less prone to interpretations.

The health insurance system functions based on the subsidiary and solidarity principles when collecting and using the funds, on the liberty of the patient's choice of the doctor and the insurance institution, on equality and indiscrimination of the services access.

Synthetic Aspects Concerning the Health Status of Population

Romania had the lowest life expectancy among the reference countries, and also comparative with the EU average (graphic 1).

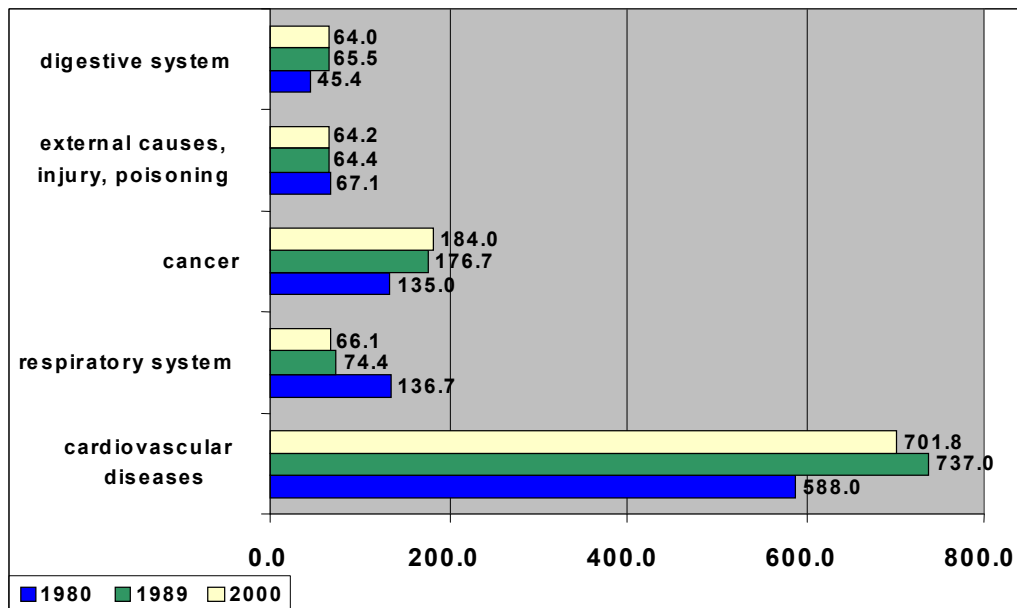


The life expectancy at birth, the best predictor of the health state, is in Romania higher in the urban area than in the rural one, being both for male persons and for female persons over the the country average in the urban area and under the country average in the rural area (Human Development Report, 2004)

Graphic 1. Life expectancy at birth (in years) in the EU, reference countries and Romania between 1970-1975, 1995-2000 and 2000-2005 years

Sources: Human Development Report 2001 p.141-144, Human Development Report 2003, p.262-263

In Romania, the main causes of death are cardiovascular diseases and cancer. External causes, injuries and poisoning increased after 1990 (graphic 2).



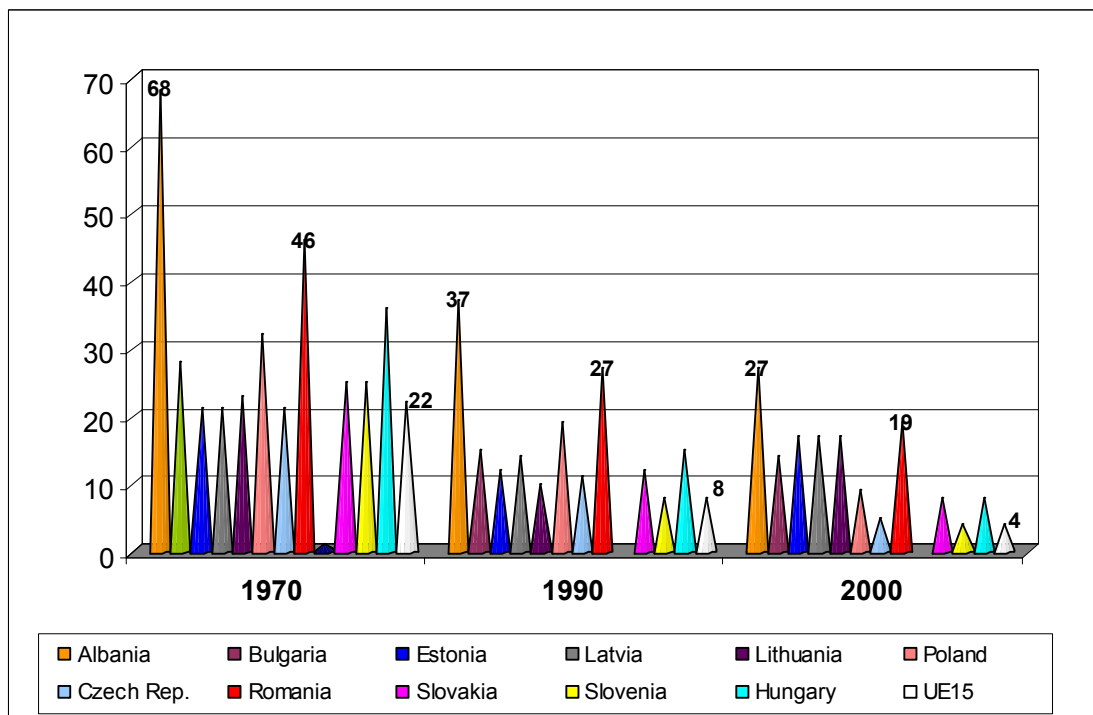
Graphic 2. Structure of mortality by main causes of death in 1980, 1989, 2000 years (per 100000 people) in Romania

Source: National Sanitary Statistical Year Book, 2001

The analysis of mortality regarding the death causes and living areas in Romania emphasizes significant differences within the two areas: the urban and the rural one. In what concerns the diseases of the respiratory and circulatory system, the intensity of mortality in the rural area was constantly higher than in the urban area (almost two times higher).

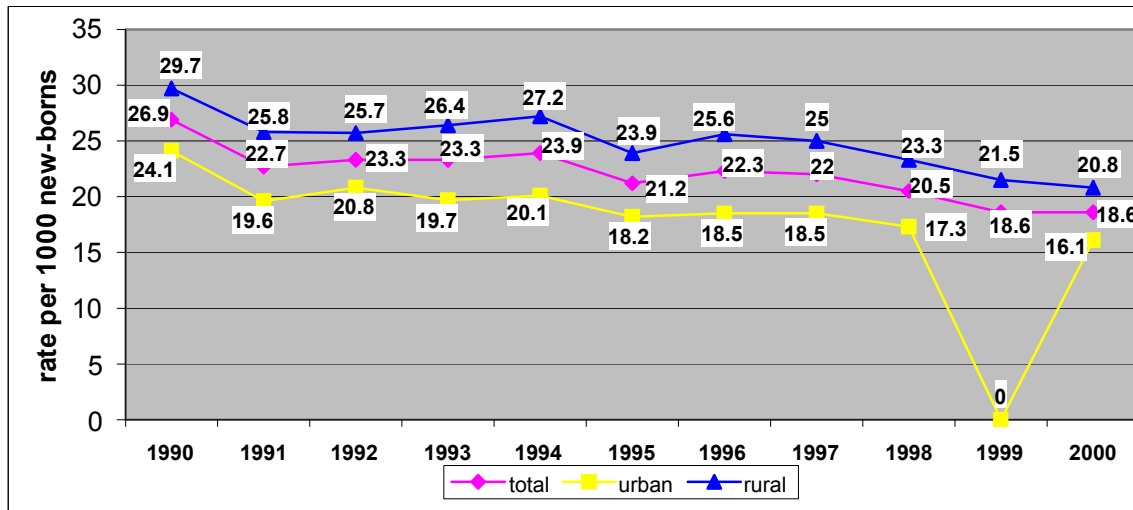
In the case of tumors, traumatic lesions and poisoning, the diseases of the digestive system, the death was also more in the rural areas than in the urban one. In both environments the specific mortality for the death causes grew between 1994 and 1997 and between 1998 and 1999 followed a decrease, and then in 2000 it grew again (the Sanitary Statistical Year Book, 2004)

Another synthetic indicator for the diagnosis of a nation's health state is the infantile mortality. *The rate of infant mortality* in Romania continues to overcome the rates registered in the states of the EU (graphic 3), although in the past years the registered values are decreasing. The evolution of this indicator between 1990 and 2000 has also registered different evolutions when comparing the urban and the rural areas (graphic 4).



Graphic 3. Infant mortality in some East and Central European Countries and in EU in 1970, 1990 and 2000 years

Sources: Human Development Report 2000, Human Development Report 2003



Graphic 4. Infant mortality rates on residential environments, during 1990-2000
 Source: National Statistics Institute, 2001

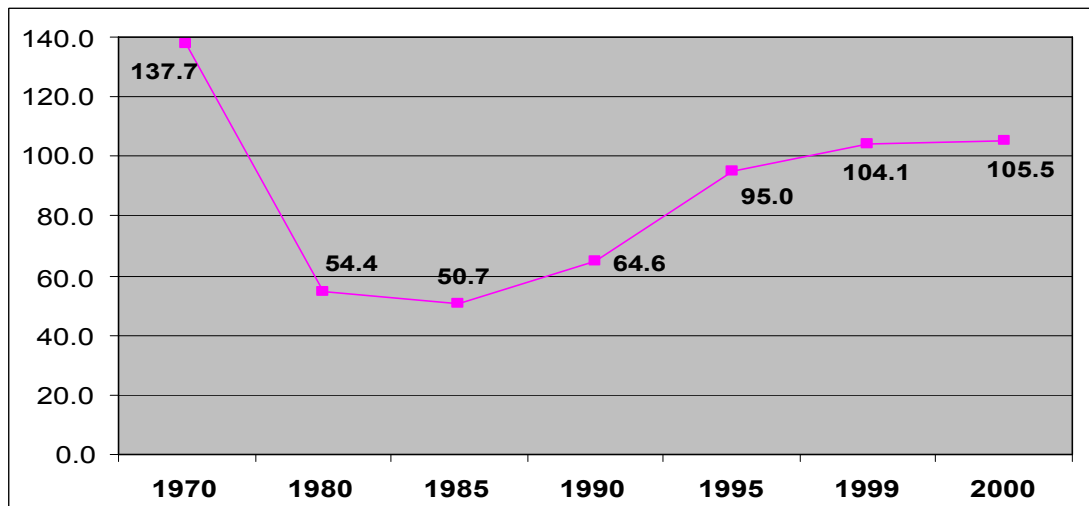
The morbidity table in Romania is similar to the one in the other European states, mentioning the fact that the ratios are still high in comparison to the rest of the UE. From these reasons' point of view I shall mention only the particular aspects of the national context.

The diseases of the circulatory system represent the most important disease cause, morbidity and temporary working incapacity (a situation similar to the other East-European countries). Beginning with year 1995 the morbidity through the cardiovascular diseases has grown, in 1995 being approximately 50%. The data have been maintained in the same limits until the year 1998, when it started a slow descent, but from 2000, notwithstanding the prophylaxis programs initiated by the Ministry of Health, the tendency grew again. Among the cardiovascular diseases, the arterial hypertension and the ischemic cardiopathies are mainly responsible for the high prevalence of morbidity through cardiovascular diseases among the population. Morbidity has higher numbers in the rural area than in the urban ones, and has higher numbers within the male persons than the female ones (The Sanitary Statistical Year Book, 2004)

The anemia presents a special situation especially until 1995, due to the nutrition deficit from the last two decades. More than 6% of the population was suffering of some sort of anemia, the majority being due to the lack of iron in alimentation. More than 10%

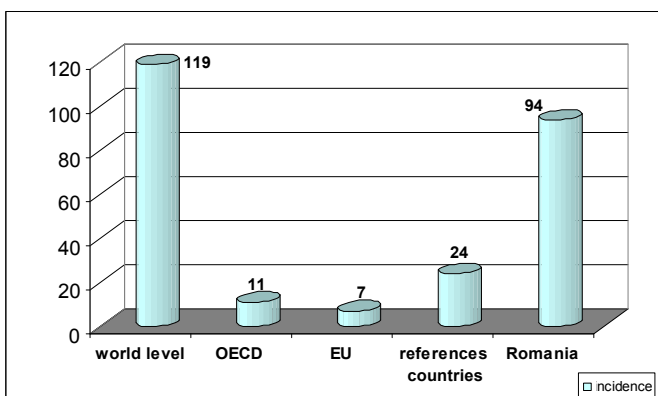
of the children between 10 and 14 years old suffer of anemia (The Calculus, Sanitary Statistics and Medical Research Center). The situation is more severe in the rural areas.

Some infectious diseases such as tuberculosis register high levels, as well. In Romania, the incidence of tuberculosis declined until the middle 1980's and then started increasing again (graphic 5). The recrudescence of tuberculosis in the last years, considered a social disease, can be correlated directly to the deduction of the living level, within the background of the stagnation of economy and the emphasis of the inflation. The incidence by tuberculosis in the rural areas exceeds both the incidences from the urban areas and its value at the national level. A fact to be concerned of, is the evolution of the tuberculosis incidence for the children between 0 and 14 years old.



Graphic 5. Incidence of tuberculosis per 100 000 people in 1970, 1980, 1985, 1990, 1995, 1999, 2000 years in Romania (per 100 000 people)

Source: National Sanitary Statistical Year Book, 2001



Graphic 6. Comparative aspects on incidence of tuberculosis in 2001

Source: Human Development Report 2003

The incidence in Romania is almost nine times higher than the one registered at the level of OECD states and four times higher than the one registered in the reference countries (graphic 6).

Another problem outlined in Romania after 1990 is the one of the diseases with sexual transmission. If in the European states the tendency is to diminish the incidence by syphilis, in Romania the situation is reverse, the evolution of the incidence by this disease is increasing.

The dynamic of the incidence by infectious and parasitical diseases is another particularity of the morbidity picture in Romania. The incidence is higher in the urban areas than in the rural ones, although the sanitation aspects and assuring the drinking water for example are better arranged and monitored in the urban areas. The rapport between the inhabitants who do not have access to the drinking water in the urban areas versus the rural ones is approximately 1 to 7.

A disease that has been imposed to the public's attention only after 1990 is AIDS. If until 1990 the authorities have ignored it, today it presents for Romania a series of features that clearly differentiate it from other countries. A specific problem for Romania is represented by the large number of cases among children, with a figure of 50% from the total cases of children under 13 in Europe (The Research Institute for the Quality of Life, Bucharest). The main way of transmitting the disease to children was parenteral (92.4% of the cases). In 2001, in Romania were 4000 children between 0-14 years old tested HIV positive. It is the highest value for Europe, where for this age group the values are less than 100 and 550 cases. In the same year for the adult population between 15 and 49 years old, the values are under 0.10% and are comparable to the values registered in other European countries (Human Development Report 2003).

Resources

One of the intentions in what concerns the reform was to reduce the disparities of the medical resources between the urban and rural areas. According to the statistics, while in the rural environment the number of inhabitants per doctor and medium sanitary staff is increasing, in the urban areas the same indicators are

decreasing (number of inhabitant per doctor) or are maintained at approximately constant values (number of inhabitant per medical nurse) (table 1).

	1970	1990	1997 ²	2001	2002	2003	2004 ³
Number of territorial hospitals	587	402	416	442	442	422	416
Number of beds per 1000 inhabitants	7.0	8.9	7.4	7.5	7.5	6.6	6.6
Doctors⁴ per 10000 inhabitants	12.8	18.0	18.3	20.9	21.0	21.6	22.2
out of which: Family doctors⁵ per 10000 inhabitants	-	-	-	5.1	5.2	5.3	5.3
Medium sanitary staff⁶ per 10000 inhabitants	49.8	56.9	54.0	53.7	56.8	55.6	56.1

Table 1. Resources and social capital in the health system in Romania in 1970, 1990, 1997 and 2001-2004

Source: Sanitary Statistical Year Book 2004, Ministry of Health, Calculus Sanitary Statistics Centre, Bucharest

The decrease in the number of hospitals is also due to the transformation of some hospital sections or of some hospitals in social medical units⁷. In 2003 there were only 18 such units, in 2004 this number grew to 54. among these units 34 were functioning in the rural areas (INS, 2005). The increase of the beds number, by setting up the social medical units, is an advantage for the population living in the rural areas who can benefit of such hospital services and contributes to the relieve of hospitals from expenditures for hospitalization, by reducing the number of hospitalization days and orientation towards these units of the persons included in the social risk areas.

² The year of introducing Law nr. 145/1997 regarding the health social insurances

³ From the year 2004 the medical sanitary staff in the mix sector has not been reported

⁴ From the year 1997 the doctors and the dentists in the public and private sector are included

⁵ From the year 2000 the family doctors in the public and private sector are included

⁶ From the year 1997 the medium sanitary staff in the private, public and mix sector are included

⁷The medical social assistance unit represents the public specialized institution with beds, with juridical personality being subordinated to the local councils, the assures for the person with medical social needs, care services, medical services and also social services.

Still, the initial disparities between the rural and urban areas are very significant in what concerns the human sanitary resources. Consequently, the access to the medical services performed by the medical staff in the rural areas is poorer in comparison to the ones performed in the urban areas. If we have in mind also the possibility for a number of doctors and medium sanitary staff that perform services in the rural areas to commute, or they have been distributed on lists of inhabitants from several villages, it is predictable the evolution of the health state in the rural areas in comparison to the residents from the urban areas, in the sense of a bigger deterioration in the rural areas. In comparison to the period between 1990 and 1996, from the point of view of allocating medical resources, there is a manifestation of reducing the human resources, especially increasing the number of inhabitants per doctor, reducing the number of beds in hospitals. In the context of the health system reform, this tendency of diminishing the number of beds is explicable through the increasing of the primary assistance role (one of the objectives of the sanitary reform) in the detriment of the secondary and tertiary one.

Perceptions on the access to the health services

The population’s expectations after the year 1990 were high, for all the domains, including the health field. In what concerns the degree of satisfaction versus the dissatisfaction towards the health status, after 1997, the year of the legal regulation of the health insurance system, the situation was as it follows:

		1998	2001	2002	2003	2004
You r health	satisfied	45	52	49	53	51
	dissatisfied	49	48	51	41	49

Table 2. The degree of satisfaction in comparison to the personal health state of the Romanian population, between 1998-2004

Source: B.O.P, November 1998, B.O.P, November 2001, B.O.P, June 2002, B.O.P., October 2003, B.O.P., October 2004⁸

⁸ B.O.P. means Barometrul de opinie; www.osf.ro

In 2002, 22% of the Romanian population appreciated that the personal health status was bad, 6% said that their health was very bad, 35% appreciated it as satisfactory, 29% appreciated it as good and 7% said it was very good. The analysis on sub-population of this characteristic is presented in the following table:

Variable		Good+very good	Satisfactory	Bad+very bad
<i>Education</i>	<i>University education</i>	45	45	10
	<i>High-school education</i>	46	37	17
	<i>Gymnasium education</i>	21	32	47
Age	<i>55+</i>	19	37	45
	<i>35-54</i>	37	43	20
	<i>18-34</i>	54	27	9
Income	<i>Over average</i>	44	42	14
	<i>Under average</i>	33	33	35
Living environment	<i>Urban</i>	40	39.5	20.5
	<i>Rural</i>	34	33	34

Table 2. The perception of the health status of the Romanian population according to the following variables: age, education, income and living environment, in 2002

Source: The Opinion Barometer, regarding the health services, and has been made among the Romanian population, 2002

The injustice in the perception of the health status can be seen. The higher the level of education is, the better the access to information and services is, and accordingly the health status is appreciated as being better. The correlation between the income and the health state is frequently mentioned in the specific literature: the low income is more frequently associated with a precarious health state. Acknowledging the health state, in a higher proportion as being “bad and very bad”, by the population which has an income under the average, confirms the supposition. The appreciation of the health state for the 55 years old and more population as being bad and very bad in a proportion of 45%, and only in a small proportion as being

good and very good, in comparison to the other age groups, is partially explicable through the demographic profile of Romania's population. The socio-economic data for Romania indicate a higher rate of the elder persons in the rural area than in the urban area, a higher rate of the poverty and a greater number of the families with three or more children still appear in the rural area.

In what concerns the perception of the access to the health services, the situation is as it follows: 77% of the questioned population in 2002 declared that that they had easy access to the family doctor. In 17% of the cases, the family doctor's consulting room was in another locality, and in 8% of these cases it was located at over 20 km distance. This situation is more frequently met in the rural area than in the urban area, because of the insufficient staff in this area and sometimes it also appears the transportation difficulty or the commutation of the medical staff. For an approximately 70% of the situations, people are addressing themselves especially to the family doctor, regardless of the age, living environment, income. But, the access to other medical services, other than the ones offered through the family doctors' consulting rooms, is different. The data are presented in table 3 on people categories and according to age, education, living environment and income (table 3).

access(%)		Easy	yes	no
Variable				
Education	<i>University education</i>		74	26
	<i>High-school education</i>		79	21
	<i>Gymnasium education</i>		64	36
<i>Age</i>	<i>55+</i>		71	29
	<i>35-54</i>		74	26
	<i>18-34</i>		73	27
Income	<i>Over average</i>		80	20
	<i>Under average</i>		69	32
Living environment	<i>Urban</i>		77	23
	Rural		65	35

Table 3. The perception of the access facility to other medical services, other than the ones offered by the family doctor

Source: Opinion Barometer, regarding the health services, and has been made among the Romanian population, 2002

The lack of money represents the main reason for the persons who did not resort to other medical services than the ones offered by the family doctor in 43% of the cases, and 32% declare that they were not able to go to the hospital because of the transportation difficulties (The Opinion Barometer regarding the health services, 2003). The situation is more frequently met in the rural area than in the urban area, because the hospitalization services are rarely met in the rural area.

As a result of the poll made at the CPSS's request in 2002, 58% of the questioned persons do not hold sufficient information about the health system. 65% of the questioned persons do not know what the services pack means, 13% respond affirmative and 22% only partially. To benefit of the services supplementary to the basic pack 70% consider that the state must pay supplementary insurances for each citizen, 17% consider that the ones who need to pay an official direct tax, 11% consider that each citizen should pay insurances to the private insurance institutions, 1% appreciate that the ones who desire such services should offer presents (The Opinion Barometer regarding the health services, 2002). In 2003 the most viable alternative for stopping the informal payments found by the ones who offered presents, was to increase the income of the medical staff (61%) (The Opinion Barometer regarding the health services, 2003).

According to the same source, in appreciating the health insurance system in Romania, 34% do not see any changes, considering that the medical care is exactly the same as prior to introducing the health insurances, 32% appreciate that the situation was better before the introduction of the insurance system, 20% consider that in what concerns the health services the situation is better now, and 14% are non-responses and the “I don't know” variant. Referring to the present health system in Romania, 39% appreciate that “there are good parts in the present system, but fundamental changes are necessary in order to function better”, 23% consider that “the Romanian sanitary system functions so bad that a complete change is necessary”, 23% - “generally the system functions rather well and it only needs small changes to make it function better”, the rest being non-responses and the “I don't

know” variant. 79% consider that the system is confronted with financial problems, and the main cause is considered to be the small budget (45%). 60% of the questioned persons consider that the government should allocate the money only for health, the next places being occupied by education and social assistance. Only 20% know their rights as an insured person, and 26% know their duties.

In B.O.P. from November 1998 (one month away from the official start of the health reform and over one year from the voting of the social health insurances Law in July 1997) the following question was introduced: “In order to be treated in the correct way, is it or is it not necessary to offer “presents” (money, products, services); there are indicated several institutions: the Court, the City Hall, the police, the school, the hospital, the working place. 30% of the questioned persons answered “yes, sometimes” and 37% “yes, always” when they mentioned the hospital. For the rest of the institutions, the proportion of the ones who answered affirmative varies between 8% and 18%. At the same time, in what concerns also the living environments, the hospital is placed on the first place, outmatching the other institutions (table 4).

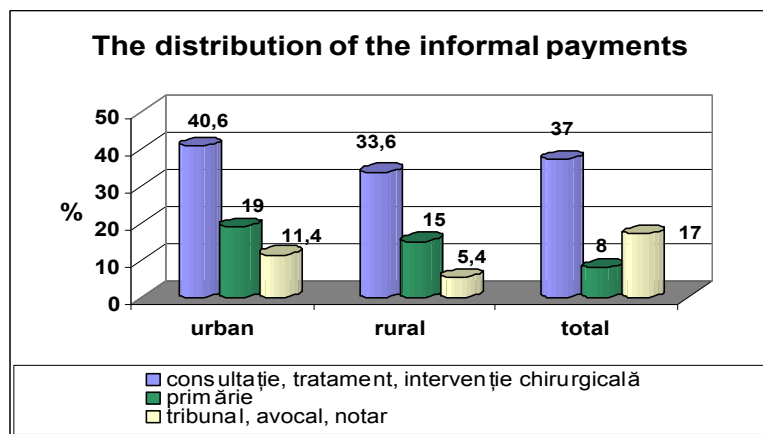
Living environment	Yes, always %	Yes, sometimes %	No %
Urban	42	29	23
Rural	3	31	32
Total	37	30	27

Table 4. The distribution of the ones who offered “presents” to be treated correctly
Source: The Public Opinion Barometer, November 1998, MMT

In 2001, the hospital continued to hold the highest rate in what concerned the informal payments in order for the population to obtain services. 45% of the population resorted to hospitalization services; 54% of these people offered presents (and the rates vary between 7 for the financial center and 17% for school). 66% were satisfied with the services received during hospitalization (within the satisfaction field, the school and the financial center registered the highest percentages 78% versus 79%) (B.O.P., November 2001).

The arguments for offering informal payments are: a more attentive care from the doctor (21%), gratitude (19%), it is a custom (18%), for a prompt treatment (11%), for a more attentive care from the nurse (13%), for a better relationship with the doctor in the future (8%). Only in 3% of the cases the “present” was solicited by the medical staff (B.O.P. regarding the health services, 2002).

The Public Opinion Barometer from May 2003 and the one from October 2004 permit us to appreciate the way in which the Romanians relate to the informal payments system towards the doctors. The mentioned documents emphasize and reconfirm the information above: the very high frequency of the informal payments in the medical system in comparison to the public administration, the juridical system, the educational system (graphic 7).



Graphic 7. The distribution of the informal payments among the population who resorts to different services

Source: B.O.P. October, 2004

The frequency of the informal payments is higher among the persons who have relations or people they know in the medical system, but the relations do not replace the informal changes, they are only a second guarantee of the caring quality. In what concerns the age categories, the persons who are under 30 years old are the ones most willing to offer informal payments to the medical staff: a half of them paid more than the legal taxes, in comparison to approximately a third of the other age

categories. (The Public Opinion Barometer, May 2004, The Opinion Barometer regarding the health services, 2002). One can talk about the paternal inheritance of the informal payments, and there even is a legitimacy of the informal payments. 28% of the Romanian population considers that it is normal to “give the doctor or the nurse something because they have treated you right”, their frequency being twice higher than in the cases of the presents given to the boss, over three times higher than in the cases of the presents given to the teachers, and over four times higher than in the cases of the payments for the police officers (B.O.P., October, 2004). 61% of the people who offered presents consider that it was necessary to do this thing in order to receive the proper care or medicines and 12% declare that the medical staff asked/conditioned the medical act by the supplementary payments or presents, according to the poll made in 2003 at the CPSS’s request (The Opinion Barometer regarding the health services, 2003).

After more than a decade from starting the reforms within the economic and social area, and after five years from adopting the social health insurance system, the Romanians are mostly afraid of the disease. The following diagram indicates this evolution, in comparison with the fear of prices, prices and disease being almost predominantly situated in the top of fears among the Romanian population (Public Opinion Barometer, October 2004).

A retrospective analysis is essential for the appreciations regarding the subjective welfare from the point of view of the possibilities of the population to administrate their income. It is presented in the following table:

%	1995	1996	1997	1998	1999	2000	2002	2003	2004
We manage to have everything we need without having to give something up	1	1	1	2	1	1	1	1	1
We manage to buy some of the more expensive objects, but we give something else up	9	5	7	8	3	3	3	5	4
The income is enough for a decent living, but we cannot afford some of the more expensive objects	23	23	23	22	15	14	16	17	14
The income is enough only for the essentials of life	36	38	40	37	42	38	34	39	40
The income is not enough not even for the essentials of life	31	33	29	31	39	44	45	36	39

Table 5. The appreciation of the standard of living between 1995-2004
Source: B.O.P., 2004

One can note the growing percentage of the ones who see that the household income is not sufficient not even for the essentials of life, the high percentage with the same values varying between 36 and 42% for the ones who appreciate that the income is enough just for the essentials of life. At the same time, the proportion of the ones who declare that the income is sufficient for a decent living, but without the possibility to buy more expensive objects is decreasing in 2004 in comparison to 1995.

Final Remarks

Although the equity for the access to health services is settled by the present legal frame (not only in the medical legislation, but also in the social protection one), nowadays one can still remark the inequities in what concerns the lack of information of the population regarding the rights and obligations that they have as insured

persons, with or without the payment of the contribution, knowing the minimum service package, prophylaxis knowledge.

The disparities in the access to medical protection between the rural and the urban areas are maintained and even emphasized. The differences between the rural-urban areas, with the advantage of the urban, are partially due to the unhealthy behaviors, more frequent in the rural areas than in the urban areas, to the level of education and to the programs for health education, which is more reduced in the rural area, but also to the resources of the health system diminished in the rural areas in comparison to the urban areas (number of doctors, medium sanitary staff, number of beds), including the access which is sometimes poor, to the primary medical services (the lack of means of transportation, the preponderance of the elder persons, the commuting medical staff etc.).

The direct economic costs or the collateral ones implied, that cannot be sustained by the precarious financial resources of a very large segment of population, especially the medicines costs, also represent important sources of the access deficit to medical care.

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THE IMPACT OF THE EU ENLARGEMENT ON THE HUNGARIAN HEALTH CARE SYSTEM

Professor PhD, László GULÁCSI MD, “Corvinus” University of Budapest

The process of the European Union enlargement reached an important step at 1st May 2004, when 10 countries, including Hungary, became member states of the Union. This enlargement process can have significant implications for health and health care policy in Hungary. These implications result partly from EU regulations directly or indirectly related to health care.

Health is not an “objective” of the European Union it is not mentioned in Article 3 of the Convention draft listing EU objectives. However, there are a number of EU objectives including the EU Single Market that have health implications. Public Health Article 179 states that “A high level of human health protection shall be ensured in the definition and implementation of all the Union policies and activities.” which clearly shows commitment to strengthen the improvement of health and health care at the EU level. The Charter of Fundamental Rights interpreted by the European Court of Justice implies that Member States are free to determine how their own citizens have access to health care and they have to guarantee free movement and access for patients and professionals who want to cross borders.

This paper outlines the most important questions related to the impact of the EU enlargement on the Hungarian Health care system and discusses 8 issues: 1) health status and health trends; 2) health policy and privatization of the health care

system; 3) financing of health care; 4) provision and delivery of services; 5) inpatient care, reform initiatives and quality of care; 6) public health; 7) mental health and 8) health of minorities.

1. Health status and health trends

In the past years Hungary (among Poland, Czech Republic and Slovakia) has experienced rapid improvements in life expectancy and this trend is supposed to continue. In 1990 the average life expectancy was 65,1 years for males and based on data from 2002 (KSH 2003) this figure reached the 68,3 years, in this time period (within the past 12 years) the average life expectancy for females improved from 73,7 years to 76,6 years by 2002 (KSH 2003). The health status of the population is predicted to improve and the 'morbidity portfolio' of the population will be the same or similar to the EU average in the coming decades due to the improving per capita DGP, availability of the new and effective health care technology (cancer care, diabetes care) and better quality health care services.

As a result of this trend the size of the population who will need elderly care is increasing and the focus of the health policy should be somewhat shifted from the cardiovascular prevention and treatment and oncology towards care for the elderly citizens. Health care facilities (long term care, nursing homes) for elderly people care have to be created and specialist nurses have to be trained and employed which shows the importance of the health care and manpower planning, an area that should receive much more attention in the coming decade.

2. Health policy and privatisation of the health care system

2.1. Changing position of regulators in the health care sector

Until very recently health policy was based on regulations and directives by the central government. Under the current circumstances, resulted from the EU enlargement, the regulatory capacity and the directive power of the government is assumed to be decreasing due to the extensive privatisation (20% of the health insurance fund subsidy goes to private providers), widened legal rights of the

patients, providers, health care professionals, patients, pharmaceutical and medical device industry. As a consequence the health care decision making is supposed to be more explicit and transparent. The health care budget will face increasing pressure in the near future, due to the ageing population, long time under-investment in infrastructure and equipment, salary pressures from doctors and nurses, the need to address the East-West life expectancy as well as quality of life gap and the increasing demand for higher quality of medical care. In this new situation, health policy should be based on strong and well defined objectives, monitoring and coordination initiated and assisted by government.

2.2 Privatisation of health care system

Family doctor's and dental offices/practices were mostly (over 90%) privatised during the 1990s. This is a special type of privatisation called 'functional privatisation', because the building and equipment belong to the local municipalities (practice and not the capital assets belongs to the family doctors). Thus, local municipalities are held responsible for maintenance and in case of bankruptcy.

Hospitals are owned by the state, as well as by the municipalities and county assemblies (self-governing bodies), and are not-for profit organisations. The role of the private sector in this field is insignificant. The financing situation of the hospitals are rather unfortunate they are underfunded by the state, usually one quarter or one third of them are de facto in bankruptcy, i.e. they cannot pay the bills. The hospitals' compliance with minimum requirements are low and most of the 'professional profiles' usually receives temporary license. There are almost no hospital to meet the entire set of minimum requirements (A Government Decree (113/1996) concerning licensure entitling to deliver health services was published in 1996. By the invitation of the then Ministry of Welfare in 1995/1996 Professional Colleges set up minimum requirements for health care organisations (hospital departments, out-patient clinics, primary health care organisations) at all levels of the health care services, in terms of facilities, equipment and staff for all clinical specialities, which regularly revisited. County directorates of the National Public Health and Medical Officers Service are

authorised to investigate and judge the conformance of the hospitals with the minimum requirements, through site visits.)

‘New money’ should be invested into the sector and the big question is from where this large amount should come from. One tempting option for the central government is the privatisation. Nowadays there is a rather heated debate around the privatisation of the hospital facilities/services in Hungary. A national referendum will be held at December 5th, 2004 when citizens can vote for or against the privatisation of hospital facilities.

3. Financing of health care

In Hungary 61% of revenues for health care raised through the health insurance system which has two components: 1) income-related health insurance contributions (44%) and 2) fix component of health insurance contributions (17%). 39% of the revenues comes from other sources namely: general taxation (23%), drug co-payments (10%), informal payments, tip (4%) and private payments (2%). Health care spending between 1994 and 2003 can be seen in Figure 1.

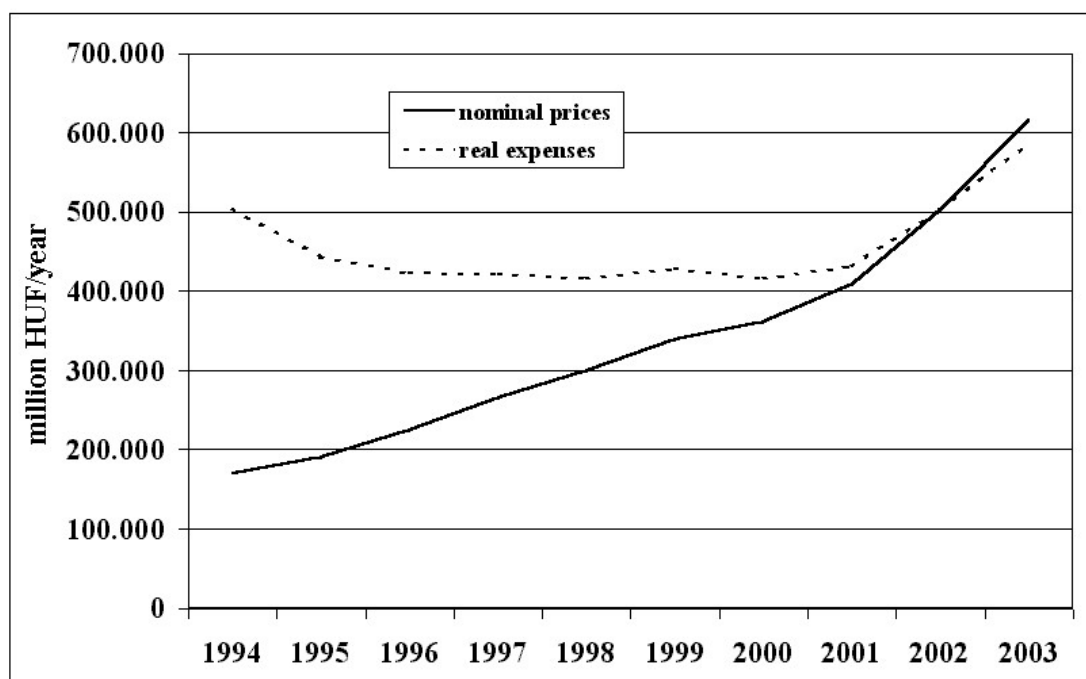


Figure 1

Health care spending by the National Health Insurance Fund Administration between 1994-2003 in nominal prices and in real expenses (in 2002 prices)

Relative share of in-kind health care services can be seen in Table 1.

Health care services	Relative share from the total budget of the National Health Insurance Fund Administration
inpatient care	39%
Pharmaceuticals	28%
primary care	11%
out-patient care	9%
medical devices	4%
administrative costs	3%
dialysis	2%
diagnostic imaging	1%
transport	1%
Spa	1%
others	1%

Table 1.
Relative share of in-kind health care services (OEP, 2002)

3.1. Health care services: hospital, out-patient and primary care

In the hospital sector acute care is financed through the HBCS (Homogén Betegségcsoportok -Homogeneous Disease Groups) financing mechanism, similar to the American DRG (Diagnosis Related Groups). HBCS financing mechanism was first introduced in 1993. In 2002, there were 167 hospitals, 84,277 hospital beds, being equal to 83.2 beds per a population of 10,000, 2.6 million patients discharged and the average duration of hospitalisation was 8.9 days. Each county has its own county hospital, which in most of the cases are large, public general hospitals with 1,500 to 2,000 beds. County hospitals provide a wide range of 'basic level care', 'medium level care' and some 'top

level care'. Basic hospital care is provided by municipal (city) hospitals. Top level health care is provided by university hospitals and national institutions.

Doctors are paid according to the German point system in the out-patient care setting (80% of out-patient care is provided by hospitals).

In the primary care setting, doctors are paid according to the capitation fee system, this financing mechanism provides an incentive called 'do as little as possible for as many people as possible' (Gulácsi, 2002; Boncz et al. 2004). Health care is provided at three main levels of care: primary care (family doctors), outpatient specialist care, and inpatient care. Citizens have free choice about the family doctor they want to register with and individuals are free to change their family doctors. Consultations with family doctors are free of charge. Family doctors enjoy clinical autonomy, which includes the freedom to prescribe and the freedom to refer to patients for diagnostic tests or consultations with specialist hospital departments, no budgetary restrictions limit family doctors in doing so. The high level of patient-doctor contact is a typical feature of the Hungarian health care system. In general practice, the annual number of patient contacts and out-patient visits per 1,000 people is approximately 45,000 and 140,000 respectively.

3.2. Medications and medical devices

Related to pharmaceuticals, and medical devices, regulation, patent protection and registration is already harmonised to the EU 15 countries. There are several reimbursement categories for drugs in Hungary and a significant percentage of co-payment. Since 1992, the share of private expenditure has consistently increased due to the modification in the reimbursement system to increase patient co-payment levels. On average, co-payments in 2001 account for approximately 35% of the retail prices of subsidized medications. No changes are expected in this field. However, the health insurance budget will face increasing pressure due to the fact that a number of new innovative technologies which are widely used in the EU 15 countries – drugs in diabetes, cancer, rheumatoid arthritis, gastroenterology, mental health etc. treatment –

have not received coverage in the past years due to the un-transparent coverage policy decisions. These are cost-effective, but expensive technologies. Not only their direct costs are significant but their use requires various registries and databases to be created and operated to document effectiveness and patient safety.

Transparency criteria were implemented and institutionalised in Hungary at May 1th 2004. According to these criteria, pharmaceutical firms have to submit a dossier (data on efficacy, effectiveness and cost-effectiveness of the new product) to the National Health Insurance Fund (NHIF) and they are free to submit this dossier in any given time of the year (Gulácsiet al. 2004). NHIF has to finish the coverage decision process within 180 days. Previously, price/coverage negotiations took place between NHIFA and each manufacturer to determine price increases for the following year once in a year or even less frequently. Often government used its political influence not to set a date for negotiation or to delay the process – this was the major tool for cost-containment. Now manufacturers have a right to receive a HTA based coverage decision within 180 day and they have a right to appeal against the decision – both related to the results and the methodology used. Pharmaceutical firms are supported by experts in creating their dossier, but in the NHIF (and government) side no (EVB, HTA, health economics) trained experts available to do appraisal and make coverage decision. Providers, professionals and patients also have a legal right to appeal against the coverage decisions.

4. Provision and delivery of services

In Hungary, the health care system is based on a compulsory national insurance model. Universal coverage is assured through a combination of mandatory social insurance for the working population and guaranteed coverage for the retired and the people under the poverty level. Basic benefit packages have not been defined yet, and decisions on coverage related issues are made on ad hoc basis and in a non-transparent manner. The surgeries of doctors in general practice and dental practice were mostly privatised, and privatisation of hospitals is an ongoing process nowadays. Due to this fact, the importance of contracting between health insurance and providers is growing in

the near future. However, contracting needs a particular skills which was not needed under direct public service provision.

Providers, for instance hospitals, should also change. Currently they have low operational autonomy. To make the "health care market" function the following issues need to be addressed:

- defining a basic benefit package

The basic health care benefit package is at present undefined in Hungary. Health care planning, financing, introduction of additional (private) insurance is not possible without further explicitation of the coverage.

- addressing income inequality

Income inequality is rapidly growing in Hungary. Non-working, low income and rural people as well as minorities are most likely to face financial barriers to access health care services. In the EU 25, economic competition is growing, and as a consequence of this a substantial number of people will loose their jobs. This might have a negative impact on the health of the Hungarian citizens in the coming years.

- informal payment

Informal payment is not a very high amount in relative term, but the distribution and concentration of the informal payments is skewed. In the past decades all health care reforms were blocked by people who receive large amounts of informal payments. Informal payments have to transform into user charges. Although this is a very difficult and politically sensitive process, we believe this is the single most important issue for the coming years.

- patients involvement

Hungarian patients have the same right to receive all necessary information related to their health and health care as in the EU 15 countries, and they have a full right to be involved. This is a somewhat new challenge for the Hungarian health care system.

- quality of care

The quality of health care in Hungary seems to be lagging behind with the EU 15 countries and deaths that could be prevented by timely and effective care are still

relatively common in Hungary. (Gulácsi, 2001) There might be an important role of quality improvement, namely: some indirect evidence shows that good quality care could improve the population's health status through the improvement of the effectiveness and efficacy of medical care. Increasing access to timely and effective health care interventions have done much to reduce mortality in western countries (Mackenbach et al. 1998). It has been estimated that, in 1988 about 25% of the mortality gap between east and west Europe between birth and age 75 could have been explained by failures of medical care. (Velkova et al. 1997).

In the Hungarian health care system much more attention has to be given to evidence based practice guidelines and the use of indicators to improve quality and to make quality measurable.

- health care safety

According to the literature 5-10 % of all US patients are injured by adverse events, and similar data are found in other countries as well, for instance in Denmark. (Bartels, Mainz 2004) In Hungary no data are available on this topic, probably a National Pilot Study of Adverse Events should be created and conducted. EU enlargement and potential litigations against providers might initiate improvement in this field very soon.

- manpower planning

Currently one out of every ten positions of the doctors are vacant in the hospitals and the situation in the primary health care is only a bit less serious. One of the consequence of the EU enlargement might be a more serious shortage of manpower in the Hungarian health care system. The migration of the doctors and especially nurses already started to the EU 15 countries before the enlargement, the size of the problem is difficult to predict. In addition, in the EU 25 the working time of the doctors is limited and in fact, most of the health care providers in Hungary do not have sufficient numbers of staff, which will definitely cause serious problems in the very near future.

- cross border activities

Jorens (2002) concluded that few patients go abroad to obtain medical services, with some exceptions, for instance in border areas where cost, reputation, language and accessibility encourage the movement and for highly complex services. However, benefits have to be covered by insurance packages, in case of Hungary it is not very likely that the NHIFA would cover a significant number of treatments abroad in the EU 15 countries. Patient flow within the new EU 10 has to face even more limitation – even in the border area, due to the huge parallel redundant capacity in all countries and the lack of defined benefit packages, unknown quality of care, different costing mechanisms and the lacking transparency and accountability of both health care systems.

5. Inpatient care, reform initiatives and quality of care

Dramatic reduction of the hospital beds capacity was done in Hungary during the 1990s. Twenty five percent (25.3%) of the total hospitalbeds capacity(24,174 beds) was removed between 1990 and 2002. There were three explicitly stated aims of the reductionof the hospitalbed capacityprogramme:

- reducingthe hospitalbed capacityin nationallevel
- reducing the geographical inequalities of the hospital bed capacity among counties, both in terms of the number hospital beds and the capacity of the various departments (professions)
- reducingthe variations of the quality of care

The first two aims were achieved but our current knowledge about the variations of the quality of care or even basic information about the quality of care is very limited.

In Hungary, the “Act CLIV of 1997 on Health” makes the operation of a quality assurance system obligatory for every health institution. The health care Act in its chapter entitled “Professional requirements for health care services” points out that the aim of establishing a set of professional requirements is to ensure the appropriate quality of health services with special respect to efficacy and effectiveness. Act CLIV of 1997 on Health, implemented in January 1st 1999, made the operation of the internal quality systemsin health care settings mandatory.

The main aims of the quality systemsin the health care settings are as follows:

(1) The aim of the quality system is to ensure the quality of health care services

(2) To achieve this aim, the quality system includes:

- specification of quality requirements
- inspection and evaluation of the fulfilment of requirements
- certification if necessary
- continuous quality improvement

(3) The basic criteria of maintaining quality:

- Only those providers should provide services, which meet the personal and material conditions as required by the relevant legislation.

- In the course of health service delivery, the relevant legislation and professional rules and standards should be met, more specifically, the guidelines which rest on the evidence-based medicine and represent the state of the art.

Various quality management tools are used, hospitals can be certified according to

- ISO : 9000-20000, - Wide diffusion of the ISO:9000:2000 standards, 70 hospitals from the 164 (all departments – total hospitals) are certified), Manual for ISO implementation were published by the Ministry of Health at 2003 (Ministry of Health – www.eszcsm.hu)

- EFQM - self assessment is used by 14 hospitals, and
- Hospital Accreditation Standards, which is the Hungarian version of JCI standards are used by 17 hospitals. There is a rather unusual situation in Hungary related to JCI standards, because hospitals are certified and not accredited by JCI standards (accreditation is only for laboratories, no hospital accreditation body).

6. Public health: legal requirements and infrastructure

Legal requirements in public health are the same in Hungary as in the EU 15 countries. Health and safety in the working place, food safety, protection of the nature, air, surface and under-surface water, human risk assessment and protection of health against chemicals, radiation and all kinds of risks. EU conform licensing, control and monitoring are being implemented and more extensively used.

The document "Principles of a long-term health promotion policy in Hungary" was first published in 1994 and then revisited four times within a decade.

7. Mental health

Mental health in general is very under developed in Hungary even compared to other sectors within the health care. In the coming years government must not only accept responsibility for the provision of support and services for people with mental disabilities but also remove the existing barriers to their full inclusion to the society.

8. Health of minorities

The estimated number of Roma/gypsy people in Hungary is 0,5-0,6 million. Obtaining accurate figures about their life expectancy, morbidity and mortality portfolio, access to health care services and other important health care elements are problematic for many reasons. But based on the existing data and survey results we might hypothesise that their life expectancy, health status and access to health care is evidently worse compared to the non-Roma Hungarian population.

To improve the health and health care for the minorities has an ultimate importance in the coming years in Hungary due to the particular concerns identified about discrimination and social hardship against minorities and because health status of the Hungarian population as a whole cannot be improved significantly without the improvement of the health status of the minorities.

In short, the EU comes to Hungary with many challenges for health and health care in the upcoming years.

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THE POVERTY – CAUSE OF THE MANPOWER MIGRATION IN THE EUROPEAN SPACE

Claudia-Loredana JUNCU, The Free International University of Moldova

In a global world, nations compete to sustained increase their standard of living. The evolution of unemployment in Romania is part of the economic cycles described by the economic theory and verified through empirical studies in a different particular cases.

The underground labour represents one of the most serious phenomena and it has bigger and bigger dimensions and long-term unfavourable consequences on the labour. Using free zones they were able to create new employment and reduce poverty, without waiting many years for the economy to be reformed. But the organizational forms of the free zones are different in each country.

To reduce the poverty, remains the main theme for the global economy of today's society and there is also some specific steps of action that can be taken into consideration for solving the problem.

A well educated and skilled population contributes to create, share, use and manage knowledge as a critical requisite for a country to participate in the global knowledge economy.

Following 1989 and especially after the year 2000 the phenomenon of migration has increased: in its manifold aspects, it has become increasingly difficult to control or to quantify. Before 1989, there were two main types of migration: the permanent one, caused by ethnic or political issues, and the temporary one, generated by motivations such work and studies. After the date mentioned, the migration flow was due mainly to economic reasons and has manifested itself in various forms: permanent legal migration (by marriage with a foreign citizen or by obtaining a permanent emigration visa - of the “visa lottery” type); temporary legal migration (student visas, work contracts) which does not imply a permanent change of residence; illegal transit migration, characteristic to person in transit within the Schengen area with a view to arrive in countries where they cannot obtain a visa but where they aim to settle permanently; illegal circular migration (a shuttle movement between the native country and the residence country while the visa is valid and even when it is no longer valid with the aim of working on the black labour market).

The most important types in the case of Romania are temporary legal migration and illegal circular migration, which have had a rising trend in the past few years; they can therefore be no longer ignored, especially since they have consequences at various levels.

As far as permanent migration (emigration) is concerned, in the years that followed 1989, the largest number of emigrants flowed to Germany, Hungary and Austria; emigration to these countries can be accounted for ethnic reasons. In 2002-2003 the favoured destination were USA, Canada, Italy and Germany. In the above mentioned period of time most of the Romanian emigrants to the European Union settled in Italy and Germany. Less than 1000 went to Austria and France and no more than 100 to Greece. The most wanted destination of the immigrants in the last period is Spain and the general trend of emigration is increasing. All this have as main cause the poverty and the opportunities to earn more money abroad.

The people involved in the legal migratory movement belong to three important categories of work force:

- highly qualified work force, with competencies in peak domains of science and technology and in some services such as education, research, health.

- medium qualified work force specialised in a wide range of activities and professions such as: constructions, paramedical personnel, personnel qualified in the hotel and catering industry.

- unqualified and under-qualified work force in agriculture, sanitation, and construction.

The trend of this migratory flow can be represented by taking into account the number of citizens who received a work permit abroad; their number has increased constantly in later years.

The freedom offered to the work force in Romania as an increase in the number of bilateral agreements for work abroad did not generate major displacements of the workforce from our country to the countries of the European Union and neither can it be inferred that such a flow will be directed to them in the future. This can be accounted by the fact that, although the work force is willing to leave the country, the imitation and conclusion of contracts very much depends on the conditions on the European labour market which has been lately characterised by a slight regression, but also by these countries openness towards the work force coming from Romania – a work force in competition with resident work force. It is expected that in the post-accession period the number of work contracts will increase – if the above mentioned circumstances remain favourable –especially in the case of highly qualified young professionals or unqualified workers, for agriculture, for instance.

By external migration, Romania exports human capital in a more or less free form; the consequences of this type of export are extremely complex, in a process of continuous transformation and extension. Some of them can be traced as both profits and losses (in terms of competition, of human investments, of money profits); this creates a false impression of profits only and makes the analysis extremely difficult.

The profits and losses respectively incurred by the export of the human capital affects to an equal degree all the one involved, both in the host country of residence, at a micro and macro-social level.

Beside this category which leaves the country legally to work abroad, there is a strong illegal migratory flow leaving the country also with the aim of finding a work place, a flow which cannot be checked in Romania or in the countries to which it is directed. A large number among those who emigrate, are involved in temporary or seasonal work, for an indefinite period of time, in most cases for the period while the visa is valid - that is, three months - employed on an underground labour market of the target countries. The work and living conditions that are offered and accepted are not the best; in fact, in many cases, they are far below the standards offered to the resident work force. The employing companies agree this type of employment since the costs incurred by salaries are lower and the workers operating in these conditions have an important contribution to the company's increase in competitiveness.

Information concerning work migration from Romania – which has had a growing trend in the past few years, without, however, reaching very high or disturbing rates – are partial and do not allow a profound and pertinent analysis of the phenomenon. Such data are, by law, the competency of several operators on the labour market and, at the same time, of the operators at the border, but, in the most cases, it is a good reflection only of the flow (the number of the people exiting or the number of temporary work contracts) and not of the stock of migratory work force (people who recurrently leave the country to go to work to various destinations and for various periods of time).

In spite of the possible inconveniences associated with the estimate migration for illegal employment, it can be appreciated that, every year, the total number of Romanians who go abroad to work for fixed periods of time to the countries of the European Union rises to 500.000 or 600.000 persons. If we considerer those Romanians who work in countries other than those in the European Union, approximated at the same number, then we can conclude that more than 1.000.000

Romanians work abroad. The estimates are rather broad, but they still emphasise the proportion of the work force that is absent from the national labour market (about 20% of the total number of people employed in the Romanian economy). At present these people release the pressure on the labour market, causing a decrease in the rate of short-term unemployment and exerting only an apparently beneficial influence. The medium-term and long-term effects are questionable from the point of view of sustainable development of national economy and of human resources.

The most important cause of migration is an unbalance of the labour market which is due to the lack of flexibility in the work offer; this phenomenon is often encountered in most market economies. Going through a period of adjustments, restructuring and reform in many domains, Romania deeply feels the effects of this lack of flexibility on the labour market. Many people cannot be employed either because they do not have the necessary qualifications for working in a certain domain. Or because they refuse to be retrained. In any of these situations the solution is to change the residence region (in a process such as removal from the Northeast region of the country to the South or West) or country, implying the place where one exercises one's profession.

Another form of unbalance on the labour market is frictional unemployment, which is another cause for migration. When then income earned is too small as compared to the expectations or professional competence, the people in such a situation leave the country or region far more easily in search for a position that should meet their expectations. This is the very case of Romania, where employment opportunities according to qualifications are reduced and the salary much smaller than those in development economies.

However, a direct correlation between the areas which are among the most severely affected by unemployment and the number of emigrants cannot be operated. This is because we compared 2002 with 2003, the first 5 countries with the highest rate of migration have had falling rates for unemployment but they are not among the under favoured areas (Bucharest, Timiș, Cluj, Sibiu, Brașov). This can imply that

frictional unemployment (caused by an improvement in the living and work condition) can be a stronger cause for migration than circumstantial unemployment (resulting from cyclic economic activity).

In the past twelve years unemployment in our country has shown a downward trend, excepting the year 1999. Thus, the number of unemployed people in 1994 was 1223925 persons and the unemployment rate was 10.9%; in 2004 the number of unemployed people was 557892 and the unemployment rate was 6.2%. This evolution can be explained by the economic growth in the past few years, but another reason could be temporary migration which can release the tension on the labour market on a short-term basis. At the same time, circular work migration does not influence the number of unemployed people in the official records since most of the people who left the country are given unemployment benefit, while they work on the black market when abroad for the period of their visitor visa (3 months). If the rising trend of economic growth is maintained (over 5% of the GTP), it can be estimated that the number of emigrants who leave in order to find a job will increase very much since, as the economy grows stable, employment opportunities and payment conditions will also improve locally.

The main motivation for work migration is, as it has already been stated, economic in nature. The differences between income in various countries, low living standards in the country of residence, reduced professional opportunities and remuneration, the precarious health system and social security are the main reasons for leaving the home and family and going to work abroad. It is estimated that approximately 12% of the total number of Romanian households benefit by the financial support of their members working abroad. To obtain an substantially greater income than that one would have obtained in the country for similar work is a motivation strong enough to make thousands of Romanians to leave the country every year.

The growing importance of migration in the socio-economic structure of the European Union is an well established fact. The objective set by the CE in Lisbon in

march 2000, according to which EU will become „the most competitive and dynamic economy of knowledge in the world, capable of producing a durable economic growth accompanied by quantitative and qualitative improvement of the labour force and of an increased social cohesion” could change the policy of the member states concerning the circulation of the work force. This does not imply abandoning the results obtained so far, but the change that will be brought about by the new division of work in which assumedly spatial dislocation of individuals, the geographical component, the changing of the residence will be less relevant as compared to the dynamic character of the flow of ideas, of the new type of industrial relations, of the social/nominal capital, etc. That is why, in future, migration will become an increasingly appreciated source of supplementing the deficit of the labour force in the developed countries. The member states of the EU, already affected by demographic ageing of the population, will direct their policies towards attracting young, highly qualified, competitive labour force, that will be able to diminish the dramatic effects of ageing.

In the first years after accession at least, the extension of the EU will lead to an increase of the active population in search for a job in the more development countries; migration will take the form of legal migration through work contracts and bilateral agreements, but also the form of uncontrolled migration. However, it should not be overlooked that the status of member state of the EU will generate a demographic flow from the countries non-members of the EU to Romania, which in time will become an important source in covering the work force deficit.

Therefore, our country will be affected by this demographic decrease of population since the employment offer will be also reduced, especially in what concerns the young contingents with high work potential or highly qualified. Such losses at the economic and demographic level impair Romanian’s competitiveness on the international market and on the EU market. On the other hand, the same phenomenon of migration covers the deficits on the labour market of the host

countries, increasing their productive and creative force. Thus, Romania augments its own disadvantages on the market through its migration of human resources.

It should be, however, mentioned that, European policy is and will be increasingly selective. Considering the ever more complex consequences of migration for work and of the extension process, the present concerns of the EU countries are mainly directed to the efficient management and the regulation of this phenomenon.

Further problems arise when the migration of workers is associated with the (temporary) migration of their families; this occurs especially when the workers are to stay for longer periods of time abroad. All these facts support the idea forwarded by certain specialists according to which „the current round of extension will generate a greater migration potential” and „justifies” to a certain extent the restrictive attitude towards the free circulation of individuals and especially towards the labour force coming from Romania and Bulgaria.

The liberal attitude initially displayed by the member states towards the complete liberalisation of the labour market after the extension towards the South (Greece, Portugal and Spain) changed, together with the first wave of Eastern countries, in a more cautious, even reluctant position, in the form of restriction for the access into these countries. It can, therefore, be expected that Romania and Bulgaria will be given the same treatment even if accession is scheduled for 2007. Based on the experience accumulated so far, in the future, until the accession year 2007, the policy of migration management should undergo dramatic changes as far as Romania is concerned. On the contrary, it is very likely that the restrictions and the limitation in number should be more discriminatory and more selective in nature; the EU will probably promote a policy of access with the purpose of „supplementing the needs of the market”, which will naturally include extremely specialised demands, that is either highly specialised workers, or unqualified workers who will accept unattractive jobs, refused by the labour force already existing on the market. With these measures, in a more or less concealed form, one of the four fundamental rights of the domestic

market are broken – „the member states shall not discriminate against the citizens of other member states on the basis of their nationality, in favour of their citizens.”

Socio-economic realities in our country are obviously favourable to emigration or temporary migration: the living standards significantly lower than in other European countries - as the society cannot compensate this difference by other instruments (increased social protection, mother and child protection, health security etc.); lower productivity, lower technological standards compared to the European average, a socio-economic reality that does not intimate fast adjustments, implying a difference in wages for the same type of work; the lack of employment opportunities, the existence of areas/counties where the rate of unemployment is higher than the national average; they will all represent a potential danger of migration among the work force; the desire for professional fulfilment of the individuals with increased potential for specialisation or continuation of studies (master, doctor's degrees, research etc.); or simply the desire of living in a more civilised environment, where the citizens feels that he/she is respected and protected. All these add to the behavioural specificity of the Romanian worker, with an increased capacity to adjust to the work environment, who is particularly adaptable when working on the national labour market. Therefore starting from the extension policy of the EU and the regulations concerning migration and the circulation of the individuals on the expanded territory of the Union, it can be anticipated that there will be an annual migration flow of about 400.000 persons between 2005-2010. Illegal migration can be gradually reduced through more efficient border check, as well as specific regulation and assistance for potential migrants. After 2014, the general picture of migration can be radically altered, depending on Romania's social and economic progress.

Considering the Romanian tradition of low work mobility, the young contingents will be dominant among those for employment abroad. Many belonging to this category, being single, corresponding temporary migration will be probably reduced, at least in the first five years after accession. The sixteen years of transition

and openness towards the West in terms of access to information has noticeably altered the attitude of the population and of the youth towards the Western way of living. They prove to be well informed about the economic and social realities of other states and become increasingly more realistic in their options for migration destinations for work or professional improvement. In many cases the intention to migrate or actual migration, manifested in adolescence turn into an option for temporary emigration for higher qualification or specialisation or even disappears if opportunities on the labour market offers satisfactory alternative solution (comparatively high income, a position with a foreign company, etc.) In this context, it should, however, be mentioned that providing employment opportunities to the young professionals with special abilities, the highly qualified ones, to researchers, should represent an important element in the national policy of economic growth. In this way, the migration phenomenon will not be allowed to reach alarming rates, while Romania will remain an interesting area for multinational/transnational companies and foreign investors. So far, in our country, the measures, the institutional frame and the migration policy have had a reactive character, connected with the aim of ensuring the adjustment to the European requirements, without having any clear objectives in mind. Yet, in the near future - that is no later than 2007 - along with the completion of the institutional framework, Romania will be able to shape its own migration policy, which should, on one hand, be compatible with the existing ones at the European level, on the other, with its own national interests.

The phenomenon of the poverty supposes a series of privation connected to the human needs, starting from the basis of the pyramid of the needs of Maslow (biological needs, security needs, status needs, self perfection needs) and going on the top of this, through all the levels. Using this complex and divers phenomenon of the poverty we can understand that a series of indicators about the quality of life are affected from the socio-economic reality. These indicators are basic for commenting the situations of privations in lots of fields such as: food, clothes, home, the

environment, the utilities of the place, the work conditions, the right to work, the family, the social integration, the political participation, the education.

The poverty involves taking into deep consideration of all the aspects connected to life conditions, that is why we can say that poverty status is evaluated regarding to the resources, but also the possibility that people have to participate to the social life, to act as members of the community.

EUROSTAT - The Statistical Research of Poverty, appreciates the following: „we will consider poor the persons, the families or the groups of people whose resources, material, cultural and social, will be so limited that restrict people’s access to the lowest level of life, acceptable for the country they live”.

The World Bank reports, define the poverty as the loss of the capacity to have a minimum life standard. The poverty means also not only the absence the daily material needs, but also the absence of the possibilities to live a tolerable life.

The need for a more clearly evaluation of the poverty imposed facing it on multiple levels, from different perspectives, and led to the development of new instruments for measuring but also to ensure a diversification of the utilised indicators.

In our country the concern about studying the poverty dates from the 50’s of the last century, being reinforced at the beginning of the 70’s. With this occasion, groups of specialists in economic and social fields made minimal level of budget for a standardised family of employed and for a pensioners one. The evaluation of the poverty continued after 1990, being the first studying objective for many national institutions but also international one, including World Bank.

The growing importance of migration in the socio-economic picture of the EU area is a widely acknowledged fact. The member states, already feeling the effects of demographic ageing, resort to attracting young, qualified, competitive work force which will be able to reduce the dramatic effects of demographic ageing. The balance of migration in the host countries is a positive one, but this is not true for the residence country as well. By external migration, Romania exports more or less free

human capital and the effects of this type of export are extremely complex, in a permanent process of transformation and multiplication in both time and space. We considerer that migration is a phenomenon that cannot be ignored, since it can bring about negative effects, at long term basis, on the national economy. In spite of the fact that this phenomenon is particularly hard to grasp and to anticipate in its entire complexity, its analysis is both necessary and beneficial since it can contribute to better understanding and regulation.

In conclusion we analysed the migration phenomenon in our country, starting from identification of its causes the and assessment of its range, and goes on to insist on the socio-economic consequences and possible further evolution from the perspective of Romania's accession to the EU.

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L’HOMME - LA PRINCIPAL RESSOURCE DE L’ECONOMIE - L’ASSURANCE D’UN EQUILIBRE GENERALE STABLE

Claudia Loredana JUNCU, L’Université Libre Internationale de Moldova

Les libertés humaines effets de la réalisation d’idéal de justice sociale et de la stabilité, dérives du système de l’équilibre générale stable sont inacceptables pour la plus part des nous ou réserves a quelques classes sociales particulières.

On doit se questionner souvent que ce qu’ils peuvent faire les grands chefs de notre monde pour créer une économie plus valide sans passer parmi de différentes bouleversements pas soulevant de la nature politique même ci comme le chômage, l’inflation, le déficit du budget, les impôts insoutenable, etc.

On doit se questionner ainsi s’il y a une chance de se détacher de l’anarchie économique du présent et de parcourir un régime humain d’économie sociale juste et stable.

A mon avis la planification stratégique des ressources humaines dans n’importe quels domaines représente l’élément essentiel que ne faut pas la négliger beaucoup d’organisations.

Il faut que l’on s’efforce d’éloigner les maux, de dérouler des activités créatrices du venu et de l’harmonie tout comme disait souvent de son tribune Virgil Madgearu, un économiste roumain renommé de ce siècle c’est a dire „plus emmenant ou but,,.

The deep changing caused by the technical, scientifically and the ecological process, the growing of the richness and poverty also, changing the hard work with the information, knowledge and understanding, the development of modern sophisticated methods, strictly connected to computers and information, the mobility of the global crises, all of this represent enough reasons to start an analysis about the development of the Romanian economy.

The continuing development of a new economic system, is changing step by step the old economic system, is changing the life, the ambiance, the business, the politics, the state, and even the essence of the economy.

But what means economy? Our “travel” into the land of the old economic systems from Romania, asks us to remember about their content. The economy represents a coherent connection of mutual activities, where, the men is selecting what, how, and when to produce in order to accomplish his developing goals, considering himself as the product of the nature and the society. The economy, together with other fields of the social life, express in time and space a continuing fight of the man with nature and society in order to adapt to the biological needs, to the natural environment, and the social one, in which he is “forced” to live. “Without such a system, that produces food, prepare and deliver it, produces cloth, and clothes, builds houses, ensures medical and educational services, makes laws and maintain the public order and security of the community – the life would be hard”¹.

The evolution of the economy consists in a permanent process of adding value, so that the economy consists in a part of the man’s most important actions. The economy appeared and developed through and for man, so that it always had a human character. The content of the economy reflects the way people use to accomplish their unlimited needs with limited resources. According to the limited resources, taking into consideration the principles of rationality, people use to choose the best option so that they have maximum results with minimum effort.

¹ J.K. Galbraith, “*Ştiinţa economică şi interesul public*”, Editura Publică, Bucureşti, 1982, p. 11

The economy, being a way of human action is through itself in continuing changing, and transition. The economical life is a fight of the man with the principles of the rarity, with the limits of the liberty, in order to transform this into tangible elements of the daily life. “The real problem is that in normal life, usually we don’t have to choose between risk and stability, but between the degree of risk and the different possible results”².

In this normal life with the limits of our existence, the men and in general, the human community, in permanent transition, learn to adapt to the natural environment in which they live, building specific life surroundings, to produce the daily life. “The progress of the liberty in the history of the mankind, it is not just a progress for defeating the external limits that we have been restricted, but first of all, it is the progress with the limits that the internal nature has been restricted to us, this being in the same time a continuing struggle of man with himself”³.

This means that to the human action we have found two responsibilities: 1. the individual responsibility of the way the liberty of choosing restricts what we have to do for our own way of living”; 2. the social responsibility of the way the individual liberty restricts other individual’s liberty.

Of course there are a lot of criteria of appreciation of human activities. In the context of limited resources, the ensemble of human activities through we aim to answer to the following questions: what, when, how, and for whom to produce, are known as economic activities. In this context, we can find solutions about the fundamental problems connected to the volume, the structure, and the quality of products that are supposed to be produced, the present and future perspectives of producing, but also how we deal with the distribution and the consumption of what we have been producing. Through the economic activities we produce that utilities and services, people need to accomplish their life needs. Because the accomplishment of this life needs is a permanent process, the production that answers to this standard is in a continuing changing also.

² *Orio Giarini și Walter Stahel, “Limitele certitudinii”, Edimpress- Comro, București, 1996, p. 256*

The economic activity, or the economy, no matter the times or the historic context, is the basic activity of the people, the need to ensure the existence and to perpetuate the human being. After accomplishing needs like: food, shelter, cloths, we can see the premises for accomplishing the other needs: cultural, spiritual, and political, of the individuals and the community in its ensemble. That’s why the economy is the basic field of the society, being involved directly or connected to the needs of the society.

This kind of arguments, we take into consideration now, when we try to draw a general frame of the economy evolution, evolution that cannot be finished no matter the different steps it has done during times.

The development of the economy, in this stage of evolution, depends on multiple variables with systemically character such as the need for economical strategy.

The concept of economic strategy has a central place in all economic levels. The strategy reflects a supposition about the human comportment, suppositions that aim to bring the biggest advantage, the smallest privation that means the smallest opportunity cost.

The economical strategy leads the function of the economy because it includes plans, methods and targets that reflect a correlated view about the development.

Thus, the economical strategy does not match with the economical approach that regards the methods used to accomplish a target or a couple of targets on short term.

The normal function of the state in the contemporaneous market economy has to take into deep consideration the mixture between the economical strategy and the economical planning.

In nowadays Romania, the need for strategically planning regards the macroeconomic policies, and the sustainable development of the society.

³ Gabriel Liiceanu, *“Despre limite”*, Editura Humanitas, Bucureşti, 1997, p.69

After 1989, Romania failed into the trap of the policies and strategies characterised by improvisation, without a clear reference, without finding proper sources of funding or a preferment management.

The transition management was inefficient, so that for 10 years we actually didn't have an economical strategy agreed by all actors in the field. Until we had the National Economic Development Strategy in 1999, we missed a clear programme for macroeconomic development. But the plans for joining the European Union had to change this status quo and to ask for a clear economic strategy and a plan for sustainable development.

The historical experience demonstrated the need for the state intervention into the economy in order to prevent an unbalanced development and ensuring a sustainable growth.

Because in the contemporaneous world we assist to a diversity of economic targets and developing instruments, but also different institutions in the field, usually we use the term of “economic policies”. Romania, being a country with a medium level of assimilation of external economical impact, has to take into consideration in developing the economical policies, about the dynamic of the international economy and the need to ensure a strong internal market.

The need for strategy is considered acute in all fields, but the most important is the macroeconomic policy.

In this respect, the factors that ensure and influence the process of economical development are: the population, the natural resources, the natural environment, the agriculture, the industrial production. The strategic planning has to receive also concrete criteria for the connection between needs and resources, but also operational objectives to be reached on short term, as well as strategic objectives on medium and long term, or different tools reaching the final objective.

At the same time, taking into consideration the perspectives of the global economy, we have to build our strategies according to the influences of the external environment, be it the European one or the global one.

It is clear that a coherent economic strategy has to balance the different strategic objectives on a medium term. This kind of strategy has to channel the country's efforts for institutional change, economic transformation, crisis management, sustainable development. Thus the planning should add the raising of the investing rate through stimulating the national capital but also the foreign investitures, continuing the measures for macroeconomic stability, developing the public services, promoting on long term a programme for reducing the ecological risk.

This strategic planning is not important necessarily for the joining of Romania to the European Union, but also for the long process of implementing all the rules and regulations.

The European integration is the effect of functioning the model of consolidated economy and not necessarily all that represents model we choose.

In the field of the human resources, the strategy let us know the need for new employers, the need for professional training, the salary policy and the consequences of all this on the organisation.

The strategic planning is based on the speciality of the organisation (mission, culture, strong points, weak points, resources), but also on the conditions, trends, opportunities, risks that the environment give to us.

The results of the strategic planning are given by the performances of the organisation.

The strategic planning of the human resources represents a component of the strategic management that is not considered as it should be in most of the organisations.

The main cause of the success of an investment in Eastern Europe is considered to be the man, so that the management should be turned to this way. The methods used in the strategic planning of the human resources, are slow and inefficient because of the inaction of the management. The accent of the organisation

in the strategic planning of the human resources is strictly connected to the support and cooperation of the high level managers.

This support of the high level officials should be turned, first of all, in financial field. The top managers will not support any proposal in the field of human resources if they are not sure that the methods used for rising the capacity of the human resources will be effective and productive, which is why the human resources managers should ensure proper solutions when asking for new financial approach.

Nowadays Romania, inherited from the economic dictatorship of the communists, ruled by state control and over planning, this kind of instability that was hidden through arbitrary regulations of the prices, salaries, where the government had absolute powers.

The passing from the economic dictatorship of the communists, to the market economy, unfortunately was followed by unemployment, inflation, budgetary deficit, the loss of equilibrium of the international pay balance etc.

Very important for the development of the economy but also for the social sciences, was Leon Walras who formulated the first the Law of the General Stable Equilibrium in economy. His point of view is strictly connected to the determinist theory. In the same way others modern economists, Keynes, Samuelson, Friedman, considered the world through the diversity of the conflicts with a single word: “disequilibrium”.

The over watch of the global economic crisis, of the way their effects disseminate in every fields of activity, cannot lead us to certain planning or rhythm that can be used in the strategic management and in justifying the economic decisions. The context is much more complex. But all this can help in the consolidation of the market economy in Romania, if we take it into deep consideration when it comes about our economic strategic planning. That is why we should add more and more importance to the continuous training of the human resources as a basic tool of the strategic planning.

All the actions concerning the human resources, aiming to protect and improve this production factor, can be implemented only at organisational level and not at strategic, global or national one.

The economic development has favoured the improvement of the level of qualification and training of the personnel, this aiming not only the financial prosperity, but also satisfying social, cultural and professional needs. Their success depends on the way the system, the government contributes to a more relaxed business environment, but the most important actor in this “play” is every organisation and it’s top management.

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CONSIDERATIONS REGARDING THE FACTORS WITH THE MAIN INFLUENCE OF THE FINAL CONSUMPTION IN ROMANIA, DURING TRANSITION

Lecturer Emilia HERMAN, “Petru Maior” University of Tîrgu-Mureş

In this paper we want to emphasize the strong connection that is made between consumption and the main factor of influence, the disposable income. Also in this paper we want to attract attention over the growth of consumption against savings, fact that can affect in a negative way the process of economical growth.

The experience of different countries, including the Romanian experience, demonstrates that in the *economical stabilization* programs has been a clear tendency to macro economical approach that refers especially to the unit demand, the structural measurement (that refer to the supply) going on the second place. The macro economical stabilization is defined as „*a process of restoring the balance between the unit demand and the unit supply both in nominal and real terms*”¹

The unit aggregate demand (AD) is the sum between consumption (C), investments (I), governmental expenses (G) and net export [Export – Import (X-M)],

¹ Aurel Iancu, *Politică și economie. Repere ale unui sistem economic performant*, Centru Român de Economie Comparată și Consensuală, 2000, p.168

meaning the sum between different categories of expenses that are done from the total incomes: **AD= C+I+G+(X-M)**

From the national accounting point of view, the total incomes (GDP - gross domestic product) are divided on the following categories of *utilization*: actual final consumption (households actual individual final consumption and government's actual collective final consumption - FC), gross fixed capital formation (GFCF), change in inventories (CS), net export of goods and services²:
GDP=FC+GFCF+CS+ (Export-Import)

In order for us to understand the economic life, first we must understand the forces that act behind consumption and investments, as components of the unit demand. The mutual conditioning between the current consumption and the future investments play an important role in creating the macro economical balance. On short term, when the consumption and investments grow, the production and the occupation degree grow also. On long term, the distribution of national income between consumption and investments has a major influence on economical lasting development

In the following we plan to emphasize the main factors that influence the size and final consumption evolution.

Actual final consumption includes goods and services acquired by resident institutional unities for the direct satisfaction of individual or collective needs, the members of the community's needs³.

At the macroeconomic level, the final consumption firstly depends on the *gross disposable income* (Y_d)⁴. **C=f (Y_d)**.

The incline of the consumption's function is given by marginal propensity to consume, regularly, positive and sub-unit ($c'=\Delta C/\Delta Y_d$). Unlike this, the *medium*

² Anuarul statistic al României, INS, 2004, p.122, Abdessatar Ouanes and Subhash Thakur, *Macroeconomic Accounting and Analysis in Economies Transition*, International Monetary Fund, june, 1997, p.16

³ Anuarul Statistic al României, INS, 2004, p.120

⁴ represents the account of the income and measures the part from the \created value that the economy has, for the final consumption and the gross economy (Anuarul Statistic al României, INS, 2004, p.123)

propensity to consume (C/Y_d) can be over-unit when $C > Y_d$, that equivalents with the fact that the consumers spend more than the income they have. The difference $C - Y_d$, can be covered through spending the previous savings or through appealing at consumer credits. When the medium tendency towards consumption is sub-unit the consumption is less than the Y_d , case in which people postpone the consumption, materialized in *savings*.

Given the information above we can write the *function of the consumption in the following form*: $C = c' * Y_d$ Expressed in this way the consumption's function, according to the psychology rule of Keynes, has the following property: if the disposable income grows (ΔY_d), then the consumption grows also but in a lower proportion ($\Delta Y_d > \Delta C$) and in reverse if the disposable income decreases, the consumption will follow the same trajectory, but in a lower proportion.

On the other hand, the total consumption includes in addition to the consumption, determined by the disposable income, an *autonomous consumption* (C_0), that provides the satisfaction of the minimum subsistence and that is positive⁵. The autonomous consumption is the consumption of the ones that even if they don't have an income they still consume; it is the case of people who stay at home and of the children that spend from the income of the people that support them. In this case the function of the consumption takes the form of the following function:

$$C = c' * Y_d + C_0$$

The analyze of the gross disposable income influence over the actual final consumption

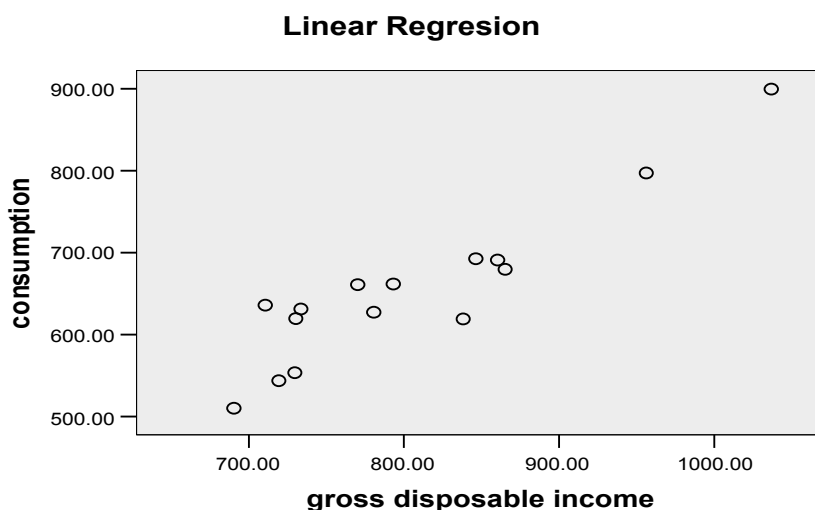
The examination of the existing bonds between the economic variables it is done through the analytic method of regress and correlation, with the help of some mathematical functions, called *regression functions*. The obtained results after applying this method are representative, besides the case in which the aleatory, unknown factors interfere and their influence can not be predicted, and in the case where there are some errors in the observation process or the processing of data.

⁵ Ilie Băbăiță, etc *Macroeconomie*, Editura Mirton, Timișoara, 2003, p.67

The analysis is done for 15 year period (1990-2004), on the statistic information from the Statistic Yearbook of Romania and BNR Report. Because of the fact that in the period mentioned before there have been remarkable growths of goods and of production factors of the real evolution, the components of the unit demand may be misunderstood. From the nominal statistic dates, both demand's components and the aggregate demand, register continuous growth from one year to another. But if we eliminate the prices influence over these, we can see that there have been registered, in real terms, most of the time discounts. For this reason we will eliminate the prices influence over consumption, correcting the nominal values of the economical variables analyzed (consumption and disposable gross income), with the index of prices of consumption with fixed base – 1990.

In order to establish the bond's formation between the final consumption (C), as a resultant variable and the gross disposable income (Y_d), as a factorable variable, we can start from the graphic representation of consumption according to the gross disposable income (Chart No. 1), and according to the new shape of the points' cloud, we can assume their function that best reflect the connection between the two variables.

Chart No. 1 The bond between Consumption (C) and gross disposable income



After observing the points' cloud, we established the lineally form of the bond between the two variables and then we tested the significance of the parameters of the lineally function, with the help of the *t test* ($t_{calc} < t_{tab}$) and the *F test* ($F_{calc} < F_{tab}$). It also checks the B Blackman test, the square value of the correlation coefficient (r^2_{yx}) is equal with the square value of the empiric correlation report (η^2_{yx}).

Also from the correlation coefficients' value (Pearson =0,923, Spearman=0,836 Kendall=0,695), results that between the two variables there is a very strong, direct connection.

From the dates we obtained after the statistic analysis with SPSS – Windows (see annex No.1) we can see that the lineally model offers valid solutions for the economic analysis, and the regression function's shape can be written under the following form:

$$C_{adjusted} = a + b \cdot Y_d = -80,987 + 0,915 \cdot Y_d$$

The „a” parameter from the determined function has no economical signification, in the sense that there is an *autonomous consumption* at the national economy level, costing -80,987 billion lei, that does not depend on the gross disposable income. The value of the „b” parameter, from the consumption function written above, shows that there is a direct relation ($b > 0$) between the disposable gross income and consumption, and the value of 0,915 shows in the analyzed period, 1990-2004, at a modification of the disposable income with a unity the consumption would not be modified, in the same sense, with 0,915 unities, that means that at a growth of 1 billion lei the consumption grows with approximately 915 millions lei.

Because the determination report (R^2) is 0,852, results that the size of consumption is influenced by the disposable gross income in proportion of 85,2% and the rest of 14,8% represents the influence of other factors, like the interest rate at the credits of consumption, in-house consumption, etc.

Table No.1. The correlation between the disposable income and consumption

Anii	Gross disposable income (Y_d)	Consumption (C_r)	$C_{adjusted}$	C_{real}/Y_d	$\Delta C_{real}/\Delta Y_d$	$C_{adj.}/Y_d$	$\Delta C_{aj.}/\Delta Y_d$	ΔC_{real} %	ΔY_d %	ΔC_{adj} %	$S_{real} = Y_d - C_{real}$
1990	865.2	679.5	710.87	0.79	-	0.82					185.70
1991	838.16	618.99	686.12	0.74	2.24	0.82	0.92	-8.91	-3.13	-3.06	219.17
1992	729.64	553.47	586.80	0.76	0.60	0.80	0.92	-10.58	-12.95	-12.65	176.17
1993	690.43	510.07	550.92	0.74	1.11	0.80	0.92	-7.84	-5.37	-5.23	180.36
1994	719.33	543.73	577.37	0.76	1.16	0.80	0.92	6.60	4.19	4.07	175.60
1995	780.52	627.18	633.37	0.80	1.36	0.81	0.92	15.35	8.51	8.28	153.34
1996	846.33	692.73	693.60	0.82	1.00	0.82	0.92	10.45	8.43	8.23	153.60
1997	770.2	660.94	623.92	0.86	0.42	0.81	0.92	-4.59	-9.00	-8.79	109.26
1998	710.58	635.97	569.36	0.90	0.42	0.80	0.92	-3.78	-7.74	-7.55	74.61
1999	733.55	631.27	590.38	0.86	-0.20	0.80	0.92	-0.74	3.23	3.15	102.28
2000	730.37	619.62	587.47	0.85	3.66	0.80	0.92	-1.85	-0.43	-0.42	110.75
2001	793.12	661.88	644.90	0.83	0.67	0.81	0.92	6.82	8.59	8.37	131.24
2002	860.32	691.07	706.40	0.80	0.43	0.82	0.92	4.41	8.47	8.27	169.25
2003	956.096	797.176	794.06	0.83	1.11	0.83	0.92	15.35	11.13	12.41	158.92
2004	1036.69	899.78	867.82	0.87	1.27	0.84	0.92	12.87	8.43	9.29	136.91

Source: The calculus made on the basis of dates from Romanian Statistical Yearbook, 1990-2004 times series

From the dates presented in the table above we can see that in the period 1990-1995 and in the year 2002 the real values of the consumption have been lower than the theoretical one (adjusted). The rate of the *adjusted consumption* has a value between 0,80 and 0,84 fact that reflects o high tendency for the consumption. Also the marginal propensity to consume, of 0,92, is mentioned in the recession period. The rate of the *real consumption* or the medium propensity to consume ($c=C_{real}/Y_d$) has values between 0,74 and 0,90. After 1995 the medium propensity to consume has values over 0,8 higher than the previous period. The highest consumption rate is registered in 1998, of 90%, that reflects a high tendency towards consumption in the prejudice of savings. In 2004 han in 1990 the medium propensity to consume grew with 10,13%, fact that creates the conditions for the decrease of the savings rate. On the other hand the savings weight in the total incomes in the analyzed period had an oscillated evolution, being situated between 26% and 10%.

Regarding the modification report of the disposal real income and the modification of the real consumption there have been registered some *abnormalities*, in the sense that, between 1993-1996 and in the years 1991, 2000, 2003-2004, the modification of the real consumption ($\Delta C_{\text{real}}\%$) is higher than the modification of the real disposable income ($\Delta Y_{\text{d real}}\%$), fact that runs counter to psychological rule of Keynes.

The marginal propensity to consume (c') calculated as a report between the variation of the real consumption and the variation of the disposable income registers also anomalies, because this has in 1993-1995 and 1991, 2000 and 2003-2003 higher values than the unity. In 1996 it is equal with 1 that reflects the fact that the consumption grew in the same sense and the same amount with the disposable gross income. Another exception is registered in 1999 when c' is negative (-0,2). This situation is explained by the existence, in this year, of a reverse bond between the disposable gross income and the final consumption, materialized in the lightly decrease of the real consumption 0,74% in the conditions of the growth of disposable income with 3,33%.

In 1991 and 1993 the real consumption decreased in higher proportion than the income that reflects the fact that the consumers' tendency to spend more in order to keep the life standards is not manifested in an obvious way, the income not being enough, and the consumers focus their attention to inferior goods.

During 1994-1996 and 2003-2004 we can notice that the real consumptions grew in higher proportion than the disposable income. This anomaly can be explained by the fact that when the disposable income grows, the consumption can reach higher values than this on the reason that at lower levels of the income, the consumption has been insufficient, and the consumers have been obliged to appeal at credits and their savings. On the other hand, this behavior has at his bases the influence of the prices growth at most of the goods and services and the tendency manifested by some consumers to introduce in the consumption, especially by the *demonstration behavior or the memory one*, more superior goods have higher prices.

For example, in 2004, in the conditions of disposable income with 8,34% (with 80,59 billion lei) the final real consumption grew with 12,87% (with 102,604 billion lei), we can remark the *insufficiency of the own incomes* for covering the needs for final consumption, fact that determines most of the consumers to appeal at *credits*. In this sense we mention that in 2004 nongovernmental intern credit, both in lei and foreign currency grew with 1,38 times higher than the last year (in 2003 than 2002 with 1,69 times) in the conditions when the medium rate of the active interest, decreased from 26,2% at 25,8% (and in 2003 than 2002 from 36,6% at 26,2%)⁶

In the opinion of the International Monetary Fund⁷, among unbalances that continue to amplify in Romania, there is a strong increase of the intern demand, because of the increased growth of the consumption. The growth of the consumption has at the bases the credit, which by this time, continues to register a high growth. By the time the growth of the foreign credit has lately decreased the rhythm, the expansion of the national credit increased. This change is because of the measures regarding the limiting of the credit's growth in foreign currency adopted last year (2005) and the recently discount of the interest rate.

An additional argument, for the situation of 2004 represents the statistic dates regarding the incomes a sector has and the common expenses. In 2004, according to the *sectors appreciation*, the sector's weight that can *make it up* with the expenses with the realized income is 42,8% (than 37% in 2003). It has to be mentioned the fact that this expenses do not go into acquisitioning the goods for a long term use, the expenses with holiday (one week a year), clothing, books, shows, etc. If we take in consideration these expenses, also the weight of the ones that say they can overcome the expenses with the incomes they have in only 22% in 2004 and 17% in 2003.

On the sectors categories, after occupied status of the representative of the sector, in 2004 the situation is different: 53,6% of the employees (in 2003-49,7%), 84,6% of the employer (in 2003-82,2%), 38,9% of the people that work on their own

⁶ The annual BNR report, 2004, www.bnro.ro

⁷ *Discuțiile privind Articolul IV Consultări 2006*, Fondul Monetar Internațional, România – 6 februarie 2006

(in 2003-39,4%), 31,4% of the farmers (in 2003-24,9%), 18,6% unemployed (in 2003-17,6%) and 39,8% of the retired (in 2003-33,5%) say that they can make it up with the current expenses with the income they have⁸

It looks that the employment's structure by the professional status influences the level of incomes they obtain and implicit the level of consumption expenses. From the total incomes obtained by sectors, because of the high weight of population that deals with farming, in 2004 we can notice a high weight of incomes, of 24,2% (25,1% in 2003), with an impact over *in-house consumption*⁹

On the other hand with serious consequences over the consumption at the macroeconomic level represents the fact that from the available net incomes, on sectors categories, in 2004, a big part of the sectors can not cover the *consumptions expenses*, these passing the income with 23,65% for farmers, and with 8,53% for unemployed and with 0,68% for retired¹⁰

The size and dynamic of the real consumption in Romania, during transition, can be explained by taking in consideration also other factors of influence, and these are:

A). In the analysis of the consumption's behavior we must take in consideration the interdependence of some consumptions agents towards the others consumption, based on the *demonstration or imitation effect*, pointed by J. S. Duesenberry¹¹. According to this effect the individuals with low incomes have a tendency for higher expenses than people with higher incomes, because it is trying to copy the consumption of these people, the goods not being expensive just for them, for the needs satisfaction, but represents a symbol. In consequence, on long term, the income growth does not determine the decrease of tendency towards consumption. In

⁸ *Coordonate ale nivelului de trai în România. Veniturile și consumul populației în anul 2003*, INS, București, 2004, p.46; *Coordonate ale nivelului de trai în România. Veniturile și consumul populației în anul 2004*, INS, București, 2005, p.46-47

⁹ *Coordonate ale nivelului de trai în România. Veniturile și consumul populației în anul 2003*, INS, București, 2004, p.27 *Coordonate ale nivelului de trai în România. Veniturile și consumul populației în anul 2004* INS, București, 2005, p.29

¹⁰ Calcule proprii pe baza informațiilor din *Coordonate ale nivelului de trai în România. Veniturile și consumul populației în anul 2004*, INS, București, 2005, p.45 și 57

¹¹ notion introduced by J.S.Duesenberry, *Income Saving and the Theory of Consumer Behaviour*, Harvard University Press, Cambridge, Mass, 1949

case the decreasing of incomes takes place, in order to maintain the living standards people will appeal to credits or to their savings.

B). Another factor that influences the consumer behavior is the *memory effect* or the clichet¹², according to which today's consumption depends both on the current income but also of the consumption from the previous period and the *inertia effect*¹³ of the consumption in relation with the current income, according to which we can appreciate intuitively that when the current income grows unforeseeable, does not exist a reason for the sudden and proportionally of the consumption.

C). The level and evolution of the consumption is influenced also by the *general level of prices* in the sense that a growth of prices can determine the decrease of the real value of the available incomes¹⁴, fact that will reduce the level of consumption. In reverse the decrease of the general level of prices determines the growth of the purchase power of the population and the same time of consumption.

D). Among the disposable income for the grant of the keeping consumption there is also *other sources of granting*. Monetary assets, titles, real assets, etc. (the patrimony we have), can be sold for obtaining the necessary liquidation for obtaining the goods for consumption, especially goods for long term use.

The knowledge of the consumption and the registered tendency is important because it can determine the part of the income that it is not consumed (or the postponed consumption) that is found in the economies level, part that is available to be invested, and the investments represent the engine of the economical growth on long term.

The actual tendency, at national and international level, of the growth of the consumption in the detriment of savings, represents a problem, because on long term, the formation of the capital of a country is determined by the national savings rate. In the conditions when this rate is decreasing we wonder about the formation of the

¹² Initialized by. M. Brown, *Habit Persistence and Lags in Consumer Behaviour*, Econometrica, iulie 1952

¹³ systematized by M Friedman, *A Theory of the Consumption Function*, Princenton University Press, 1957

¹⁴ if the incomes grow slower than prices, the specified situation in the transition period in Romania

developing base of an economy – capital. Also the savings decline has major involvements over the investments volume and over the macroeconomic equilibrium.

Annex No.1

Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.923	.852	.840	38.738

The independent variable is venit brut disponibil.

Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
The gross disposable income	.915	.106	.923	8.638	.000
(Constant)	-80.987	85.775		-.944	.362

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	111971.35	1	111971.356	74.616	.000
Residual	19508.136	13	1500.626		
Total	131479.492	14			

The independent variable is the gross disposable income.

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THE ROMANIAN INVESTMENT ENVIRONMENT

Daniela POPA, The Romanian – German University, Sibiu

Abstract:

Even a cursory glance at “Ziarul Financiar” and other financial papers reveals a bewildering collection of securities, markets and financial institutions. Although it may appear so, the Romanian financial environment is not chaotic: there is rhythm and reason behind the array of instruments and markets. Financial markets and institutions evolve in response to the desires, technologies and regulatory constraints of the investors in economy. We could predict even the general shape of the investment environment if we knew nothing more than these desires, technologies and constraints. This paper provides a broad overview of the investment environment in Romania. It begins by examining the differences between financial assets and real assets. Then it analyses the three broad sectors of the financial environment: businesses, government, and investors. Many features of the investment environment are natural responses of profit seeking companies and individuals to opportunities created by the demands of these sectors. Finally, the paper analyses recent trends in Romanian financial markets and the driving forces behind financial innovation.

The material wealth of a society is determined ultimately by the productive capacity of its economy, the goods and services that can be provided to its members. This productive capacity is a function of the real assets of the economy: the land, buildings, knowledge, and machines that are used to produce goods and the workers whose skills are necessary to use those resources. In contrast to such real assets are financial assets such as stocks and bonds. These assets, as commercial papers, do not represent a society's wealth; they are no more than sheets of paper; they do not directly contribute to the productive capacity of the economy. Financial assets contribute only indirectly, because they allow for separation of the ownership and management of the firm and facilitate the transfer of funds to enterprises with attractive investment opportunities. Financial assets contribute to the wealth of the individuals or companies holding them. This is because financial assets are claims to the income generated by real assets or claim on income from the government. When the real assets used by a firm ultimately generate income, the income is allocated to investors according to their ownership of financial assets, or securities, issued by the firm. Bondholders, for example, are entitled to a flow of income based on the interest rate and par value of the bond. Equityholders or stockholders are entitled to any residual income after bondholders and other creditors are paid. In this way the values of financial assets are derived from and depend on the values of the underlying real assets of the firm. Financial assets define the allocation of income or wealth among investors. Individuals can choose between consuming their current endowments of wealth today and investing for the future. When they invest for the future, they may choose to hold financial assets. The money a firm receives when it issues securities and sells them to the investors is used to purchase real assets. Ultimately then, the returns on a financial asset come from the income produced by the real assets that are financed by the issuance of the security. In this way, it is useful to view financial assets as the means by which individuals hold their claims on real assets in economies.

An operational distinction between real and financial assets involves the balance sheets of firms. Real assets appear only on the asset side of the balance sheet, while in

contrast, financial assets appear on both sides of the balance sheet. Our financial claim on a firm is an asset, but the firm's issuance of that claim is the firm's liability. When we aggregate over all balance sheets, financial assets will cancel out, leaving only the sum of real assets as the net wealth of the aggregate economy.

Another way of distinguishing between financial and real assets is to note that financial assets are created and destroyed in the ordinary course of doing business. When a loan is paid off, both the creditor's claim and the debtor's obligation cease to exist. In contrast, real assets are destroyed only by accident or by wearing out over time.

We can classify the clientele of the investment environment into three groups: the corporate sector, the government sector and the household sector or simply the rest of the investors. The household sector, the less developed in Romania, make constantly decisions concerning activities as work, job training, retirement planning and savings versus consumption. Most households are interested in a wide array of assets and the assets that are attractive can vary considerably depending on the household's economic situation. Even a limited consideration of taxes and risk preferences can lead to widely varying asset demands, and this demand is a driving force behind financial innovation. A desire to minimize taxes leads to demand for some financial assets that are exempt from state taxes. Until 2006, in Romania there were a small taxation for gains from financial assets, the tax was 1% of the difference between the selling and acquiring price from which it can be deducted the costs of transaction¹. Starting with 01 January 2006 the fiscal code is modified², introducing another taxation, 16% of the difference between the selling and acquiring price of the asset. If the asset is not sold for a period of time more than 365 days, then the tax remains 1%. In other words, different taxes create “tax clienteles” that in turn give rise to demand for a range of assets with a variety of tax implications. Risk considerations also create demand for a diverse set of investment alternatives. At an obvious level, difference in risk tolerance create demand for assets with a variety of risk-return combinations. Risk motives also lead to demand for ways

¹ Legea 571/2003 privind Codul Fiscal, Monitorul Oficial nr. 927/ 23.12.2003

² Ordonanta de Urgenta a Guvernului nr. 138/2004, pentru modificarea si completarea Legii nr. 571/2003 privind Codul fiscal , Monitorul Oficial nr. 1281/30.12.2004

that investors can easily diversify their portfolios and even out their risk exposure. These diversification give rise to mutual funds that offer small investors the ability to invest in a wide range of stocks, bonds and virtual all other financial instruments.

Whereas small investors' financial decisions are concerned with how to invest money, businesses typically need to raise money to finance their investments in real assets: plants, equipment, technological know-how, etc. Broadly speaking there are two ways for businesses to raise money: they can borrow it, either from banks or directly from investors by issuing bonds, or they can take in new partners, by issuing stocks, which are ownership shares in the firm. Businesses issuing securities to the public have several objectives. First, they want to get the best price possible for their securities. Second, they want to market the issues to the public at the lowest possible cost. Businesses might want to farm out the marketing of their securities to firms that specialize in such securities issuance because it is unlikely that any single firm is in the market often enough to justify a full time security issuance division. Issuing securities requires immense effort. The security issue must be brought to the attention of the public, buyers must subscribe to the issue, and records of subscription and deposits must be kept, the allocation to each buyer must be determined, and subscribers finally must exchange money for securities. These activities clearly call for specialists. The complexities of securities issuance have been the catalyst for creation of an investment banking industry to cater to business demand. Another implication is that every business will prefer to issue simple securities that are the least expensive. Such a demand for simplicity by business issuers is likely to be at odds with the investors demand for a wide variety of risk-specific securities. This mismatch of objectives will give rise to an industry of middlemen who act as intermediaries between the two, specializing in transforming simple securities to complex issues that suit particular market niches.

Like businesses, governments often need to finance their expenditures by borrowing; but governments cannot sell equity shares, so they are restricted to borrowing to raise funds when tax revenues are not sufficient to cover expenses. They also can print money, but this source is limited by its inflationary implications.

Governments have a special advantage in borrowing money because their taxing power makes them creditworthy and therefore able to borrow at the lowest rates.

In Romania, this year brought new directions regarding local municipalities financing. If last year, bonds seem to be most favored by the local municipalities because the interest rate was low and because the big demand for bonds, nowadays the towns still seek for funding, but from other sources. The wide offer from the banks for financing has lowered the cost for bank loans. The bonds announced to be issued at the end of 2005 and at the beginning of 2006 have not been issued, with a small probability that they ever will. Only Timisoara and Targu-Mures are preparing new bond issues. Since 2004-2005 have appeared another banks along with BCR, that want to finance Romanian towns and municipalities. Dexia is one of them. This bank came in Romania for this purpose, to finance municipalities. But there are more: BRD, Alpha Bank or HVB are trying to cut a slice of this market. Last year the interest rate for loans were 1-2% over the BUBOR rate, now it diminished and there are banks willing to offer credit at an interest rate lower than BUBOR. Last year the interest rate was 11-12% and now is among 9%. And the general loan conditions have been changed since last year: the offer could be negotiated, payment modalities could be very flexible and the interest rates could be negotiated.

When enough clients demand and are willing to pay for a service, it is likely in a capitalistic economy that a profit-seeking supplier will find a way to provide and charge for that service. This is the mechanism that leads to the diversity of financial markets. Let us analyze these demands one by one. A small investor wants to invest his money, but direct investment for him is intrinsically difficult, because he cannot advertise his willingness to invest. So financial intermediaries such as banks, investment companies, insurance companies or credit unions naturally evolve to bring the two sectors together. Financial intermediaries sell their own liabilities or raise funds that are used to purchase liabilities of other companies, in this way lenders and borrowers do not need to contact each other directly. Pooling the resources of many small investors, the intermediaries are able to lend considerable sum to large borrowers. And by lending to many borrowers,

they achieve significant diversification, meaning they can accept loans that individually may be risky. Investment companies, which pool together and manage the money of many investors, deal with the problem that most household portfolios are not large enough to be spread among a wide variety of securities. It is very expensive in terms of brokerage fees to purchase one or two shares of many different firms, and it is clearly more economical for stocks and bonds to be purchased and sold in large blocks. This observation reveals a profit opportunity that has been filled by mutual funds offered by many investment companies. In Romania, there are monetary funds, bonds and shares funds. But after the falling of the investment fund FNI, the Romanian small investors are reticent in invest through these funds, the number of investors (as Table 1. shows) are very small.

Table 1. Romanian mutual funds

Name	Value (RON)	Investors number	Net asset (RON)
Simfonia1	20.31	4112	75.765
BCR Clasic	15.72	5364	28.8
Fortuna Gold	13.4	1739	0.419
BCR Dinamic	20.71	3005	54.285
Fortuna Clasic	6.51	22950	6.95
Integro	3.796	9759	15.685
Intercapital	7.04	3172	28.372
Omninvest	9.86	4147	6.47
KD Maximus	13.88	804	14.396

Data selected from Ziarul Financiar nr. 1867/ 25.04.2006

The market of individuals investment still reached almost 9 millions euros at the beginning of this year³. The amount is three times higher that it was last year. There are four companies present on the market that have mutual fund management as part of their core business: BCR Asst Management, BT, CA IB Asset Management and Certinvest. Back in June 2005, there were only three companies managing individual accounts worth slightly more than 3 millions euros. Certinvest was managing asset worth some 1

³ Ziarul Financiar nr. 1832/ 06.03.2006

million euros at the end of January 2006, but managed to attract 430000 euros in February. It ranks first on the market in terms of number of account managed, 25. BT Asset Management had 14 individuals account whose value exceeds 5.7 million euros. All of them belong to individuals.

Investors clearly want information, but, with only small portofolios to manage, they do not find it economical to incur the expense of collecting it. Hence, a profit opportunity emerges: a firm can perform this service for many clients and charge for it. Just as economies of scale and specialization create profit opportunities for financial intermediaries so too do these economies create niches for firms that perform specialized services for businesses. Firms raise much of their capital by selling securities such as stocks and bonds to the public. Because these firms do not do so frequently, however, investment firms specialized in such activities are able to offer their services at a cost below that of running an in-house security issuance divisions. Most firms find it simpler to issue "plain" securities, leaving exotic variants to others who specialized in financial markets. This discussion leads to the notion of primitive versus derivative securities. A primitive security offers returns based only on the status of the issuer. For example, bonds make stipulated interest payments depending only on the solvency of the issuer. Dividends paid to stockholders depend as well on the board of director's assessment of the firm's financial position. In contrast, derivative securities yield returns that depend on additional factors pertaining to the prices of other assets. The payoff to stock options depends of the price of the underlying stock. Much of the innovation in security design may be viewed as the continual creation of new types of derivative securities from the available set of primitive securities. In Romania, only after 2004 the investors begin to use these types of securities, and mostly to protect themselves of the fluctuation of domestic currency. There is one place where we could transact these securities: in Sibiu, at the BMFMS (Bursa Monetar-Financiara si de Marfuri Sibiu). So, much financial innovation and security creation may be viewed as a natural market response to unfulfilled investor needs. Another driving force behind innovation is the ongoing game played between governments and investors on taxation and regulation. On of innovation

attributable largely to tax avoidance motives is the long term discount, or zero coupon bond. These bond, called “zeros” pay little or no interest, instead providing returns to investors through a redemption price that is higher than the initial sales price. The financial markets had discovered that zeros were useful ways to lock in a long-term investment return. There are an enormous variety of bond issues, and new forms of bonds are spawned almost daily. By a principle of natural selection, some of these new instruments become popular and may even replace existing species. Others will not get off the ground. The general tendency is clear: tax and regulatory pressures on the financial system very often lead to unanticipated financial innovation when profit-seeking investors make an end around the government’s restrictions. But when all the profit is taxed with 16%⁴, there are less ways to innovate. We have recently seen one trend in the Romanian investment environment: globalization. National Bank of Romania (BNR) gave the right to foreign entities to participate at the state issued bond market⁵. And it is more: Romanian investors can take advantage of foreign investment opportunities, since BNR gives them this right to invest abroad⁶.

In conclusion, the proximity of the Romania’s union with the European Union as an equal partner both in commerce and finance will put the Romanian investors to choose with more trust and confidence these kinds of investments because from 2007 the free circulation of the capital will become effective and then the international capital will be more cheap and more easy to get.

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⁴ Legea 571/2003 privind Codul Fiscal, Monitorul Oficial nr. 927/ 23.12.2003

⁵ Regulamentul privind piata secundara a titlurilor de stat administrate de BNR nr. 12, Monitorul Oficial nr. 882/30.09.2005

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NEW SIZE OF POLITICAL VIOLENCE: THE INTERNATIONAL TERRORISM

Ph.D, Corneliu C. POPETI, University of Timișoara

Can we take about a “war” against a non-stately entity? What is the definition of “terrorism”? Which are the specifics of the “new terrorism”?

By whom and for what reasons is America hated so much?

The subjects are: the vulnerability in front of the attacks conceived and executed by Al-Qaeda the ways of preventing the new strikes that might appear from now on , the premises of the success in the “ war against terrorism “.

The massive terrorist attacks of September 11, 2001, have placed the threat of terrorism on the front burner and have exposed the failure of the U.S. government to protect its citizens.

Terrorism is rooted in political problems requiring political solution and necessitating a major reevaluation of U.S. foreign policy as a whole.

U.S. presidents have claimed that international terrorism is a major threat to this country’s national security and that the war against terrorism should be a major focus of U.S. foreign policy. This appeared to many observers to be hyperbole until the tragic events of September 11, 2001.

Despite a great deal of attention from the highest levels of government in recent years, when the attacks occurred, Washington was not ready, and there appeared to be little coherency in actual policy. As recently as 1998, Richard Davis of the General Accounting Office reported, "There does not seem to be any overall strategy to guide how we're spending money on counter terrorism" and, despite congressional eagerness to fund such efforts, there seems to be "no oversight, no priorities, no strategy, and much duplication." The multibillion-dollar blank check given to the Bush administration to combat terrorism in the wake of the September 11 catastrophe raises fresh questions about how wisely such resources will be spent. Indeed, the fight against terrorism has been the justification for a series of controversial policies, including together immigration laws, high military and intelligence budgets, restrictions on civil liberties, sanctions against "rogue" states suspected of harboring terrorists, and arms shipments and training programs for repressive governments abroad.

Successive U.S. administrations have been criticized for using an overly narrow definition of terrorism – the killing of noncombatants by individuals or small groups of irregulars – while ignoring the usually more widespread killings of equally innocent people by sanctioned organs of recognized states. Indeed, the U.S. has supported and continues to support governments that have engaged in widespread terrorism against their own populations. Furthermore, the U.S. has refused to cooperate fully in efforts to prosecute state terrorists – such as Chilean General Augusto Pinochet – when attempts are made to bring them to justice, and the British administration has opposed creation of the International Criminal Court.

Even using the more restricted definition of the term, however, the U.S. has demonstrated a propensity to ignore its own role in encouraging terrorism both as a reaction to its foreign policies and even, at times, as a direct tool in the implementation of its policies. Related to this double standard is the ongoing U.S. support of the governments of Colombia, Turkey, and various Middle Eastern allies guilty of terrorism on a large scale by military, intelligence, or paramilitary units.

Indeed, as the largest supplier of arms to the third world, and to the Middle East in particular, the U.S. provides potential terrorists easy access to weapons.

In recent decades, Washington has sponsored terrorist attacks and assassinations, either directly or through intermediaries. In the 1960s, right-wing Cuban exiles were organized by the Central Intelligence Agency (CIA) to conduct a series of attacks inside Cuba that resulted in widespread civilian casualties. During the 1980s, the U.S. similarly organized, armed, and trained right-wing Nicaraguan exiles into an armed force that engaged in widespread attacks against civilian targets inside Nicaragua, resulting in the deaths of thousands.

Sometimes these U.S.-trained terrorists have subsequently used the skills and weapons they acquired against the interests of their trainers, as in the case of some supporters of the anti-Soviet Afghan resistance. Osama bin Laden and many of his followers were initially trained by the U.S. CIA in Afghan refugee camps in Pakistan during the 1980s.

And double standard have greatly hindered Washington's effectiveness in gaining international support and cooperation in the struggle against terrorism. Indeed, such hypocrisy raises the question of whether the U.S. is really opposed to terrorism in general or just to terrorism when it targets America and its allies.

There is nothing inherent in Islamic, Middle East, Irish, Basque, or any other tradition that spawns terrorism. Terrorism by nonstate actors is primarily the weapon of the politically weak or frustrated – those who are (or believe themselves to be) unable to exert their grievances through conventional political or military means. However illegitimate terrorism may be, the political concerns that spawn such violence often have a reasonable basis. Effective intelligence, interdiction, and certain conventional counterterrorism efforts do have their place. But terrorism's roots are political, so ending the problem is at least as much a political issue as a security issue.

Although there is no foolproof set of policies that will protect the U.S. and its interests from terrorists, there are several policy shifts that would likely reduce the frequency and severity of terrorist strikes. The September 11 attacks represent a

massive U.S. intelligence failure. There needs to be a rapid, thorough, and independent investigation into why the CIA and FBI failed to detect these terrorist networks, including their operations inside the United States. However, lifting the prohibition on CIA assassinations and its use of “unsavory” characters is likely, as happened in the past, to increase subsequent terrorist acts by U.S.-financed operatives. Loosening controls on wire taps and other forms of domestic surveillance, without first fully unraveling the network behind the terrorist attacks, violates basic liberties, could unfairly target certain groups, and may not successfully curb terrorist activities.

Airport security, however, should be nationalized, and security officers must be better trained and better paid. Currently, airport security has been the responsibility of the airlines and – in order to boost profits – has been contracted to outside security companies.

Given that terrorism is an international problem, it needs international solutions. This means vigorously and collaboratively pursuing diplomatic, investigative, and international police channels to identify, track down, arrest, and bring to justice members of terrorist cells.

Precipitous and inappropriate military action could make many nations reluctant to cooperate in antiterrorism efforts, particularly in the Middle East, where support is crucial in hunting down terrorists hiding in that area.

Although the Bush administration needs international collaboration to effectively combat terrorism, it has set a dangerous precedent in weakening or walking away from a series of international treaties. Washington should support international conventions and institutions intended to help trace, punish, and prevent terrorism, including the International Criminal Court, tighter controls on money laundering, and curbs on small arms. In addition, the U.S. must work with other nations to support treaties curbing chemical, biological, and nuclear weapons and materials, so that such weapons do not fall into the hands of terrorist networks or states that harbor these networks.

More fundamentally, the U.S. must recognize that terrorist cells that are not state-created or state-financed and that may claim religious sanction are generally bred by social isolation and political or economic desperation. These root causes must be addressed for antiterrorism efforts to have any chance of success. Crafting a Middle East policy based on the promotion of human rights, international law, and sustainable development rather than on arms transfers, support for occupation armies and dictatorial governments, air strikes, and punitive sanctions would probably make the U.S. a lot safer.

The tactics of terrorists can never be justified. But the most effective weapons in the war against terrorism are measures that lessen the likelihood for the U.S. and its citizens to become targets. This means changing policies that victimize vulnerable populations. Such victims often hold the U.S. responsible for their suffering and thus become easy recruits for anti-American terrorism.

For example, Osama bin Laden's key grievances – U.S. support for the Israeli occupation, its ongoing military presence on the Arabian Peninsula, the humanitarian consequences of the sanctions against Iraq, and support for corrupt Arab dictatorships – have resonance among the majority of the world's Muslims. Very few Muslims support terrorism of any kind. Yet as long as there is such widespread hostility to Washington's Middle East policy, it will not be difficult for terrorists to find willing recruits.

A related essential policy change is the need to distinguish between fringe groups – such as bin Laden's network – whose primary function is inflicting violence against innocent people, and popular, multifaceted organizations that also contain a terrorist component. In dealing with the former, aggressive may be appropriate, whereas a broader and more nuanced strategy is more appropriate in relating to the latter. And a careful distinction must be made between state-sponsored terrorist groups, which receive sanctuary without direct state support, and those that operate via independent, often international, networks. Confronting each requires a different strategy.

Finally, Washington needs to shift away from supporting irregular groups that may be prone to terrorism. Many of the world's most notorious current terrorists once received training from the CIA as part of U.S. efforts to undermine leftist governments in Cuba, Nicaragua, or Afghanistan. Any direct involvement in acts of terrorism by any branch of the U.S. military, intelligence agencies, or any other part of the U.S. government must not be tolerated.

Simply addressing the security aspects of terrorism, as current U.S. policy does, will merely focus on the symptoms rather than the cause. The struggle against terrorism cannot be won until Washington also ceases its pursuit of policies that alienate such large segments of the international community, particularly in the Middle East and elsewhere in the third world.

The U.S. is a target of terrorists in large part due to its perceived arrogance, hypocrisy, and greed. Becoming a more responsible member of the international community will go a long way toward making the U.S. safer and ultimately stronger.

A WHOLE NEW WORLD?

September marks the beginning of the work and school years after the summer break. Obviously none of us expected it to start out as it did. Thankfully, we are all alive and well in the wake of last week's devastating attacks on the Pentagon and the World Trade Center, and none of us lost friends, family, or anyone in our immediate social circles. Thousands of other New Yorkers, not to mention people from all over the world who had friends and relatives working in the World Trade Center complex, were not so fortunate. Our hearts go out to them. Please accept our condolences for any of you who may have lost friends or loved ones as a result of the attacks on the Pentagon or the World Trade Center towers.

With over 6,000 people missing and presumed dead, it almost seems too early to engage in rational analysis of why these attacks occurred and what should be done about them. But the reality is that if people of good will don't speak up now, drastic changes in U.S. domestic and foreign policies may be rushed through in the heat of

the moment, without thorough debate or adequate public scrutiny. The mantra of the news media in the aftermath of the attacks was that America will never be the same, and that it's a whole new world after the events of September 11th. If so, it's our responsibility to do whatever we can to make sure that any changes that are made are for the better, and that democratic freedoms and fundamental human rights aren't sacrificed in the rush to “do something” about terrorism. An important part of figuring out what to do is considering how we got into this mess in the first place.

TERRORISM – A GLOBAL ACTOR

The contemporary theoretical dilemma opened by the events from September 11 is that of the showing up of a new category of actors and of new dimensions uncalculated in the evaluation of the international events, of the contemporary security structure. This is one of the reasons for which we intend to draw the assumption of working and a model which will explain the indeterminism in the case of the imminence of the conflict that ended with the fall of the American symbols.

Until 1989-1991, we had to deal with a bipolar system of security which supported the United Nations and the Security Council as systems which can administrate the diplomatically confrontation of power between the two superpowers. After this date, they past to a new security structure called “the second and a half generation” of which description is of a multipolar system with an anarchic outskirts. The decisive role, in this period of transition towards a new organization of the system, privileged the G8 variant, after the acceptance of Russia in the group of the 7 countries most industrialized. In this context, a new actor showed up and contested the power of the Hegemon, not in the organizational structure of the international relations system of the “second and a half generation” , but in the new context of the global system, of the “third generation”. The name of this new actor is TERRORISM.

The terrorism was born, in the contemporary organizing appearance, in the time of the Cold War, as one of the most efficient instruments of the Great Powers, but also of the military powers of that time – Cuba, Nigeria, Iraq, and Libya. United

States are considered among those who “helped” to new born actor called terrorism, or, anyway, which used on a great scale this instrument to hide its own intervention and to defend its own interests in various areas of the world, especially in Latin America. The terror was institutionalized to combat the insurgency; it did not matter if there were insurgence or state-terrorism. We do not know if terrorism preceded or followed the anti-insurgency theory elaborated by the U.S.A. to counteract the attempts of the communist state-attacks in Venezuela, Columbia or anywhere else in the world, or if it was a part of it. Certainly these types of terrorist actions were used to support the insurgencies in other cases and on other continents where the contestation of the regime was equivalent with protecting the U.S. interests. Nobody can deny that terrorism was the creation and the instrument of the states, of the “second generation” national actors.

What happened in the transition time of the system from the bipolarism to the new security agreement and the new reorientation of the world? Terrorism and the elaborated constructions everywhere found themselves useless, being unable to sustain the interests of one or another of the two Great Powers, in the context of a totally different kind of dialog and understanding. These groups left without a purpose benefited from the unlimited supplies of armament, of well-trained people – military and from secret services – which learned how to financially supply themselves from independent basis. If initially there was a “beneficiary” who moderated the actions, lead them and used them afterwards, years later these structures had to find a purpose to put into value their abilities for which they were trained. And because the relationship with the state-actors became occasional, sporadic and non conclusive, the natural tendency of these groups was to find each other, to establish ways of co-operation and to get together by uniting their forces. The result was to take into consideration the new global actor with new and unpredictable characteristics, but which gained enough power to debate the supremacy in the world hegemony of the “third generation”.

Many analysts wondered about the real existence of the new global actor named terrorism, and said that this would be just a simple name which covers the United States incapacity to take care of the classical challenges on their own territory because of the errors and misunderstandings in the domestic affairs. But these weaknesses manifested, they are the result of the fact that the new actor showed up and acted doubting with real power the world domination in the uni-multipolar structure anticipated by the U.S.A.

Why is the terrorism a global actor? First of all because it benefits of the whole infrastructure comparable with that of the United States – at a global level. Terrorism has a powerful mass media infrastructure and of propaganda – see the Al-Jazeera TV, a number of national newspapers in the most Arab and African countries, but also opinion formatters who are writing in all the big publications of the world. They also have the control of a great number of religious structures – especially Islamic ones, but also minority, ethnic, nationalist or religious minorities from Northern Ireland-catholic, ETA-bask, Corsica-separatist. Financially, the terrorist organizations are provided with money from the Organized Crime and illegal activities overboard, money laundry reinvested on the capital market and in absolute “honorable” business. The terrorists are using nowadays famous lawyers, the best brokers in the world, the most mobile infrastructures at the global financial level, they are dominating the stocking markets and insurance societies and have under their control 5 to 7% from the world legal economy (and other 20-25% of the world illegal activities). Military speaking, they have the best well-prepared forces of the moment, with the know-how technology from the most important countries which are producing military strategy, have also the best armament ever disposed and the capacity to buy it and even have the capacity to use nuclear weapons. This supposal is not hazarded because the work principle of this actor is not-responsibility. They used to avoid the possession and to replace it with capacity of using it – in the case of weapons, people, funds or other goods necessary for applying the action plans.

Among the characteristics of the modern terrorism we must take into consideration the polymorph organization with a high autonomy of the cells, the so-called “group fight” which means restrained forces with a high rate of individual motivation and the inclination of using the things at their disposals when it is needed and not always their direct possession. This philosophy permits the growth of the mobility and a low rate – or even a zero one – of responsibility, because there is no need of conserving the possession of these disposals. The supreme values are the capacity of utilization and the access to the means needed to fulfill the actions.

It is clear now that we have overcome the paradigm of the confrontation between North-south, East-West or poor-rich, because terrorism has almost equal means and capabilities in compare with any other state of first rank or with regional organizations, global actors. More than that, not even the “clash of civilizations or cultures” is available in this case. We already have seen that the new global actor named terrorism includes groups and organizations with different religions. Maybe we have to explain why the Islam is identified, most of the time, with the culture that generated terrorism. First of all, the Islam is not a global actor because only two states – Iran and perhaps Afghanistan – are governed by Islamic regimes; Teheran vigorously condemns terrorism. Not even the whole Arab world and Islamic religion can be identified as the “carriers” of an ideology which gave birth to terrorism from the same reason of contesting the terrorist’s actions by the majority of the Arab states. We have to admit that the Islam is an instrument, a perfect environment, and an important means of coagulating the contesting movements, because of the great effect of training. The overlapping of terrorism on some purposes of the Arab world is nothing else but an attempt of creating a recruiting base for the future members and soldiers of terrorism, but also an attempt to create a false enemy for the free world, a pseudo-contesters who do not have anything to do with terrorism.

There are radical differences between the offer of the en titre keeper of the world order’s key and its new challenger. Beside organizing and structural differences, these two global rival actors are confronting each other at the level of

values. Indeed there is an important difference in the axiological structure of the actors. The values conflict is essentialized through the way in which the two rivals are reporting to the Humanism. While the Occident puts human life in the first place, terrorism despise it at any level and considers that the individual, the human being, is nothing but a seed that executes a role on a limited period of time, an element easy to be sacrificed, no matter on which they are situated. And in the conception and training/motivation of the members who are putting into practice the actions of the terrorism, it is cultivated this non-value or anti-value of non-humanism: each individual member lives life to the fullest, prepares and trains himself to maximum in order to be useful as much as possible to the actor called terrorism. Here is no explicit boss or leading committee and the decision, at the level of the whole actor, is more sequential and distributed to the lowest levels where is delegated the decision autonomy for actions of this type. Thus there is no danger to the access to the disposals or the capacity of intervening to the global level – which supposes the collaboration of many terrorist structures. In this case there are more than one brain and, as in the case of the global actors, the capacity of one individual to influence the decision of the actor – so the decision of an action at the global level – is very reduced. The identity of the terrorism comes from the organization and purposes and from the desire to provoke the power and the existing order.

The Western civilization suggests a leadership with rules which supposes responsibility towards the members of the international society – regional organizations, national states, transnational structures or individuals – while terrorism imposes the leadership by terror, one as real and efficient as the first system but which does not suppose responsibility towards a member or another of the association or for the actions developed. In this new context, the members of the international society have no options in choosing between one or another fighter this being the second differentiation in the options concerning the leadership of the world: in one case you have the right to an option – by respecting the game's rules, and in the second case you just have to obey, to break down in front of the pressure of the

global actor called terrorism, risking your life at every step in according with the new system of values which excludes righteousness, legitimacy or respect. That does not mean that the new global actor has no chances in winning this war. More than that, it succeeded in fundamentally changing the balance in the favor of its own values: intervention by any means, using brutal force, limitation of liberties, authoritative domination, fear and terror which spoils the virtues and the ideals of the individuals and also limits the horizon of expectations and the achievement of the future projects on a limited period of time, the only one that matters. The individuals are pushed to assume great and unjustified risks or to pass the perspectives of medium and long duration, in order to achieve a normal living on a short or very short period of time. The happiness is limited to short period of time and nay long-term constructions disappear, there is no interest for solidarity and for the person next to you or concern for the global peace processes, reconstruction or collaboration. In this plan, terrorism had a first and very important victory.

The first effects in the international system were those of fast globalization and of unipolar reorganization of the state system. The new antiterrorist coalition organized by United States gave the measure of globalization and of the decision in the new system. The coalition was realized over night, without predetermined negotiations, on bilateral basis, one of the most important factors being U.S.A., the new-old hegemon. According to the coalition structure, Great Britain became a privileged partner, and next to the United States – which had a greater and incontestable legitimacy as a leader, from the point of view of means and of the one who was attacked – were right away NATO, the Russian Federation, China, Pakistan and all other countries, organizations and relevant structures.

In the new context, no state afford to miss from this new-born coalition or to contest the place reserved for them, because each realized that here was developing the new game of the future international system of “the third generation” and they just could not miss from this power reorientation.

A second category of effects is represented by the reconsideration of all unsolved conflicts and which were claimed to be reasons to contest the U.S.A. supremacy and the Western values by the terrorism: Palestine, Kashmir etc. We are not supposed to ignore the effects at the level of limiting our freedom and at the level of the growing control of the states over the funds movement – even if this will mean the elimination or limitation of the bank secrecy – strict rules concerning the proof of the source of the funds from special banks, the reconsideration of the “human” information system versus the super technologies which went bankruptcies. The events from September 11 and the beginning of a new generation in the international relations have determined the alteration of an important part of Western civilization’s values.

Even in the United States, the terrorist attack produced fundamental changes. Perhaps the most important one is that of questioning the “state” notion – state constituted from the sum of its inhabitants without a national ethnic or religious base, but with the free consent of each individual of the newborn society, who accepts the ideals and the values of the host state. United States realized that they have citizens ready to collaborate in order to attack their own country from within, for questioning the world’s supremacy, or to annul the characteristic determined and constitutive values. This finding has a strong effect over the “identity” concept of this state and viability of the multiculturalism in the edification of the stately actor.

In front of the new challenges of realities shifting in the contemporary world, the annalists cannot integrate the September 11 phenomenon into any theoretical model. The praticiens, the governments and the world’s security strategists are situating themselves in having a model’s crisis and perspective of developing and organizing the new world, in the context of the global challenges like terrorism. Of course the tacticians set at the table of negotiations and are drawing the challenges of the future. Terrorism affirmed itself already as a global actor and hypothesis of work and the presented paradigm may constitute real basis to begin from to elaborate the model of the future.

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FREEDOM OF EXPRESSION VERSUS PREVENTION OF TERRORISM

**Master student Anca KLEIN-HALMAGHI
Mainzer Medieninstitut, Johannes-Gutenberg University, Mainz, Germany**

Abstract

International terrorism is currently regarded as the most violent threat states have to deal with. The images from the assaults on New York, the bombing in Madrid or London, just to name a few examples, were broadcast and spread horror and fear to millions of people around the world. Since 9/11 a new level of terrorism arrived: organized criminals, able and willing to strike any time, any place, killing innocent people, even at the cost of their own lives.

On the other hand, fundamental human rights and freedoms are restricted in the name of combat against terrorism like never before. We are talking about rights for which humanity had shed blood for hundreds of years in the attempt of enforcing them against absolutistic regimes. Hopefully not forgotten is for instance the case of US-journalist Valerie Plame, who had to go to jail because she would not reveal her sources. Those sources were responsible for information leaking outside the state apparatus. The European Union has now put aside the attempt to storage telecommunication data, but who knows for how long? Very questionable from the view of human rights were the suspicions which fell on America to operate secret prisons outside their territory, in order to escape jurisdiction and responsibility. It is

a justifiable fear of human rights activists, that the infringements on human rights for the sake of protecting the "free world" against terrorism will soon lead to a western world with less and less freedoms to protect.

This paper is dealing with the question, how human rights are developing on regional and international level, to what degree they may be restricted, how much the individual citizen has to bear in order for the state to be able to guarantee the safety of the society against terrorist activities. This paper is focusing only on the question, to what degree the freedom of expression is allowed to be infringed for the sake of national and public security and the prevention of crime. For this scope the author has restricted her research solely on the field of the subsidiary European system of human rights protection, which enables on the one hand a regional implementation of human rights, as well as an international supervision machinery at the European Court of Human Rights in Strasbourg. The argumentation relies mainly on the case-law of Article 10 (freedom of expression) of the European Convention on Human Rights, but if considered necessary, parallels shall be drawn to other law systems and to other fundamental rights related to the freedom of expression.

Going into every single detail of the whole Article 10 case-law would go beyond the scope of this paper, that is why the author has decided to focus on the European Court of Human Rights jurisprudence dealing with the infringement of the freedom of expression for the scope of national security and territorial integrity and which has as a respondent state the Republic of Turkey. The Turkish state has been chosen for this analysis firstly because many cases are recent ones and secondly because of the multitude and diversity of cases in Strasbourg. Obviously the balance struck between the passive need to combat sympathy with terrorist activities and the normal criticism against governmental restrictions in the attempt to obey the Convention on Human Rights still represents a problem.

Based on the numerous cases decided by the European Court of Human Rights, the author tried to answer the following questions:

- *Which are the general principles applied by the Strasbourg Court, if it has to decide, whether national judgments are in accordance to article 10?*
- *How are these general principles applied on a case-to-case basis?*
- *how large is the margin of appreciation of the states, in the attempt of the European Court of Human Rights to strike the balance between the national and regional authorities acting as warrants of human rights according to Article 1 of the Convention and the Court's supervision at international level according to Article 19 of the Convention? How does the doctrine of subsidiarity apply?*
- *Where is the end of permitted criticism against a government and the incitement to violence?*

Currently international terrorism is regarded as the most violent threat with which the community of states has to deal. The images from 9/11, from the bomb explosion in Madrid or London, just to name a few, were broadcast around the world and spread fear and despair. Since September 11th terrorist activities reached a new level of cruelty: organized criminals, not afraid of losing their own lives, capable of striking anytime and anyplace, killing innocent people. When talking about terrorism in this paper, the author does not only refer to violent acts with Islamic fundamentalist background. We also mean the hostages in the Russian theatre or in the school in Beslan, events when people held their breath and prayed for an end without any bloodshed. In vain.

On the other hand, rights and fundamental freedoms, for which mankind has fought for hundreds of years against totalitarian and absolutistic regimes being infringed again for the scope of terrorism prevention like never before are. Not forgotten is the case of Valerie Plame, where the state apparatus tried to find out leaks within their own system by intimidating journalists. The European Parliament rejected, but it is still able to come into force, the intention of the European Union to save telecommunication data. This intention united humane rights activists, civilians

and telecommunication companies in the fight against such laws. Are We of neither allowed to forget the faith of the prisoners in Guantanamo Bay, when America came under suspicion to conduct prisons outside their jurisdiction in order to be able to interrogate people without fear of consequences. The legitimate fear of humane rights activists is, that these infringements of freedoms away he sake of the „freeworld wouldgo so far, that soon there wouldbe no more free worldas we used to know.

The mighty will always try to have more power, to use it to the fullest and event try out is limits. That is why free press is vital to the maintenance of a democratic society - only a free press, able to analyse, criticise, investigate and publish can accomplish its role as fourth power in the state, as counter-power, are controlling those who mighty. Without media freedom the public opinion would have never found out about the atrocious behaviour of US-soldiers in the Irakian prison Abu Ghreib, the torture would have been kept in silence and would have gone on.

This paper is dealing with the question to what extent human rights and basic freedoms may be restricted for guaranteeing the safety against terrorist acts, which setbacks if their personal freedom individuals have to accept and to sacrifice so that the state can guarantee for the security of the whole against organized terrorism. The focus lies on the attempt to answer only the question, where the freedom of expression may be infringed in the interest of the national and the public security and for the sake of territorial integrity. For this scope only the European system of the human rights protection and the jurisdiction of the European Court of Human Rights are taken into account and the argumentation follows the viewpoint of the article 10 ECHR only. If required, however, the author will refer to other rights that can be restricted for the scope of guaranteeing internal/national security and parallels to other judicial systems will be drawn.

Addressing the whole jurisdiction of the Court of Human Rights referring to article 10 would go beyond the scope this research paper, so we concentrated on the case-law of the ECourtHR that can be classified as a restriction of the freedom of speech for the reason of national security and which had Turkey as respondent state.

The Turkish state was taken focus of attention firstly for the reason of the up-to-datedness. Apparently in Turkey taking into account the freedom of expression in cases of criticism against government actions still represents a delicate topic.

Only on 23rd January of this year the accusation against Orhan Pamuk, on the grounds of „Insult against Turkishness”, was withdrawn in Turkey. Orhan Pamuk, the author of „Snow”and „My Name Is Red”, was accused after he had testified in February 2005 during an interview, that 30 000 people had died in the conflict between the Turkish security forces and the Kurdish nationalists and one million Armenians during the First World War in Turkey, but „noone except for me dares to about that “. The comment of Pamuk made serious indignation waves among the rightly based nationalists of Turkey. The official version of the Turkish government consists in denying any genocide against the Armenians and saying that they died with many Turkish ethnics during the falling apart of the Ottoman Empire. The author was accused of the violation of articles 301, according to which insults against the republic, the parliament or other state institutions are punishable. The procedures in court against Pamuk had only amplified the objections of the sceptics, Turkey would not be ready for a democracy yet.

In September 2005, half a year after the interview of Pamuk, Turkey got again enraged about when the European Union conditioned the membership of Turkey to confessing the genocide against Armenians during the First World War. According to Isahak Alaton, one of the best known Jewish business men and EU-supporter, the statement of the European Parliament, according to which the confession of the Armenian genocide was a prerequisite to membership, was an extremely counterproductive one. „Taboos have just begun to be broken in Turkey. The European demands only poison an honest debate about the past”. A week earlier for the first time in history Turkey had held a conference, in which critics could question the public position of the government about the Armenian issue. But the path to this conference was steep: the conference, originally scheduled for May, first had to be stopped because of massive protests from Turkish nationalists. It looked as if the

second attempt would also be condemned to failure. In the night before the opening of the conference an administrative court passed a temporary injunction and stopped the conference after rightly based right association had filed a complaint against it. Nevertheless the conference occurred one day later than originally planned. This became possible because the Prime Minister Tayyip Erdogan had fiercely criticized the injunction of the court, because it violated the basic grounds of democracy and freedom of expression and thus supported the organizers of the Armenian conference.

In spite of all efforts, the demands of the European Parliament left behind the feeling that the Parliament was not so much interested in a truthful analysis of past events rather than its opinions being accepted as facts. Even those in Turkey, who put years of work in honestly clarifying the question what happened to the Armenians during 1915 felt put under pressure by Brussels.

In order to return to the case of Orhan Pamuk: exactly during the week of his scheduled court hearing, Turkey began its revision of the judicial system as a part of the application of the country for a EU-membership. The case was regarded as a sign of commitment to freedom of expression. The Minister of Justice Cemil Cicek gave his decision not to handle the case, reasoning that the new legal code moved the case outside of his jurisdiction. The local court interpreted Ciceks refusal to deal with the case as an interdiction to keep the case pending. It seemed as nobody wanted to assume responsibility for the condemnation of the best known Turkish author. If Pamuk had been convicted, he would have been condemned to three years prison or he would have had to pay heavy fine.

Olli Rehn, EUs Commissioner for Enlargement called these "good news for freedom of expression in Turkey". Nevertheless he did not fail to remind, that in Turkish courts a multitude of similar cases are still pending. The case of Orhan Pamuk is only a small part of a genuine wave of lawsuits filed by rightly based Turkish nationalists - sixty more writers and publishers are prosecuted under the same law.¹

¹ See „Turkey and the EU - Is Europe Giving Ankara the Cold Shoulder"? in": SPIEGEL ONLINE, 30th September 2005 and

The **criteria of up-to-datedness does not only apply to the newsworthy-ness** of the last events, but also the time proximity of the last decisive cases in front of the ECourtHR. The last decisions against Turkey, where the question of weighing freedom of expression against national security arose, are less than half a year old: the judgments in the cases Eşidir and others versus. Turkey and Ceylan versus Turkey (no. 2) were pronounced on 11th October last year, which demonstrates continuing problems of the collision between freedom of speech and state security.

Except for the aspect of the up-to-datedness Turkey was also taken into consideration as an example for the manner how the European Court of Human Rights balances freedom of expression with national security because of the **variety and great number** of the case-law. If one visits the Case-Law Website of the European Court and types the search criterias „article 10” and „territorial integrity”, the search engine HUDOC will display 51 judgments, out of which only one affects France. All the other cases had Turkey as respondent state. Should one enter the codewords „article 10” and „nationale security”, the search engine of the Strasbourg Court will find thirty-five search results, of which two were spoken against the United Kingdom, one against Germany, the rest against Turkey.

This research paper should not leave the impression behind that it would pass judgment over Turkey for a second time and condemn it as villain and human rights violator. The purpose of the analysis is not to decide on whether Turkey fulfils the criterion of compliance with human rights on its territory or whether Turkey deserves full EU-membership or privileged partnership with the European Union only. The scope of this paper is strictly to determine to what extent freedom of expression must accept infringement for guaranteeing national security and territorial integrity in the context of fightingterrorism.

Thirdly, Turkey was taken as an example because this state must deal with two **sorts of „attacks against its national legal system:** firstly the already mentioned coming to terms with the past (genocide against the Armenians) and secondly with

„Avoiding EU condemnation - Turkey drops Orhan Pamuk Trial in: SPIEGEL ONLINE, 23rd

the separatist PKK movement. These two aspects should not be forgotten too quickly when passing judgment on Turkey. The density of the judgments against Turkey and the absence of such judgments against other states could lie in the fact that due to other states do not have to deal with such problems or that they have already overcome these and it could be also a sign for the seriousness of the situation in the country. In the case of Turkey we are witnessing a time of statutory and procedural law reforms. After having passed national convictions for separatist propaganda and incitement Turkey had to settle for a friendly agreement before the European Court of Human Rights after it faced a sure new condemnation. The Turkish government then added, "that the Turkish laws and the jurisdiction had to be brought urgently up-to-date and according to the standards of article 10 of the European Convention. The Turkish state committed itself to implementing all necessary reforms of the national statutory and procedural law system, as already stated in the National Program of 24th March 2001² By analysing the case-law of the European Court of Human Rights the author is striving to answer where the freedom of expression must be put aside, in the background, behind terrorism prevention:

- which general principles does the European Court of Human Rights use when it has to decide whether certain national judgments are compatible with the right to free opinion and comment?

- how do these general principles apply to individual cases?

- which aspects (publication place, circulation, author) are taken into consideration during the decision-making process and which importance do they have?

- how wide is the margin of discretion of the states when dealing with an issue regarding internal security?

- where does the border between fair criticism of the government or government actions and the incitement to crimes lie?

Article 10 of the Convention for the Protection of Human Rights and Fundamental Freedoms

„One European institution that deals regularly with media issues but is outside the organizational framework of the European Union is the Council of Europe (CEO), a pan-European association of nations that aims at safeguarding, among other values, the human rights, including the right to free expression, of those who live in member states.³ At the end of February 2006 the European Council counted 46 member states. Last states to join the European Council were Serbia and Montenegro in April 2003 and Monaco in October 2004.

The European Convention on the Protection human rights and fundamental freedoms is „the council's constitutional document, sometimes referred to as the ‘jewel’ in the Council's ‘crown’.”⁴

The first section of article 10 is a definition, it describes the contents of the right, what is supposed to be protected. Section two deals with the restrictions:

1 Everyone has the right to freedom of expression. This right shall include freedom to hold opinions and to receive and impart information and ideas without interference by public authority and regardless of frontiers. This article shall not prevent States from requiring the licensing of broadcasting, television or cinema enterprises.

2 The exercise of these freedoms, since it carries with it duties and responsibilities, may be subject to such formalities, conditions, restrictions or penalties as are prescribed by law and are necessary in a democratic society, in the interests of national security, territorial integrity or public safety, for the prevention of disorder or crime, for the protection of health or morals, for the protection of the reputation or rights of others, for preventing the disclosure of information received in confidence, or for maintaining the authority and impartiality of the judiciary.

The European Court has defined already 30 years ago, in the *Handyside*-judgment, one of the basic principles that results from article 10 of the Convention. According to this judgment section 2 of the article 10 does not authorize the states

² Short Survey of Cases Examined by the Court in 2002.

³ Paraschos, Emmanuel E. (1998) , p. 44.

⁴ Ibidem.

with a wide margin of appreciation. The margin of appreciation of the national judgment goes hand in hand with a European supervision. This supervision deals with both the scope of the questioned measure and with the necessity behind the judgment. The supervision handles not only the legislation, but also its application, even by an independent court. The supervision function of the court obliges it to pay the highest attention to the main principles which form a democratic society. The freedom to hold and impart opinions represents one of the indispensable foundations of such a society, a basic condition for their progress and for the development of every human being. The next basic principle became for the further case-law of the European Court main element and instrument for safeguarding the freedom of expression: The freedom of expression, with its restrictions under section 2 of the article 10 is not valid only for information or ideas, that are received favourably, harmless or unimportant, but also for those that hurt, shock or worry the state or some part of the population. These are the demands of pluralism, tolerance and open-mindedness, without which there is no "democratic society". In particular, it results that every "formal requirement", "condition", "restriction" or "prosecution" must stand in adequate relation to the aim pursued. The cause of this is that opinions which are shared by the majority of the population or the state usually do not have to fear any interventions – exactly the opposite, if a small group or an individual expresses an opinion that is not shared by the majority.

The Court's supervisory functions oblige it to pay the utmost attention to the principles characterising a 'democratic society'. Freedom of expression constitutes one of the essential foundations of such a society, one of the basic conditions for its progress and for the development of every man. Subject to paragraph 2 of Article 10 (art. 10-2), it is applicable not only to 'information' or 'ideas' that are favourably received or regarded as inoffensive or as a matter of indifference, but also to those that offend, shock or disturb the State or any sector of the population. Such are the demands of that pluralism, tolerance and broadmindedness without which there is no 'democratic society'. This means, amongst other things that every 'formality' 'condition',

‘restriction’ or ‘penalty’ imposed in this sphere must be proportionate to the legitimate aim pursued.’⁵

However, the basic statement about the tolerance towards information, ideas and comments against people, groups or state organs that hurt, shock, confuse or disturb cannot be expanded without limit. That is why article 17 of the European Convention (prohibition of abuse of rights) came into being, outlawing circulation of the national socialist ideology, forbidding the denial of the holocaust or incitement to racial hatred. Otherwise article 10 ECHR may be used to abolish other rights of the convention. Thus the paradox of tolerance is used: too much at tolerance can result in ideas being disseminated, that encourage intolerance and finally this can lead to the annihilation of tolerance. Balancing between the claim to freedom of speech and the different restrictions is one of the basics of article 10 ECHR. If one would take a closer look at article 10 ECHR, section 2, fear might be uttered, that the states have to possibility to restrict freedom of expression *ad infinitum*. However, the member states are allowed to intervene, only when the aims mentioned in section 2 apply: in the interest of the national security, the territorial integrity or the public security, the maintaining of the order and the crime prevention, the protection of the health and the morality, the protection of the reputation or the rights of others, in order to prevent the circulation of confidential news or to guarantee the impartiality of the judiciary. In addition, the restriction according to a law must be certain, must be used for the above-mentioned reasons and the measure must be necessary in a democratic society.

Dicle for the Party of Democracy (DEP) in front of Turkey

After we have taken a closer look on article 10 ECHR, we proceed with the question whether every speech that attacks the territorial integrity of a state automatically lies outside the protection field of article 10. How can ethnic minorities point out that the state where they live is discriminating against this minority, without leaving the frame of the activities allowed under the convention? How could the old Soviet states, just to mention an example, have reached independence if the

⁵ Handyside v. The United Kingdom, judgment of 7 December 1976, Application no. 5493/72 § 49.

restriction of the freedom of speech to the protection of the territorial integrity is generally permissible? Is the European Convention on Human Rights constituted as to maintain an unfair *status quo* upright and thus forfeit minority rights to autonomy or independence? How could ethnic minorities demand the stop of unfair behaviour, demand more rights or even independence, which automatically endangers the territorial integrity of an actual state, in accordance with the convention if the governments attacked by that opinion can punish these comments and the Strasbourg court gives them right? Must the political map of Europe remain the same?

In order to be able to answer that general question, another one, just as important arises: Does the European Convention on Human Rights have a minority protection? In order to answer this question, one would firstly have to consider the additional protocol 11, making only individual complaints possible. The Strasbourg Court does not have any competence for the needs of a minority (*ratione materiae*). On the other hand, article 14 prohibits discriminatory behaviour, meaning that everyone under the protection of the convention can enjoy the rights guaranteed in the convention without any discrimination – could from article 14 a general minority protection result? It is important to notice, that without the prohibition of discriminatory acts guaranteeing human rights and basic freedoms would be inconceivable, when due to sex, race, skin colour, language, religion, political opinions, national or social origin, property, or birth states could treat people differently. The prohibition of unequal treatment of article 14 ECHR is nevertheless not an independent right – claiming a violation of article 14 is always linked to another right.

According to this short introduction and the provisional conclusion, that the convention can not offer any fundamental minority protection because of the focussing onto the individual complaint and the linking of the prohibition of discrimination with another right, we can proceed with the search for the answer, whether the ECHR does not forfeit minority rights, if every speech that attacks the territorial integrity of a state automatically falls outside of the protection of article 10

and thus keeps upright discriminating practices of states against minorities, by forbidding individuals to complain.

The fear that the ECHR is putting minorities at disadvantage and stops attempts independence, autonomy, or simply debating about another form of administration is unfounded. In spite of the above-mentioned limits of the convention, the Strasbourg Court and the restriction of freedom of expression for the aim of protecting territorial integrity, still allows minorities to criticize, it still gives them the possibility to complain about the practices of states, of their government and to demand a change in their situation – all within the framework of the European Convention on Human Rights. One must never forget that the restrictions mentioned in article 10 paragraph 2 must pursue a certain objective, namely they must be „ necessary in a democratic society“. As Paul Mahoney noticed, „The Convention is grounded on a certain political philosophy, namely that political democracy is the best system of government for ensuring respect of fundamental freedoms and human rights. Any theory of interpretation or review by the Court must be compatible with that basic underpinning of political theory.“⁶ Applied on single cases, the principle states that endangering the borders of a state does not alone suffice in order to justify a restriction of the freedom of expression. The prohibited statement must also pursue the breakdown of the democratic society, in order to fall outside the protection of article 10 ECHR. A mere declaration of independence, although endangering the identity of an existing state, for example, such a request does not *per se* instate a non-democratic regime. This assumption is also supported by the basic principle, already enforced 1976 in the *Handyside* decision: „Freedom of expression constitutes one of the essential foundations of such a society, one of the basic conditions for its progress and for the development of every man. Subject to paragraph 2 of Article 10 (art. 10-2), it is applicable not only to ‘information’ or ‘ideas’ that are favourably received or regarded as inoffensive or as a matter of indifference, but also to those that offend, shock or disturb the State or any sector of

⁶ Mahoney, Paul (1998), S. 3

the population. Such are the demands of that pluralism, tolerance and broadmindedness without which there is no ‘democratic society’.”⁷

For clarification several representative cases were selected from the Strasburg case-law, all bundled up in the case *Dicle for the party of the democracy (DEP) v. Turkey*. In the *Dicle*-case people primarily complained about interference in their freedom of assembly and association. The Court had already defined in the decision *United Communist Party of Turkey and Others v. Turkey* that the activities of political parties form a part of a collective exercise of freedom of expression that in itself entitles political parties to seek the protection under articles 10 and 11 of the Convention.⁸ This general statement was broadened in the case *Dicle*, as the Court acknowledged an even wider range of protection, when it stated that article 11 **must be** regarded in the light of the article 10 [emphasized by author]. The activities of political parties form part of a collective freedom of expression, to which article 11 is dedicated. In the case of political parties this is the principle that must be assumed, considering their essential role for the maintaining of the pluralism and the good functioning of democracy.⁹ By being part of a collective freedom of expression, political parties may seek protection under article 10 and 11 of the convention.¹⁰

The decision *Dicle for the Party of Democracy (DEP) v. Turkey* is about a party founded in 1993, to which 18 senators from a former party, which was dissolved by the Turkish Constitutional Court, joined. During a manifestation in Bonn the former DEP president speaks of the Kurdish nation, about the armed fight and the Kurdish revolution and during a meeting in northern Iraq the same person utters opinions about Kurdistan as free independent state, about the Kurdish nation, about the death for his homeland. In a written declaration, the central committee of

⁷ Handyside v. The United Kingdom, judgment of 7 December 1976, Application no. 5493/72 § 49.

⁸ United Communist Party of Turkey and Others v. Turkey, judgment of 30 January 1998, Application no. 133/1996/752/951, § 43.

⁹ *Dicle pour le Parti de la Democratie (DEP) c. Turquie* du 10 decembre 2002, requête n° 25141/94, § 43, own translation.

¹⁰ Compare with Popescu, Corneliu-Liviu (2003), p. 134, own translation.

the DEP draws attention onto the Kurdish problem attentive and demands the recognition of the Kurdish identity.

June 1994 the Constitutional Court of the Turkish republic decides the dissolution of the DEP, because the party supports the foundation of a Kurdish state through the destruction of the existing Turkish one, has activities endangering the territorial integrity of the state and the integrity of the nation. The reasoning of the Constitutional Court relies on the statements of the central committee and the former president during the already mentioned two speeches in Iraq and Germany. At the time of the dissolution of the DEP, Hatip Dicle is chairman. As a consequence of the dissolution of the party 13 senators lose their parliamentary mandate¹¹ and according to Turkish laws also any right to keep on engaging themselves politically within a party.

During its explanatory statement the European Court reminded, that the rights deriving from the articles 8, 9, 10 and 11 of the Convention must be weighed in the light of what is necessary in a democratic society. The only condition which can justify a restriction of one of these freedoms is therefore the danger of the democratic order: „Democracy is without doubt a fundamental feature of the European public order ... That is apparent, firstly, from the Preamble to the Convention, which establishes a very clear connection between the Convention and democracy by stating that the maintenance and further realisation of human rights and fundamental freedoms are best ensured on the one hand by an effective political democracy and on the other by a common understanding and observance of human rights ... The Preamble goes on to affirm that European countries have a common heritage of political tradition, ideals, freedom and the rule of law. The Court has observed that in that common heritage are to be found the underlying values of the Convention ...; it has pointed out several times that the Convention was designed to maintain and promote the ideals and values of a democratic society ...

¹¹ Compare with Popescu, Corneliu-Liviu (2003), p. 131f., own translation.

In addition, Articles 8, 9, 10 and 11 of the Convention require that interference with the exercise of the rights they enshrine must be assessed by the yardstick of what is 'necessary in a democratic society'. The only type of necessity capable of justifying an interference with any of those rights is, therefore, one which may claim to spring from 'democratic society'. Democracy thus appears to be the only political model contemplated by the Convention and, accordingly, the only one compatible with it.¹²

The Strasbourg Court thus reversed the basic principle of the democratic order: not only, that democracy is the only mentioned political model regarded as compatible with the Convention, the principle is also valid vice-versa: only the protection of the democracy is reason for infringing the rights stated in articles 8, 9, 10 or 11, even if they may endanger the borders or legal systems of the states in their current form. The argument of the territorial integrity alone does not suffice to restrict the above-mentioned rights. If the restrictions do not pursue the objective of the preservation of the democratic order or if the democratic society is not endangered, the reason of the territorial integrity loses his validity.

In the case *United Communist Party* the Court had also determined that a party can conduct a campaign for a change in the law or constitution without having to worry that they pursue the interests of a minority: „... one of the principal characteristics of democracy [is] the possibility it offers of resolving a country's problems through dialogue, without recourse to violence, even when they are irksome. Democracy thrives on freedom of expression. From that point of view, there can be no justification for hindering a political group solely because it seeks to debate in public the situation of part of the State's population and to take part in the nation's political life in order to find, according to democratic rules, solutions capable of satisfying everyone concerned.”¹³

Just half a year later the Strasbourg Court clarified the conditions under which a party may support a change of the law or the constitution: „... the Court considers

¹² *United Communist Party of Turkey and Others v. Turkey*, judgment of 30 January 1998, Application no. 133/1996/752/951, § 45.

that a political party may campaign for a change in the law or the legal and constitutional structures of the State on two conditions: firstly, the means used to that end must in every respect be legal and democratic, and secondly, the change proposed must itself be compatible with fundamental democratic principles. It necessarily follows that a political party whose leaders incite to violence or put forward a policy which does not comply with one or more of the rules of democracy or which is aimed at the destruction of democracy and the flouting of the rights and freedoms recognised in a democracy cannot lay claim to the Convention's protection against penalties imposed on those grounds.¹⁴

In the *Dicle* case the⁴ ECHR clearly stated that the political solution of the Kurd problem, the recognition of the Kurdish identity and the wish for an autonomous or even independent administration are not *per se* in contradiction with the basic principles of democracy. Even though these proposals are in conflict with the leading principles of the government policy or with the opinions of the majority of the public opinion, a good functioning democracy requires that the political actors can bring these in the public debate.¹⁵ These are necessary and just, so that the DEP can represent the interests of the own electorate. This argument of the European Court of Human Rights stands in the completely consistent with basic principle of the “marketplace of ideas“ of John Stuart, according to which “If a correct statement is suppressed, people are robbed the chance to replace mistakes by the truth [...]. If a wrong statement is suppressed, people lose almost as much advantage, namely the clearer perception and livelier appearance of the truth, through its collision with error”.¹⁶ Reformulated on the level of the Council of Europe the argument can be derived directly from the *Handyside*-judgment: „Subject to paragraph 2 of Article 10 (art. 10-2), it is applicable not only to ‘information’ or ‘ideas’ that are favourably

¹³ United Communist Party of Turkey and Others v. Turkey, judgment of 30 January 1998, Application no. 133/1996/752/951, § 57.

¹⁴ Yazar and others v. Turkey, judgment of 9 April 2002, Application no. 22723/93, 22724/93 and 22725/93, § 49.

¹⁵ Compare with Popescu, Corneliu-Liviu (2003), p. 137, own translation.

¹⁶ Middleton, Kent R. (2002), p. 26, own translation.

received or regarded as inoffensive or as a matter of indifference, but also to those that offend, shock or disturb the State or any sector of the population. Such are the demands of that pluralism, tolerance and broadmindedness without which there is no 'democratic society'.¹⁷ Opinions shared by the majority of the population or the state usually do not have to fear any kind of intervention. The opposite is valid when small group or an individual express an opinion that is not shared by the majority.

In the *Dicle* case the Turkish government could neither convince the Court that the demands for autonomy or separation of the DEP have to be regarded as support of terrorist activities. The court made it clear that the danger that arouses from the prohibition and the banishing of such comments outside of the politically permissible debate would result in a monopoly of the military defending those principles, events which would clearly stand in total contradiction to article 11 of the Convention and the democratic basic principles that it watches. The Court also thinks that the Turkish state could not prove that the DEP pursued compromising of the democratic regime in Turkey.¹⁸

Turkey had also tried to argue, that according to the own statements of the DEP the actions of the terrorist organizations are considered as fight for independence and Kurdistan is seen as an independent region, opinion which incited the population to hatred against other ethnics, to revolts and thus to acts of violence. The Strasbourg Court could not agree with this logic. According to his opinion, the DEP did criticize government harshly and the words "genocide" or „Kurdish Revolution" does give a certain verbal power to the speech. In spite of that the leaders of the party have never expressed the support or approval for violence as solution for political problems. Therefore the DEP cannot be regarded as a terrorist group, or at least not derived from the uttered critics. The Court reminded the Turkish government, that „The limits of permissible criticism are wider with regard to the Government than in relation to a private citizen, or even a politician. In a democratic system the actions or omissions

¹⁷ Handyside v. The United Kingdom, judgment of 7 December 1976, Application no. 5493/72 § 49.

¹⁸ Ibidem.

of the Government must be subject to the close scrutiny not only of the legislative and judicial authorities but also of the press and public opinion.¹⁹

The other speech of the DEP leader Hatip Dicle, expressed in Iraq in which one the military activities of the PKK are regarded as fight for freedom, in which the killed members of the PKK are regarded as children of the Kurdish nation, that sacrificed their life for their homeland and for the liberation of the Kurds are considered, in which the Turkish government is accused, of “killing without asking whether it is a KDP- or only a PKK member [...] they see only Kurds” was evaluated by the European Court in completely different way. The Court took into account the situation in the south-east of Turkey, where clashes between the security forces and the PKK-members caused many casualties and much life-loss. In this context the Strasbourg Court admitted that Dicle’s are speech is eligible to cause hatred against all those regarded as “enemies” and that it is leaving the impression behind, violent fight would be necessary opposite to defeat the enemy. On the other hand the Strasbourg Court did not ignore that against Hatip Dicle a criminal trial was already on the roll, which made the dissolution of the whole DEP disproportionate.²⁰

Conclusions

The fight of minorities for an autonomous or even independent administration, although it endangers states in their current form does automatically fall outside the protection area of article 10 or 11 ECHR and in the light of a democratic society these activities may not be blankly equalled to terrorism. Instead, the European Court of Human Rights approaches the means these parts of the population use. As long as they use democratic ways in order to achieve a change in law or constitution, they act within the framework of the Convention. In this case it may, the political debate can be more critical and harsher towards state governments, since according to the Strasbourg jurisprudence governments are required to show maximum tolerance regarding political speech. Normally, in the *Dicle*-case the Court made a distinction

¹⁹ Castelles v. Spain, judgment of 23 April 1992, Application no. 11798/85, § 46.

between the speech in Bonn, that was not in Turkish and the speech in the Iraq, at the border of Turkey, where the speech incited to racial hatred and armed fight.

Although the organs of the Council of Europe developed regarding to freedom of speech an own philosophy and own basic principles, the author can not consider this paper as complete without mentioning, that the European Court of Human Rights also uses principles and approaches from the United States. A parallel should be drawn to the case *Brandenburg v. Ohio*, where the U.S. Supreme Court states in that approving of use of force or law breaking only is only then outside the scope of freedom of speech is, if the statements constitute a “clear and present danger”.

On the other hand, we must admit that the Strasbourg Court does require a lot of patience and open-mindedness from the states, and the majority of their population when it dictates that even comments that encourage separatism are permissible within the framework of article 10, as long as democratic means are used for the objective pursued.

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THE CREATIVITY, PSYCHOLOGICAL SIZE OF THE FLEXIBAL PERSONALITY

Associate Professor PhD., Emilia ALBU – “Petru Maior” University, Tîrgu-Mureş

Lecturer Alexandra SILVAŞ – “Petru Maior” University, Tîrgu-Mureş

Abstract

This paper approaches an important and current theme for the psycho pedagogic theory and practices in the learning reform context.

The first part presents theoretic issues about the creativity concept, insisting on the creativity understood as a complex form of personality and on the creativity levels.

In the second part are some stimulation and education modalities of the creativity that can be used in the educational pre-academically and academically.

To high tight the applicative connotations of this psychic feature, we initiated a study in order to know the creative attitudes of the students, using a question, of creative attitude adopted after Mihaela Roco, University of Bucharest, J. M. Jaspard - University of Louvain – La Neuve, Belgium.

1. Definition and notions delimits

The creativity, considered one of the most fascinates human phenomenon, constitutes today a convergent point of many specialists investigations from different fields.

The term was introduced in the specialty literature in 1937 by G. W. Allport. We used till nowadays synonyms as: fluid intelligence (R. G. Cattell), creative directional thinking (E. R. Hilgard), divergent thinking (J. P. Guilford), resolution of weakly structured problems (J. Bruner), creative imagination (A. F. Osborn), and so on.

Multitudinous of acceptations, of the creativity applications fields and complexity of creative processes, made to be used currently and concomitantly many definitions of this category. So, in 1959, C. W. Taylor inventoried over 100 different definitions of the creativity notion, whose scale draws from the understanding of the creativity as an attitude till an identification with a height level creative production, with extraordinary achievements in different fields; they made the object and give, at the same time, firmness to the auxiliary discipline, named, creatology. It is about the creation's techniques, processes and forms.

The definitions formulated by psychologists praise four acceptations of the creativity notion depending on the psychological aspect; so, they considered the creativity:

- (a) as a personality complex formation (the creative personality);
- (b) as a result of the creative process (the created product);
- (c) as a specific process (the creator or act process);
- (d) as a specific psycho/social aspect of interaction between man and environment or between people.

Creativity as a complex formation of the personality. The creative personality. The conception proceeding from the creativity is a specific feature, a general attribute of the human personality imposed more and more after 1950. this conception is based on the idea that each child has a potential necessary to a certain level of a creative achievement which is manifested in a personal way, with distinct particularities reported by the measure in which is cultivated (weak creative, middle cultivated and high cultivated).

Al. Roşca (1972) considers that the human personality is endowed with a specific formula of creativity which involves all this important component parts: the morpho-

physiological build, character, abilities, temperament, motivation, in such a way as to we can consider that the development of creativity may be mixed up with the development of personality.

Seen by the side of subject, creativity appears as a complex capacity, a specific feature of psychic structure which made possible the creative work. It is an ability, a mind disposition to elaborate ideas, theories, models, original objects, going on from the pre-existing dates and objects. It is a specific feature, a performance of the person, a capacity to innovate (in technique), to discover (in science), to create (in art). That's why, the creative activity may be considered to be the highest human activity. The humanity progress was not possible and is not possible without human creative activity. I. Kant said that the thinking exist as a human thinking only through creativity (Pedagogy Dictionary, 1979).

We reproduce some of the most significantly references to the creativity as a specific feature of personality:

- creativity, to J. Piaget, appear as an accommodation of the person with the outrunning;
- creativity is connected to an essential human conscience function – the creative one – inseparable from his reflect function.
- creativity is a constructive – transformative interaction between subject and world;
- A. Adler defines the creativity as a person's "style of life";
- creativity is a result of the whole personality (I. Radu, 1991).

In the work *Introduction in the contemporary psychology*, I. Radu (1991) plans the list of the main traits of the personality correspondingly to the person's high creativity level:

a) in the intelligence plan: a minimum limit of IQ (estimated at 110-115 for scientific creation and at 95-100 for artistic creation), with the notice that, from the IQ = 120 up the intelligence became very weak correlated to the creativity and in this way, it

cannot be a prediction element of creativity and it is necessary an well – balanced development of all types of intelligence.

b) in the abilities plans: the high creativity person which has, at the “over-gifted level”, one of the special abilities: mathematics, techniques, art etc.

c) from the intrinsic motivations G. Grâce selected: the need to excel, the need of “hard sensations”, the curiosity, the accept of the sacrifice, the taste of “new”, the availability to adventure, the need to ordonate complex situations, uncertain together with the tolerance to the ambiguous situations, curiosity, availability in accepting the sacrifice and assuming risks.

2. The creativity levels

C.W. Taylor differentiates the following creative levels:

- *The expression creativity* design the total of the free and spontaneous expression person’s forms, without special preoccupations for communication value on use (this level meets at any age and it is demonstrated in draws, mimics, speech).

- *The processual creativity*, reflected in the specific, original way in which the subject perceives the world, in his unique and irreparable way, to relate to this world in the thinkingplan, feeling and his behaviour.

- *The productive creativity* is manifested by everyone who made objects, useful things to themselves and to others using their abilities and perceptions. This level can be easy exemplify in the work of any qualify worker.

- *The innovator creativity* consists in production of new structures, objects, technological processes recombination in an ingenious way the well-known elements so that to obtain functional and qualitative bettering.

- *The inventive creativity* presumes the introduction of new forms, relation and methods in comparison to the well-known for the made of a new original product.

- *The emergent creativity* is manifested only to the genius people. They discover new principles, that are able to revolutionize an entire field of knowledge, art, technique

or social existence, for example – The evolutionist of Darwin, the relativity theory of Einstein.

3. The creativity stimulation and education

From the second half of the XX century, the theoretic and practices preoccupations were centred on the promotion ideas of the principles and methods active-creative in education (The Chicago School). The first Romanian authors who showed the sensibility in the creativity problem and in a creative education were Fl. Ştefănescu-Goangă and Şt. Odobleja.

By their activities they put the fundamentals of the Romanian school represented by P. Popescu-Neveanu, Al. Roşca, I. Radu, M. Ionescu, M. Maliţa, M. Bejat, A. Cosmovici, L. Iacob, M. Roco, A. Stoica, M. Zlate, G. Nicola and so on, reference authors in psychology, pedagogy and sociology creativity.

The central problems searched and discussed by this authors are the utilization of the native creative potential of persons (special of children/students from the group), building strategies and instructive creativity methods.

To educate the creativity means to stimulate the pupil/the student to practise his creative potential.

M. Ionescu (2000) made an investigation between students and the result is that „nowadays, the Academic education cannot be reproduced. It must be creative, centred on the student, to represent an approach based on the heuristic method, with scientific information techniques”.

It is important the way in which the tasks of learning are distributed for each object of education. The teacher must assure the balance between the algorithms strategies and the heuristic methods, between the tasks which request the convergent thinking and those which request the divergent thinking is predominant have an accented stimulate role. There are divergent those tasks which allow alternatives in approach and solution and they are convergent those tasks which impose a simple identification and application. Questions as: how can you explain?, what kind of relation is between...?, what's happened if...?, request and stimulate the divergent thinking

The algorithmic strategies allowed the accumulation of knowledge, the memorising of certain facts and the finding out of certain answers pre-existent, while the heuristic strategies promote and stake on original answers, initiative and inventivity. Both are necessary.

The teacher has to assure the instructive climate favourable to the development of the creativity and he has to warn any fear or restraint from the pupils. The principal way to educate the creativity is the reforming of the education in all his sides and links. The active education methods, the practise, the applications etc. The relation teacher – student and the atmosphere created by the teacher as well the atmosphere between students is very important.

To know the *creative attitudes*, essential components of creativity we apply at 190 students aged between 20 and 21 years old the questionnaire of creative attitudes elaborated by Mihaela Roco and J. M. Jaspard (M. Roco, 2001).

The interpretation of the answers offers the possibility of the following creative attitudes: energy, concentration, orientation etc. The answer for the energy as attitude point out a weak level. For the ideas argumentation the answer point out a high level. The independence as creative attitude is present at this age at a high level. But the nonconformism appear at a weak level. At the confidence in the own forces there are many answers. The history of the humanity certify the fact that the sensibility for the moral values is a premise of creation.

From this investigation result that 32,10% subjects are orientated to a far-off future.

For 69,47% subjects the finalizing is an important attitude of creativity and 47,37% subjects consider the diversity of interests as basis attitude of creativity. 42,11% an 32,11% subjects appreciate the spirituals and practice values as important attitudes of creativity.

The pupils/students opinions investigation regarding the problems of creativity represents as well a psycho pedagogic knowledge method with a view to the educational intervention and a way for the self-knowledge.

The conduct of the teacher has a great importance for the stimulation and the maintaining of the creative climate.

The option of an education centred on the creativity can not be other than the model of the „stimulative teacher” opposing to the „inhibitory teacher”. The stimulative teacher conducts the instructive process into an informal manner, encourages the free expression of the students opinions (even of those contrary to the own opinions), stimulates independent work, he is always available for individual discussions with the students, he is preoccupied and knows to assure the security and the psychological freedom of pupils.

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ETHICAL DIMENSION OF INDIVIDUATION IN CARL GUSTAV JUNG'S PERCEPTION

Lecturer Daniela SOREA, „Transilvania” University, Braşov

Abstract: Jung considers that human existence is teleologically oriented towards individuation, that is, self-realization. The individuation process unfolds in two stages. The former consists of the delineation and strengthening of the Self, that is, the conscientious dimension of the mind. The latter implies the dramatic realization and assumption of archetypal images. The rejection of unconscious signals and the refusal to integrate into the individuation process leads to mental malfunctions. The conscious assumption of the process becomes an ethical issue as long as it means fulfilling a duty to one's own self.

Carl Gustav Jung is regarded as the founder of analytical psychology. The core of his theory is the teleological orientation of unconscious processes towards individuation, that is, the individual's overall self-realization. The present paper attempts to delineate the dimensions of the individuating process as reflected by Jung's works as well as to emphasize his ethical views in this respect.

Individuation is the purpose of the individual's mental development. "There is no such thing as *aimless* mental processes, and the fact that mind is essentially purpose-oriented is the greatest heuristic hypothesis" [17, p. 64], says Jung. Individuation is the

process of individual's development as an indivisible psychological entity. The process unfolds against the conflict between the conscientious and the unconscientious, and represents the effort of freeing the human from the latter [10]. The individuation process results from a natural necessity and grows along with the natural sense of human evolution. The unconscious mind owes an instinctive wisdom that corrects errors and overreactions [19]. The individuation process is a biological one by means of which any being fulfills itself and becomes what it is supposed to become. As self-realization and self-actualization, individuation takes place in any living entity and even at an inorganic level. Crystal is individuated matter [22].

Personality is meant for individuation. This develops as a natural and spontaneous process of self-realization [20]. David Norton [apud. Palmer, 20] regards individuation as Jung does, namely, *eudemonism*. *Eudemonism* means living in harmony with one's own daimonion, with the innate potential of full individual development. Harmonization involves the actualization of this potential.

Individuation is a process of personality formatting focused on the unconscious. It is "the process by which the development unfolded inside someone gains conscious perception" [22, p. 95]. The penchant for full realization of unconscious totality is accomplished by total realization [4]. By *self-individuation*, Jung means perceiving one's own existence as a unique expression of humanity. Individuation offers the unique and independent dimension to a person. It is a strictly individual process described by no universal recipe.

The process does not exclude the individual from the world, but rather concentrates the world onto the individual. It is not individualism, it does not point out oppositions against the requirements of collective existence. Conversely, it induces the accomplishment of the person's collective purpose [13]. It is the identification with the self and with the humankind. It is integration as well as relationship building. It is a subjective process of assuming non-familiar aspects of one's own mind as well as an inter-subjective process.

The accomplishment of individuation implies the recognition of human totality and completeness. However, it is utopistic to regard individuation as perfection [19]. It is not vital to grasp self-realization, but to see to what extent personality is authentic in relation with its potentials. Individuation means completeness, not perfection. "To fulfill itself, life does not need perfection, but completeness. To do this, one needs to undergo difficulties and lack of perfection, which are critical for progress and growth" [15, p. 154].

Individuation is an endless process. It is an ongoing conflict between consciousness and unconsciousness. This confrontation can be divided into two stages. The former is that of the individual's youth, and is centered on the formation of the Self, that is, the conscious side of the mind in relation with the environment. The latter is that of the individual's maturity, and is characterized by a change in focus from the Self to the core, which is made of the conscious and the unconscious. This change in focus is a fundamental mental transformation. It takes place instinctively and is guided by the successive activation of archetypes. These concentrate the various types of experiences displayed by human evolution, and manifest as archetypal images. Archetypes provide psychological information regarding the way in which the individuation process unfolds [20]. They support the hereditary programming of the mind.

Jung sees *the self* as the archetype of mental integration. The self encompasses the individuating potential of the species, and generates totalizing manifestations in arts, religion, and inner life. It is also an internal guiding factor as well as an innate mental dimension. It is the purpose and support of individuation. It is a result and individuating agent. The individuation process is archetypally oriented towards Self-realization [20].

Any image of the self fulfills an ethical role. The archetype is the impulse and the purpose, not the goal accomplishment. Archetypal images are moral guides, and direct evolution from what the individual is to what the individual should become [23]. Thus, "the individual is already what he will become" [22, p. 86].

In many schools of psychology, the connotations of self-realization are centered on the identity and definition of the ego. In Jung's opinion, self-realization means the

conscious discovery of the self and establishment of a relation with it. The relation stabilizes the self, but it confers it an identity that is different from the initial one [19]. The experience of the self is always a defeat for the ego although the self needs the ego for individuation purposes. The access to trans-consciousness depends on the survival of consciousness responsible for conversion. "What one should expect at the end of individuation is not the refusal of the force of reason and its discerning capacity, but rather the surpassing of the reason that has been totally assumed, that is, the passing from consciousness to a trans-consciousness that does not destroy the former, but pushes it to its highest degree of manifestation" [6, p. 154]. The individuating unification does not result in the ego, but in the self as a synthesis of the ego with the super-personal unconsciousness.

The self as an archetype of the totality that shapes the individuating instinct initiates the ego during the first stage of the individuation process. The self as a totality is prior to the ego. The latter gradually separates from the self and develops during the first half of the individual's life. During the childhood stage the ego does not exist independently for everything is unconscious. This initial lack of differentiation stands as a reference point of the paradise myths.

In the first half of the life, the individual becomes a reality in itself in relation with other individuals, environment and collective consciousness. In the second half of the life the relativity of the ego takes place and relates to the self. Thus, the individual perceives himself as an agent that participates in a universal experience. In the first half of the life the ego becomes strong and efficient. Then, it acknowledges its status subjected to the self. Maturation implies food, warmth, protection, family, exploration, play, community. These are archetypal needs materialized as unique individual experiences. Aging means the transition from biological and social to cultural and spiritual [22]. Morning belongs to nature whereas evening belongs to culture. However, childhood and seniority are both dominated by the unconsciousness. The beginning and the completion of the individuating process overlap due to the lack of discrimination between the conscious and the unconscious. Jung defines *enantiodromy* as the natural

process of changing the focus between the two halves of the life: from the development of the ego and orienting it to the self, and from the self-estrangement to salvation. In its two stages, individuation involves the simultaneous development of the subjective and objective dimensions of the mind. It is an inner subjective process as well as an objective process of relationship building. The human being is a universally significant entity in impersonal and objective terms. Human life is a process of adaptation to this truth conveyed by the unconscious through archetypes [23].

In its second stage, the individuating process is necessarily painstaking and hazardous [20]. Individuation means the gradual integration of the timeless self, that is, the ancestral humanity hosted by each individual in contemporary personality [22]. It means self concentration and development of own capacities for the purpose of human ambivalent manifestations. It implies the assimilation of damaged parts of the mind. The integration of contradictions is teleologically oriented in human terms [20]. This integrated unification is a totality experience [14]. The unconscious self corresponds to the Freudian over-ego and is a permanent source of moral conflicts. Its withdrawal from the projection state, that is, its transition from the potential to the present state changes it into a *unio oppositorum* [7]. Individuation is a *mysterium coniunctionis*, unification of contradictory halves. The ancestral mythical human being is a symbol of the reconciliation of psychological contraries [17].

The second stage of the individuating process, though hereditary and instinctively sustained, does not necessarily begin and develop in every human being. This is the consequence of the individual's lack of psychological maturity. The individual refuses to focus on his own self and frees from external restrictions. The initiation and orientation of the individuating process are signaled by significant coincidences and/or mental disturbances. Mid-life crisis may trigger the self, whereas the rest of the life functions as a chance to self-development [22].

In Jung's opinion, the patient is a candidate to individuation. The unification of the conscious and the unconscious stands for the transcendental function of the individuation process, and has a curative effect [18]. In this context, psychotherapy

serves two purposes: securing the individual's health and guiding the individuation process. The latter is not necessarily connected to curing [19].

The disturbance is a creative and autonomous act. The symptom is an indicator of the individuation process. Neurosis is an inferior form of adaptation in an altered individuation due to the unfulfillment of some essential archetypal needs [22]. It is an impulse to enlarge the healing effect of consciousness.

There is no individuation without depression. This results in regression to childhood and activates the need for its psychic non-differentiation. Depression is a critical stage of individuation as an aid for further development. The individuation process occurs whenever an unsurpassable difficulty needs to be overcome [13]. The process itself is a painful overcoming of difficulties. In its second stage, individuation implies the confrontation with archetypes in order to consciously assume their energetic dimension. It involves discovering the *shadow* and death. It involves the gradual and conscious freeing of the self from the *persona*, that is, the individuating mask of the collective spirit. *Persona's* dissolution is also the unchaining of the imaginary.

The confrontation with the unconscious triggers creative forces. *Anima* and *animus*, the opposite genders' archetypes, mediates the integration of the creative aspect of the unconscious into the conscious [19]. In every representation of these two archetypes there is information concerning the experience of the opposite gender with the personal experiences regarding the parent of the opposite gender as well as the loved one(s). To ensure the proper unfolding of the individuation process, individual parents must be good enough to estimate archetypal needs. Sexuality allows for the psychological encounter with the other. Eros updates latent developmental possibilities [15]. It has an individuating character for it symbolizes *mysteriumconiunctionis* [19].

Around the age of 45, men discover delicate feelings, and women discover the intellect. Men's feminization and women's manhood is a regression in the case of young individuals. The phenomenon gains significance in the second part of the life: it is the assimilation of opposed sexual trends, that is, a necessary stage of the individuating process. In the same context, mother symbolism shifts towards the unconscious perceived

as a creative matrix, thus altering the connotations of the oedipal complex. Sexual manifestations are symbolic representations of the individuating process. Thus, incest regains its spiritual significance associated to cosmogonies, myths and religion. Libido introversion or its withdrawal from exterior determines its focus on the subject, and implicitly the activation of images known from childhood [17].

The individuating separation from the shadow, persona and anima/animus implies the awareness of the individual in relation with them. Archetypes withdrawal from the projection state unfolds against the individual's relationships and is favored by the conscious sustaining of the individuating process. Personality synthesis depends on inter-human relationships. Unless they are present, the conscious coordination of interior unification is not possible. In a couple, love facilitates double individuation [19].

The active participation of consciousness, even at a vague level of phenomenon understanding, facilitates its unfolding. Consciously and purposely, the process unfolds in a simpler manner. The conscious orientation towards individuation implies following some rules: the individual must accept the things he is experiencing, that he is driven by an interior demon that knows what it is doing. He must resist rational-reductionist interventions of the contraries even at the risk of diving into delirium close to insanity. He must not, above all, decide upon his own life except for relating to the endless and infinite [1]. Great personalities are those who dare listen to their inner demons [16].

The individuating process is not dangerous only at the beginning of its second stage. Archetypes are fascinating. Archetypal images generate penchants for mental-based obsessions. By extrapolation, people's badly managed mental development can cause mass destruction. Also, the ego may be placed outside the individuation process. In this case, archetype identification produces mental inflations. The individuating process may take place symbolically as dreams. Great dreams containing archetypal motives are useful for diagnoses. They are attempts to lead the individual out of the neurosis and to guide the individuating processes. Individuating dreams operates with archetypal images that describe the phenomenon of self-focus. Dream sequences reveal the teleological orientation of compensating acts to individuation [16]. Motives

magnitude by active imagination reveal the passage from chaotic multitude to order, from darkness to light, from the inferior to the superior, unification of contraries in quaternary, circular as well as radial focus and order. Great themes of the individual's life tend to repeat themselves in his dreams [22]. Each recurrence enhances the chances to assume correctly the dream message.

Dream messages may be understood and assumed as they are symbolic. Symbolic reason opens the individual's way to the meaning of the collective unconscious. Theoretically, individuation is the process of understanding symbolic representations [22]. Instinctive orientation to self-fulfillment energetically sustains these representations. "It is all about vital processes that have always been the most important catalyst in shaping symbols" [15, p. 224]. Thus, the instinct functions as a means of totality in individuation [5].

Because archetypal representations are symbolic, essential individuating experiences can be communicated in the humankind's cultural productions. Myths, fairy tales and legends are based on the individuation process. This is a spiral-like journey in the quest for treasures. Brave falls are followed by rise. Symbolically, depression is the fight against the dragon and is followed by rebirth. The fight against the monster is the attempt to free the ego from the unconscious and is followed by the exit to light [17]. Theseus wins the battle against the Minotaur, which is the representation of archetypal shadow. The quest for the Holy Grail is the quest for completeness.

Alchemy writings mention personality transformations during the individuation process. Alchemy precedes analytical psychology [22]. Alchemic symbolism is archetypal. "The issue of personality growth and individuation described above is expressed by alchemy symbolism" [15, p. 36]. The birth of *philus Philosophorum* of the royal unification is the symbolic unification of the conscious and the unconscious that results in self-manifestation. The latter is both ego and non-ego, subjective and objective, individual and collective, that is, super-human.

The birth of the divine child in alchemic texts corresponds with the mystic process of shaping the inner human [13]. Extreme feelings are a proof of individuation.

Christ's image in mystic Christianity and the purpose of alchemy equate mental fulfillment [23]. From a psychological standpoint, Christ is the self, whereas the Eucharistic mystery consists of the transformation of human spirit embodied by Christ. Piety means diving in the unconscious and reactivating of childhood complex, the source of feelings for God [18]. Mess is an individuation rite. During the mess, the human being defeats the terrifying contradiction of his nature by undergoing a mental process beyond his control [7]. Jesus is the prototype of the only meaningful life for it is oriented towards absolute accomplishment of its characteristic law [16]. In Christian perception, totality archetype belongs to consciousness for it is illustrated by Christ. As for individuation, Christian tradition "acknowledges a description that stretches far beyond our shy attempt even if the image of the Self, Christ, lacks its shadow" [12, p. 62]. Buddha, Purusha, and Atman are representations of the Self.

"The expression of individuation process is the shaman and medicine man's issue, then the doctor's, prophet's and priest's, and finally philosophy's and religion's" [7, p. 196]. Individuation is religious in itself. Transcendent function is symbolic and religious. It is religious as it is archetypal. God's and Self archetypes cannot be empirically distinguished. Its numinous dimensions are identical, and their constituted images are identical. God and the Self coincide as the purposes of the individuation process. To religious spirit, God is the Whole or totality [20]. The Self is the most direct experience of divinity as it is perceived mentally [7]. Divinity representations change in time and reveal to therapist the level of individuation. The images used in the process do not necessarily represent the historical moment in religious terms. However, if the old symbols are neither effective nor replaced by new symbols, the human becomes ill [20]. The solution for mental health of those not represented by the Church is individuation, that is, finding God inside or living His archetype to the full [2]. According to Jung, none of his patients older than 35 was healed without a religious attitude [19]. Thus, God finds His purpose [9].

The development of human personality is pragmatically oriented towards self-accomplishment as potential fulfillment. The individuating process is dramatic. The

unconscious reveals numerous compensating dimensions of the conscious attitude. Their assumption may be a dramatic attempt. The archetypal images of the self act as moral guides that indicate what the human is or should be. The individual is responsible for reaching mental balance or not [20]. Not understanding or ignoring archetypal signs deprives the human from totality chances [4]. Individual's orientation towards totality in Jung's conception goes beyond ethical selfishness as it stands for a Kantian duty. The human must achieve wholeness.

The individuation process is not under conscious control. This may sustain the process, but its initiation and direction are unconsciously determined. In modern and contemporary views, the individuating path is even more difficult as it does not benefit from religious and cultural support. Spirit compensates for the conscious attitude and anticipates changes. The unconscious preserves every human dimension. The ancient spirit reappeared during the Renaissance. Nowadays, the primitive spirit prevails [18]. Nihilism and deconstructive character signal the end and renewal of the world. Gods' metamorphosis is the only chance of westerners to save themselves from self-destruction resulted from the rational and technical development of their culture [9].

Rationalism has not led to a beneficial management of matter and space. Progress made in terms of utility and need fulfillment is accompanied by huge faults and calls for adequate expenses [10]. The westerner has developed unilaterally and runs the risk of losing mythical understanding regarding the inner human as protector and preserver of life [22].

Christian living has preserved these meanings, but it cannot continue to do so due to the overwhelming pressure of the rational, non-contradictory, and unidirectional. This imposes modern Christianity a fragmentary and shallow representation of the human model. Western restlessness and maladies are the consequences of the inappropriate assumption of human dimensions, as Jung argues. The farther the evil from consciousness, the more terrifying the compensating reactions of the unconscious. Decent citizens easily participate in mass crimes. The whole western culture experiences an unpredictable crisis [12].

Inner emptiness undergone nowadays results from the refusal to consider things lucidly. Only ample and sharp self-knowledge can lead to salvation [12]. Salvation means equilibrium. Any contemporary attempt to balance the unilaterally differentiated human being implies the acceptance of inferior, non-differentiated functions, and therefore the assumption of the confrontation between contraries. Thus, the cause and motivation of moral behaviourism are attributed to one's own nature and not perceived as external constrictions.

"The worst sin of man is lack of consciousness, and this is also a sin of those who should teach or act as role models" [10, p. 257]. Under the circumstances, Jung claims, the analyst has special duties. "One cannot encounter human soul with the profane ignorance of someone who is only aware of their own complexes" [11, p. 294]. The therapist should take care of the welfare, happiness and fulfillment of the man in whom God Himself has placed His purpose. Here is another dimension of the analyst's responsibility: "It is part of the researcher's ethics to admit the limits of their knowledge, for this limit is the beginning of superior knowledge" [7, p. 198].

The individuating process is neither initiated nor conducted by consciousness. Instead, consciousness can support and make it more efficient. In the field of individual potentials, the individual's duty to himself meets the therapist's duty. Potentials updating implies identifying the individuating path, that is, recognizing personal myths.

Paulo Coelho's novels are accurately built on mythical structures. Their public success signals the apparently paradoxical need of sophisticated westerners for simple, guiding stories.

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MANDALA IN ANALYTICAL PSYCHOLOGY

Lecturer Daniela SOREA, "Transilvania" University, Braşov

Abstract: In Jung's view, mental diseases signal malfunctions in the entity consisting of the conscious and the unconscious. Analytical therapy unfolds as a dialectic process of communication between patient and therapist. Therapy does not actually address the disease but rather the mental capacity to evolve towards individuation. Therapeutical undertaking induces changes in both the patient and the therapist.

Jung's view on disease and therapy reveals the contemporary westerners' need for mental balance unilaterally developed as well as for genuine human communication.

In Tibetan Buddhism, Mandala is the graphic representation of the world's orderly and balanced structure. Meaning magical circle in Sanskrit, the term refers to a centred superposition of squares and circles whose purpose is to direct the mind to focus center.

Jung pursued the quaternary motif in the world's cultural and religious productions, and sustained the existence of the collective unconscious.

Carl Gustav Jung's patients' instinctive tendencies to draw mandalas during the therapeutical process significantly contributed to developing the theory on

collective level and the human universe of the unconscious. The present paper emphasizes mandala's cognitive role in analytical psychology as well as its healing characteristics.

Carl Gustav Jung is regarded as the founder of analytical psychology. He considers that beneath the personal level of the unconscious described and proposed as psycho-therapeutical aid by Sigmund Freud there is another psychological level, which is humanly common. Jung names this level *the collective unconscious* and places in it archetypes, that is, standard responses to environmental pressures. The collective unconscious in which one can distinguish personal consciousness and unconsciousness is individuation-oriented, i.e. integration of archetypal contents into consciousness in order to achieve totalizing psychic balance. Therefore, the unconscious plays a compensating role in relation to the conscious. Mental disorder signals malfunctions of the whole and offers balancing alternatives.

The hereby paper presents mental disorder and therapy from analytical psychology perspective in an attempt to emphasize psychological characteristics implied by such therapies.

"Actually, we do not reveal anything unknown in the patient, but rather the foundation of our own nature" [4, p. 140], Jung argues as his own biography suggests. Psychiatric symptoms are exaggerations of natural psycho-physiological reactions. Health and disease are different states of equilibrium between individual's needs and environmental requirements. Should conscious adaptation fail for various reasons, overloading of the unconscious generates neurotic or psychotic conditions due to the imaginary [2].

Hysteria is the extreme expression of extraversion. Schizophrenia is the extreme expression of introversion. Disorder, which is always deeply individual, is a symbolic message of the unconscious. Treatment implies finding ways to remove archetypal frustrations and consequently establishing equilibrium of tensions inside personality as a whole [22].

Neurosis expresses a conflict between a conscious tendency and an independent and unconscious complex. It is a dissociation of mind, a disturbance in the distribution of libido energy as well as a failure to balance the contraries. It is a fight of the patient with himself [20]. Resulted from social sub-strata, neurosis activates its instinctive forces by reliving the archetype in a complex manner [10].

Personality growth equates a development of consciousness. Neurotic symptom brings into the conscious the pain of the whole and imposes difficult, but unavoidable moral choices. Neurosis is a disturbance occurred in personality growth. Frequent neurotic disorders of the adult are due to the tendency to overcome quaternary threshold by means of inappropriate psychology specific to young age [16]. In its mild forms, neurosis leads to misperceptions or amnesic hallucinations. In its dramatic forms, neurosis implies memory losses, hysterical paralyses, blindness, deafness, phobias or head aches. Without reducing neurosis to patient-mother relationship, Jung does not disregard the therapeutical exploration of this relationship. Mother is the one close to whom the child develops, and neurosis is not a necessary growth stage. Personality develops rather normal, not neurotic [10].

The main difference between neurosis and schizophrenia results from the comparison to potential personality unit. The discrimination between the conscious and the unconscious hidden by neurosis has brutal manifestations. Neurosis and psychosis are on both sides of the critical point of reversibility. In psychosis, the ego loses the battle with the contents of the aggressive unconscious. The link of the ego with some complexes is broken, the latter displaying an irreversible autonomous evolution. This autonomous evolution allows for the traumatic experimentation of profound levels of the mind together with its specific conflict states.

Psychoses feed themselves from potential archetypal representations. Pathological reaction is the identification with the archetype, which induces weakening of consciousness by inflation and possession. Incorporation of all projection withdrawn from the world leads to mind fragmentation specific to schizophrenia [2]. "Moreover, there is no evil to whom the archetype-dominated

human does not submit" [10, p. 58]. The number of latent psychoses is much greater than those evident, Jung shows. Classical neuroses may prove latent psychoses under treatment.

In the Swiss psychiatrist's perception, analytical psychology is an intelligent activity that places significant demands on both the patient and the therapist. The latter is no longer the silent and distant Freudian analyst. Analysis unfolds as a dialectic process of communication between two equally involved individual, and results in their mutual transformation. The analyst listens to the patients' discourse, and this feeling facilitates the therapeutical endeavor [22]. Its success depends on the patient-therapist behavioral compatibility [6], a sign for the affective relation of each actor with the other's unconscious level. "Each patient calls for another character. Thus, I may speak an Adleirian language in one analysis and a Freudian language in another analysis" [4, p. 143], Jung says. The therapist, who is subjected to great pressure, must acknowledge himself as a part of the process and avoid escaping schemes. Analysis is more art than science [22]. Each therapist has his own method. His personality is an essential healing element. Personal intervention, commitment or sacrifice may lead to miraculous healing by establishing mental links with the patient [11]. However, it is not the therapist the one who cures.

Therapy does not address the disease itself, but rather the mental capacity to develop towards individuation. Symptoms are also healing attempts. "I admit: I have so much consideration for what is going on inside the soul that I would be ashamed to disturb or destroy nature's peaceful activity by clumsy interventions" [15, p. 101], the Swiss psychiatrist claims. The only justification of the healing endeavor is given by its making the natural process more efficient. Symptom interpretation re-establishes the respect for the inner forces that sustain the ego and individuation. The purpose of the therapy is to bring into patient's mind the transcendental function of experienced symbols. Therapy is exploration of latent possibilities in order to reveal authentic personality [2]. As Jung shows, most patients are people who have lost their faith.

Religious people may live symbols in church. Therapy is needed in case of those who cannot do this anymore. Its prototype is confession [16].

Therapeutical analysis takes place in four stages [22]. The first is *confession*, initial catharsis and initiation of shadow integration. The second is that of *symptoms' sense clarification*, transfers and failed evolutions. This stage is similar to Freudian interpretative analysis and is the initiation of the interaction with the unconscious. The third stage is that of *education*, that is, adaptation of new intuitions to social demands. The fourth stage is that of *transformation* by interaction with the unconscious and confrontation with activated archetypal contents. This stage points out the transcendent function of symbols and opens the way to individuation. The first two stages are the analytical phase of therapy, whereas the last two are its synthetic phase.

Analysis starts with an assessment of hypothetical diagnosis. Correct diagnosis is possible only towards the end of therapy. The initial assessment also attempts to select the individuals that may benefit from therapy. The therapist must know the patient's biography, spiritual assumptions of his development as well as the related traditional influences [19]. Biographical influences may reveal the complementary relation between symptom and actually lived situation. Therapy unearths a series of fantasies that carry archetypal materials. Any archetypal image is therapeutically useful and reveals the nature of disorder. The patient's inner peace occurs when emotions are translated into images and then brought to consciousness.

Therapeutical endeavor demands that the patient submits to his neurosis and descends to the unconscious guided by the feelings that torture him [19]. "The analyst must feel in himself the psychological discourse he is staging, and emotionally involve in this discourse" [5, p. 129]. Stimulated for participation, analyst directly assumes the significance of suffering and mobilization of the unconscious healing forces. During the healing process one must ask questions that refer to the whole personality and, provided that therapist is totally committed and friendly, "it is better if patient finds answers himself" [Jung, apud. 22, p. 147].

The analytical act implies the strengthening of the patient's ego prior to his dangerous confrontation with unconscious contents. Only the stable ego may interact with the self by becoming aware of his creativity and responsibilities. From Jung's perspective, group therapy must be skeptically viewed for inner development takes place inside the ego-self relationship. Self-discovery prevails any adequate relation with others.

Therapist must provide an environment appropriate for patient's creative manifestations. He must avoid stubborn and imposed interpretations [10]. He must examine patient's resistance by identifying its primary causes. Also, he must admit that he may stand for a justified source of resistance [19]. Last but not least, he must know and constructively use the important dimensions of transferring and counter-transferring relationships.

The accomplishment of therapy under partnership, empathy and mutuality circumstances catalyze the reactivation of symbol's transcendent function and its integrating dimension. Therapist must perceive symbol in a new way in order to better understand his patients. To ensure this, therapist must place himself in a correct integrating relation with his own self. Only a strong and self-confident therapist can act efficiently. Patient's and therapist's inferior functions play critical roles in analysis. At a certain point, the two connect consciously from the standpoint of their inferior functions and thus release healing energies [19].

At the end of efficient therapy, patient gains an instrument to control neurotic symptoms and continue his self-analysis. Even in hopeless cases, after undergoing analytical therapy strokes are less severe [11]. Therapy facilitates access to inner world and brings balancing elements at the surface of consciousness [19]. Mental balance can thus be rebuilt by integrating the conscious and the unconscious into a dynamic unity [19]. However, Jung does not afford to interfere in post-therapeutical individuation in an arbitrary and authoritarian manner.

Therapist cannot assist a patient in overcoming a stage that has not been personally reached. Analyst must be examined during his training and he must

continue his self-analysis during his career [22]. By didactic analysis, therapist knows and seriously considers his soul. "I always advise analysts to have a male or female *confessor*! Women are particularly gifted for such things" [4, pg. 146], Jung argues. By *confessor*, he refers to analyst's careful specialist counselor.

Therapeutical endeavor is not trap-free for therapist. In patient's mind, he discovers the core of his own nature [22], whereas mental disease is nothing but an unusual reaction to emotional problems that everybody encounters [11]. Nevertheless, the archaic identity established between patient and therapist may prove beneficial for the latter. Patient may be recognized inside therapist, as a part of his self. Thus, one may find a therapist inside patient to the extent to which there is a patient inside therapist [19].

In Jung's view, mental disorder results from the reversible or irreversible lack of balance in the relation between the conscious and the unconscious. This lack of balance results from the exclusive and excessively rational orientation of the contemporary western society's culture. Modern westerners have discredited symbolic knowledge, and their children bear the consequences of losing the only tool of communication with the unconscious. The therapy advanced by the Swiss psychiatrist implies the re-assumption of significant rationality under the circumstances of customized communication between patient and therapist. Each therapist places himself inside his therapeutical practice, and adapts his actions to patient's individuality.

Meaning magic circle in Sanskrit, *mandala* describes a graphic superposition of squares and circles. In Tibetan Buddhism, mandala is a rite instrument. As a contemplation tool, it argues for concentration by means of focusing attention on the centre. This is where one can find a god, a teacher, a divine power that can create or destroy. Stupa is the built mandala. Jung regards mandala as a representation of the unifying archetype of the self in its orderly dimension. His interest for such representations was triggered by the finding according to which his patients' imagination instinctively constructed mandala-like structure during the healing

process. The Swiss psychiatrist hesitated before arguing that mandalas occurred spontaneously, without him making any reference to them. Moreover, mandalas can be danced. Mandalas are ideograms of the unconscious. Their occurrence in dreams or active imagination provides information regarding the future structure of personality. Mandala occurs particularly in schizophrenia, disorientation states, panic, disorder. The unconscious purpose of its occurrence is to re-establish order and equilibrium. The strict order of the circle compensates for disorder by indicating the central, ordering center. "It is all about a self-healing attempt of nature, which results from an instinctive impulse rather than consciousness" [10, p. 400]. In mandalas, the self reveals its need for a protective space. "Experience shows that mandala is the antidote to chaotic states of spirit" [10, p. 20]. Built on the motif of the surrounding circle or square, mandalas impose the idea of personality center to which everything is connected. The circle and the cross are ancient divine symbols. The quaternary is the ordering scheme par excellence, it is a coordinating system instinctively used for dividing land, year, traditional communities, world stages or temperaments [12]. But Jung also regards them as expressions of ordering principles that compensate for the perfect unification of the contraries. The self contains and shapes all contradictions. The healing effects of mandalas result from these significances [12].

Ouroboros is the alchemic mandala. Jesus is sometimes represented in the center, between the Evangelists. The island in the middle of the lake stands for a salvation realm present in many cultural productions. Circle and the quaternary refer to the original order as well as to the soul's inner order. The overall personality is described by the four gods from mandala corners, that is, the four psychic orientation functions together.

"From a totally different viewpoint, that is, psychological experience, we know that the four psychic functions are different, that is, three of them may become conscious, whereas the fourth one remains attached to maternal soil and is considered an *inferior function*" [10, p. 241], as the Swiss psychiatrist shows. When the unconscious totality penetrates consciousness, one of the four functions remains in

the unconsciousness and the quaternary reveals itself as a trinity. Individuation, suggested by the circle and the square, implies the recovery of the inferior function. The relation between triad and tetrad as archetypal representations is useful to understand dreams, fairy tales and myths, and also as a tool to diagnose a culture's health. In fairy tales, the quaternary materializes as two couples, one belonging to the profane, and the other belonging to the magic world. The Christian dogma lacks the quaternary, though it was present in early symbolism. Christ's unification with church as trinity actually means the accomplishment of the quaternary. Also, the unification of the trinity spirit with matter is mandala-related [15]. The space-time quaternary is the archetypal condition of the whole physical knowledge. Jung found that divinity was missing from the early 20th century patients' mandalas. This state is natural in a cultural stage when the projection of divine image is difficult, if not impossible to achieve. Jung considers this state dangerous. The premature placement of one's own person at the core of mandala may lead to catastrophic inflations and even personality dissolution [7]. The further development of the west confirmed Jung's predictions.

Mandala can also be identified in sacred dances. They lead the dancer to an unconscious state. As successive movements around the center, withdrawals towards corners and advancement to the center, dance “is an act of superior awareness that is, building a bridge between individual's consciousness and the super-ordered symbol of totality” [7, p. 182].

“Anyway, the purpose and effect of the solemn circle dance is the enhancement of center image related to every peripheral point. Psychologically, this organization is a mandala and therefore a symbol of the self” [7, p. 170], Jung adds. Dance participants share the same experience and destiny. “However participates in the dance sees themselves in the center mirror [...]. Indeed, the paradoxical identity and difference between the ego and the self could not have been expressed more beautifully and accurately” [7, p. 183].

In Jung's representation of disease and therapy, patients need equilibrium and direct, transforming communication. More comprehensively and in accordance with the teleological orientation of the unconscious towards individuation as well as the older Hegelian idea of sly reason, the occurrence itself of analytical psychology illustrates the same needs of the entire western culture.

Mandala is both a representation of the self and the orderly structure of the world. The match between what is beneath and what is above, in accordance with Jung's penchant for alchemy and alchemists, places analytical psychology near nature philosophies and reveals its paradigmatic valences.

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MASS-MEDIA POLITICAL EFFECTS

Lecturer Andra SECELEANU, "Andrei Şaguna" University, Constanţa

Abstract

Keywords: mass-media, political party, electoral behavior

The researches during the last years showed the fact that mass-media can offer, in principle, behavioral patterns. While creating public images, the mass information ways present acceptable attitudes, and they condemn those perspectives and behaviors which are out of "acceptability". Practically speaking, the press comes to that point when it can say what is allowed to and what is not, what is good and what is wrong, for some kind of society.

For several times, information and political messages are hidden into subjects apparently apolitical, relating to entertainment and public communication. Emitting valuable judgments, interpreting the facts and their connection with some contexts, disseminating the negative news by using some ideological directions, mass-media induces electing informational stereotypes into those societies where the mass-media standards shape the public existence of their members, and the politics do not have another choice than following the line drawn by the ways of information.

In the theory of democracy classical sense, mass-media’s role is to expand and broaden the information about public problems, including the political ones, to inform the citizens correctly and in time, who, on turn, will influence the decisional process at the society’s level.

The “interchange” pattern of the press- political parties ‘relationship, built on the constant interaction between both institutions, and, especially, on the reciprocal institutional implication, made the politicians to capture the attention of the informational instruments, and the journalists to gain informational supports or preferential conditions in order to obtain data relating to the political organizations.

The constant reference at the public opinion and its “authoritarian” using became patterns of modeling the decisional processes, and the elected representatives are under the ruler and the menacing of the modifying of the electoral structures which brought them the power. Saying so, the political democratization has increased the influence and the power of the informational instruments. Public opinion and winning its adherence are the only reason for politics, when mass-media, as the unique rapid, efficient and permissive instrument of communication, has become a determinant and self sufficient factor.

Political Journalism in the New Media Climate; Its Relationship with the Political World

Nowadays, mass- media political communication is regarded by the electors as the most direct and influent way to have access to the politicians and to the political organizations. Knowledge of the rules and routine of journalism, together with the local political environment, can offer to the political news consummator the possibility to see the political phenomenon reflected in mass-media from a qualified point of view.

The new mass-media climate is different in a qualitative and quantitative perspective from the traditional press, in the way it functioned till the end of the ‘80s, considering the occidental informational world. The manifestations of the new mass-media climate do not represent, at any rate, a modern version for the classical press,

because it proposes a revolutionary media system, ubicun, interdependent and extremely influent for the entire population of the world.

The more influent the new mass-media political role is the more provoking it is for the media consummator; the latter turns from a simple spectator into an actor implied in the life of the city.

From the very beginning, experts has shown the new mass-media great potential so as to educate, to ease the public discourse, and to directly interact with the citizens. The new media climate has easily created a mass audience, by taking information using the electronic support where on earth (sites, internet, televisions, radios, mobile telephony), and their instantaneous dissemination on the multimedia channels.

Politics is a major concurrence for the exclusive commercial interests, which define the new media climate, everywhere in the world. In current practice, the new media climate means a diversity of communications schemas, structured by taking into account the utilization of these old and new technologies. The latter ones include the press traditional technology, discovered and re-animate by mass-media using the political destination. The new thing is not their existence, but their re-usage. The new media climate using the old structures of the communication technology includes: radio and television talk-shows, revue programs, tabloids, tabloids' sites etc.

Their history itself tells us that this communication structures are old. Radio talk-show started in the '20s in the last century. Later on, in the '50s, in USA and the occidental world, radio stations started to emit political programs exclusively, such as direct transmissions of the electoral conventions, international meetings, presidential openings, discourses for the nation etc. As a matter of fact, the radio's implication in the political education was recognized some time ago. Francisc Case Jr., a radio historian, said in 1942: " The discovery of the radio made the news on the subject of the government and its ways of functioning to become current information, and that never happened before"¹. On the contrary, some of the communication structures

¹ Apud Saftanoiu, *Jurnalismul politic*, (Political Journalism), Ed. Trei, Bucuresti, 2003, p.10

used by the new media climate are recent and they represent the results of the technology of communication. The on-line Internet networks, together with the explosion of using the personal computers, even at home, by thy users, have created new methods for the political communication. The fax, the Internet voice services, the telephony facilitate the recording of the political message addressed to the citizens, in an individual and personal way. The new technologies can offer to the political communication very special patterns for their immediate and personalized designators. The public can receive and disseminate the political messages in an easier and more rapid way. These new communication structures posses an amazing quality, combining the interpersonal communication with the mass communication.

The new media climate performance is to transform a personal message having a political content into a message that will be disseminated by an endless number of receptors, in a manner resembling that of the mass communication.

The press is very important; it is the "key" of the society and it had a very complex role, because it is in the middle, between the sources of information, and the public. If the sources of information and the public are two elements of the informational itinerary, situated, theoretically, at both ends, and characterized by a sort of immobility, the press has a very flexible position instead. Beside its role of transmitting the information toward those two points of the communication itinerary, the press has also the task to put data in a developing process of adaptation, arrangement, verifying and, even, transformation, in order to present the data according to the journalistic style's principles, norms, and regulations.

It is impossible to present the "brute " information. That is the reason why the press wear the specific "mediate" form. The mediation, the way of transforming brute information into utile information is another responsibility for the press . It has to assure a good traffic for the informational itinerary, so as to avoid the alteration of facts and meaning of the expressed ideas.

The journalist's role as a "man of the press" is a very complex one, because, on the same time, the journalist should be the researcher and the information sender, and

also a good teacher to educate the public, an opinion leader to give forms to judgments and beliefs, a historian, a politician, etc. Beside all these things, no matter the journalist's vast knowledge, the journalist must be aware of his/her role in order to transmit objective and honest messages. The political journalists are considered to be the "men on the watch" and the "filters" of the political messages coming up to the media. They are situated between the politicians and the voters. It is also generally accepted that the politicians communicate with the voters being helped by the political journalists. Following the politicians, the political journalists are the first responsible for the political message formula for the public. If the political message had a discrepancy while being received by the public, that could be possible, in a way, because of the political journalists' interventions in receiving and transmitting the message. It is not quite comfortable for the politicians to be dependent of the political journalists. That is why there are frequently accusations toward the press.

The politicians think that the political journalists read, analyze, and write a piece of information considering various influential factors, which can affect their work. The result is the altering of the political message and their communication with their voters. For several times, the politicians have considered the press as their main enemy. The problem is that the politicians consider, from the very beginning, that the press is hostile to politics, because they are strongly influenced by a stereotypical communication and image. Nevertheless, such a think is not benefic for the political humans, because they need the press, and the press needs the politicians, in order to inform the public about the political events at a certain moment. The politicians need the media in order to transmit their political message, and the media is the single way for their message to reach the public. It is impossible for the politicians to communicate the political message to thousands of voters only by themselves.

Models of Adapting the Political Language for Mass Communication's Requests

Media communication addresses to a heterogeneous public, taking into account a lot of criteria (sex, age, religion, ethnicity, culture, level of education, socio-

professional category, etc.), so the political discourse has to adopt itself, so as to gain and maintain the public's attention. By using the press, the political class can expand their destinations in a very easy way. Without using the media channels, the political characters can hardly gain popularity, and they can have difficulties with the diffusion of the political messages.

Without journalists, the political class should make efforts to meet their voters by themselves, and that means time, costs, and a lot of patience. So, mass-media assures the visibility for the political class, and it contributes to the popularity gained by the political actors.

In order to adopt the media characteristics, the political discourse was obliged to give up its "high-level" language, and to create a language for the public: a simple, concise, accessible, factual language. This type of discourse differs from the traditional one, which is specific for the Greek and Latin orators, and, for centuries, it was the language of the Parliaments. Those discourses were built considering the Rhetoric's principles and textual strategies. They were said by the political elite, an erudite class, using various information from different domains. This was not an inappropriate fact, because the receiver was also an elitist. In the contemporary society, the public is very numerous and heterogeneous, and the political humans should have to create another type of discourse, most appropriate both for the Parliament, and for the communication instruments. For this double request, the discourse has a series of text-blocks, which are concise and abstract, separated by short sentences, a very easy ones, easy to be memorized and re-written in the press, as a short illustration for the journalistic material.

The political jargon is more and more not contained by the discourse. The language is closer to the common language. Abstracts, technical, specialized words are excluded. Instead, there are common words. This fact is due to television, when the politicians have to take into account the verbal communication techniques. As a matter of fact, the political language is no longer ideological; it is a simple daily conversation.

In order to be persuasive and to seduce the numerous and heterogeneous public, the political discourse does not choose the abstract argumentation, the rational and logic demonstration; it relies on affectivity, on the audience emotions and imagination. That is why it contains plastic images, built on representations and symbols, and, in the same time, it takes into account the word suggestive force in creating the visual images. The discourse contains representations and symbols easy to be imagined and understood. Persuasive communication is connected with paralinguistic and non-verbal elements, and especially with the general impression for the public relating to the political human (television especially).

There are three procedures to adapt the political language to the media communications requests: the sentence is simple, there are no political language elements, the language is common, popular, as in the daily conversation. Abstracts words and syllogisms are replaced by concrete and affective elements. This adaptation leads to new features for the political communication, especially for the political power personalization, and to make a spectacle for the political phenomena.

The contemporary political domain is so personalized, and a result of that is the de-political. A political group, a political institution, or the state govern is reduced to a single figure, a single person, who can build the image for the entire nation. The conflicts between parties, the polemics between different political personalities are no longer ideological confrontations, but personal wars. The political debates real races, “horse racing” – the American journalists’ expression. The political actors’ declarations are realized in the public space and they contain opinions, points of view, positions, attitudes which replace the political debate (Jurgen Habermas considered an ideal case for the political debate the public space in the Illumination époque).

The political personalities persuade the public not with their logic and rightness of ideas, but with their capacity to persuade, to appear credible while controlling their temper, being brilliant and spontaneous. These are their gifts, and they reach them no matter the type of their politics. We have to distinguish between credibility and

credulity: credibility is based on the speaker's external characteristics; credulity refers to the discourse intrinsic characteristics. The credibility theme is old in the political domain; the most important ones are to be found in the Antiquity's orators – ethos).

The personalized politics is to be found in the journalists' works. They choose from the numerous daily events only those that correspond to the scale in order to interpret the reality: the level of cultural education, the journalists' value, the press editors' value. The "newsworthiness" concept designates the characteristics of a fact from the real world to become a press event. One of the characteristics of valuable news is the human interest. It is easier for the press to present a human confrontation than to reflect a negotiation of ideas. Applying this principle, there are a few problems: the political problems are replaced from the context, the political relationships are not showed up considering the power levels, and the real dimensions are somewhat minimized, or exaggerated.

There are two different types considering the media: spectacle and affectivity for the messages. Spectacle is characteristic for shows in the political life, such as conventions, congresses, meetings, electoral parades, official visits, summit, festivities, and, not the last, television debates. The press inclination towards the sensational and the entertainment help the political marketing strategies, which focuses on directing the public appearances of the political personalities. Television is the new public space where the political events and very important facts for the public are discussed. Media extended leads to replacing the political debate from the Parliament to TV and radio studios. The image of a political human, following his appearance on the television, is a chance to gain space in the political life, to obtain notability, and success towards the political adversary.

The message affectivity is a way for the politicians trying to elude the serious or controversial problems, by presenting them in an amusing way, leading to entertainment. The presentation's style has to do with the form and the frame, namely the language used by the journalists while they are writing about an event, or they are

describing it on television, together with the program’s frame and the type of the article. Recently, the debate genres were replaced by talk-shows genres, the investigations are replaced by the atmosphere reportage, and the interpretations’ interviews are replaced by the personality interviews. Taking into account the content, it was simplified by the journalists, and it is sacrificed for the entertainment. Saying so, “the free market of ideas” (Thomas Jefferson) is transformed into an entertainment market of consumption. O debate becomes a show, and the citizen is a passive spectator, instead of active participating to the polemics of ideas.

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“THE ART” OF NEGOTIATION – AN EFFICIENT MEAN OF ATTENUATING CONFLICTS

Assistant Prof. Irina DUMITRESCU, Petroleum and Gas University, Ploiesti

An every day “ingredient” of our life experience, the conflictual situation is the most provoking and fascinating communication practice for man. People are signed by psiho-social and cultural differences. They see the same reality in different ways and they do not always agree upon the hierarchy of values.

Based on such premises, this paper aims to point out the contribution that the conflictual element brings within the communicational process given that the social life consists of a combination between stability and change.

The negotiation appears as a result of the need to manage a conflict - often loaded with negative elements - which follows human relationships. The capacity to listen to the point of view of the other and to see a given situation also from his perspective constitutes the great secret of success.

Deepening this aspect, the paper presents and tries to detail a supprisingly large range of tactics used to fix a conflict. It is shown that none of these methods is in itself good or bad, correct or wrong, but its applicability depends upon the context.

The manipulation achieved by means of negotiation leads to major changes of social situation with consequences sometimes beyond the expectations. Beginning with an individual manipulation in every day situations, it is possible to reach a global manipulation which aims to influence an entire culture and to form a given type of mentality.

Ever since ancient times, communication has been perceived as fundamental element of human existence. Skilfully manoeuvred, the “word” has the capacity of bringing harmony or of spreading discord. Means of identification of human species, the word gathers within itself an infinite variety of different individual experiences.

“Before all, man is language (verbal)”¹, said the philosopher Karl Popper. In his vision, the argumentative, persuasive and manipulative function of language is situated on its highest level of evolution. The manoeuvring of the word constitutes a true art because in itself it contains a sacred “what” which forbids us to transform it in a game of hazard. The communitarian and sacred double dimension of the communication process is closely related to the double status of “the word”, which, besides its common meaning situated in the semantic sphere of communication, has as well, the meaning of Logos, divine Verb appropriate through “communion”.

Interwoven with emotions, sentiments, attitudes and interests, the human communication is that relationship between people who create the communion, which, in its turn, implies the pro-existence, that is, not only a side by side existence or one for the other, but one through another. Even interpersonal relations mirror a resemblance and a levelled adaptation, each partner seeking to complete himself with another and to complete another. “The self searches in another only to find itself; it turns to another and penetrates it only to know itself and to find itself”². The allegiance towards another and the accommodation of the other within itself materialises itself by means of the expression “communication through communion”. “Each person perceives himself only in relation with the other, looks at the other, and sees himself in the other. The man is truly a man in his vital relation with the others and discovers himself more and more in his entirety as a subject in the relations of communion with the others”³, states Dumitru Staniloae.

¹ Popper, K., *Viitorul este deschis*, Editura Trei, Bucuresti, 1997, p. 7.

² Mircea, C., *Inter-comunicarea*, Editura stiintifica si enciclopedica, Bucuresti, 1979, p. 61.

³ Staniloae, D., *Teologie dogmatica ortodoxa*, Editura Institutului Biblic si de Misiune al Bisericii Ortodoxe Romane, vol. I, Bucuresti, p. 45.

The way of living of people in a society is not always pliant to the divine model. Much too often there intervenes the conflict transposed as a "daily ingredient" of our experience. Psycho-social and cultural differences mark people differently; they perceive the same reality in a different way and not always do they realise an agreement in what the value hierarchy is concerned. The perceived reality is different from the reality itself. Each human being possesses his own "mental map" of the world and chooses his behaviour accordingly. The majority of communicative difficulties transposed into a conflict are generated precisely by the great differences between the mental maps. Everyone searches beyond himself something that already exists in himself. He refines the surrounding reality through his own sensitivity, through his past experiences, memories and feelings.

The bursting of the conflict is inevitable in the case where the social life is constitutes as a process of mixing together stability with change. The interrogation that appears is the perspective for which we accept that society can be regarded as such: a functionalist perspective through which the socially promoted equilibrium fights, up to annihilation, with the conflicting element, namely a antagonist perspective which endows himself with real virtues of change and progress. By extension, one can consider that a type of communication lacking completely the potentialities of conflict is empty, unauthentic and consequently, inefficient.

In the beginning we are going to define the conceptual apparatus with which we operate: conflict versus negotiation. "The conflict" presupposes "the direct opposition, the fight between individuals, groups, social classes, parties, communities, states with economic, political, religious, ethnic, racial, divergent or incompatible interests with destructive effects upon social interaction"⁴. Etymologically, the term rises from the Latin "conflictus", meaning "to strike or dash together in violent collision", and thus implying "disagreements and friction between the members of the group, interaction in speech, emotions, affectivity."⁵

⁴ Tran, V., Stanciugelu, I., *Teoria comunicarii*, Editura comunicare.ro, Bucuresti, 2003, p. 233.

⁵ Forsyth, D.R., *An Introduction to Group Dynamics*, Brooks/Cole Publishing Company, Pacific Groove, 1983, p. 216.

Negotiation resides in an unarmed confrontation by means of which two or more persons with contradictory but complementary interests and positions can reach a reciprocal advantageous commitment. Therefore, the necessity of admitting other ideas and the acceptance of compromises and concessions is imposed so as to avoid the breaching of inter-human relations and the bursting of an open conflict.

“The art” of negotiation plays an extremely important role in prevention and diminishing the conflicting situations, thus constituting the most provocative facet of communication. According to Jean Lohisse, the communicational process is interpreted as “mechanism, matrix, uphold for the situations in which realities and relationships are created”⁶. It is thus induced the process of transformation into something else of ideas and of knowledge possessed by every human being, which brings forth the modification of perceptions and conceptions and also changes in behaviour. The act of persuading the interlocutor through communication becomes in this way visible. The negotiation implying a special communicating style used in order to satisfy personal necessity in the situations when what we want is controlled by others.

The conflict exists and it constitutes an authentic and inherent element in communication. Human interactions represent in fact the link that allows the conflicting element and the state of equilibrium to produce each other. Through an analogy significant with the order, which in the self organisation of life is constructed through disorder, there appears stability, equilibrium, harmony at a social level, brought about by the solving and not by ignoring or denying the conflicts, just like Von Foerster said in 1960. Human inter-relations can create stability, permanence and disequilibrium, transformation. “Interaction represents the turning point where the idea of disorder, order, transformation collide, that is, the idea of organisation”⁷. In this sense, the conflict becomes an “organising hazard”, a generator of creative transformations.

⁶ Lohisse, J., *Comunicarea. De la transmiterea mecanica la interactiune*, Editura Polirom, Iasi, 2002, p. 105.

In his studies, R. Stacey states that “people do not have new intuitions when their discussions are characterised by an ordered equilibrium, conformity and dependence [...] people are influenced by new ideas one from the other when they are in a situation of conflict, confusion, in search of a new meaning – with the further addition that they should remain open to discussions and to listening to each other.”⁸

In other words, the best way to fight confusion is to intensify it by answering the uncomfortable questions up to the moment when the source of these difficulties is identified. Nevertheless, the conflict often brings about negative elements that should be removed from the communicative experience of partners, lest the relationship between them should be altered.

There is a surprisingly variety of tactics used in order to diminish a conflict. Neither of these is good or bad in itself, right or wrong, but its applicability is context dependent. People tend to be more centred on their own interest and their own person than on the others. “Stop and think for a moment at the existent contrast between the passionate interest that you show for your own affairs and the mediocre attention that you manifest towards the rest of the world”⁹, according to Dale Carnegie in his work *The Art of Succeeding in Life*. That is why, a means of obtaining some important concessions and bending the conflicting balance to one extreme or another resides not in a coercive behaviour, but, on the contrary in its moderate usage of the process of flattering the other. Thus, there arises the technique of ingratiating through which there occurs a re-dimensioning of the structure of the role addressed to the author as well as to the addressee. Inter-human relations are inevitably relations of exchange. The principle of compensatory actions has at its basis an internal psychic tendency and a finds its applicability in the case of the technique of ingratiating. It may seem paradoxical, but the law of reciprocation permits us to state that the one who gives actually demands. In other words, flattering gives rise to a valuable identity (of the

⁷ Lohisse, J., *Comunicarea. De la transmiterea mecanica la interactiune*, Editura Polirom, Iasi, 2002, p. 119.

⁸ Fullan, M., *Change Forces, Probing the Depths of Educational Reform*, The Falmer Press, London, 1998, p. 31.

⁹ Carnegie, D., *Arta de a reusi in viata*, Editura Expres, Deva, 1991, p. 120.

flattered person); in its turn this confers to the person who made the compliment an identity of a person worthy to be listened to.

The law of reciprocation may constitute itself into a law of inter-human manipulation as it implies and conditions, under a psychic guise, in the sense of maintaining the equilibrium of the relations with the others.

From the apparently inoffensive technique of ingratiating, there can be created links, based on the same principle of compensatory actions, towards another possible technique in the practice of negotiation, a highly controversial one.

One might state that a long tested modality of stimulating the delicate process of establishing self-assurance in a negotiation presupposes to offer the opponent something as a symbol of good faith. But what in Asia or Latin America is regarded as “gift” in our country it is regarded as “bribe” What is there seen as an exercise of the liberty of decision by the public authorities, in our country is seen as breaking the law. The same thing happens in the moment when another modality of conferring a plus of self-assurance at the table of negotiation refers at making use of the relations which frequently assure the access and credibility in front of those we want to influence.

If the Occidental media has a tendency to manifest a certain disdain – even a suspicion – towards the idea that many people make it due to their “contacts”, in Asian business contacts, relations represent a fact of life. The Chinese even have a specific term to denote relations: “guanxi”, with very strong connotation in what belonging to a family is concerned. However the term expands itself beyond this nucleus gathering all the relations that are based on a commitment regarding the benefits and reciprocal obligations. “With a good guanxi doors open and business prosper. Without him, even the simplest agreement can disintegrate”.¹⁰

The range of negotiating strategies is extremely wide and many of these can be explained on the basis of the psychological laws of human perception. Not only the

¹⁰ Shell, G.R., *Negocierea in avantaj. Strategii de negociere pentru oameni rezonabili*, Editura Codecs, Bucuresti, 2005, p. 100.

law of reciprocation finds its applicability in the mechanism of negotiating but also the law of coherence or of cognitive dissonance, as well as the law of contrast.

The “good person / bad person” tactic uses to its fullest the manipulative impact upon perception that the contrastive combinations have, combinations that are presented in two different manners: either successively or simultaneously.

The law of contrast says that “two different things seem even more different when put together”.¹¹ The stimuli, with different, even opposed characteristics, joined or overlapped end up by displaying themselves, by distorting the real dimensions if an object according to an object within it is placed.

To illustrate this technique, we appeal to two variants of successive application of the law of contrast concerning the type of personality that realises the negotiation and the tackling of the problem. The “good person / bad person” strategy represents a game of manipulation through which there is an attempt of weakening the opponent, resulting in his having the option of an apparently reasonable option (recommended by the “good person”) in comparison to the harsh, inflexible line of conduct adopted by the first member of the team. (the “bad person”). The same psychological finds its applicability in the frame of the metaphorically named “closed door in the face”. The perceptive contrast is suggested by the successive presentation of two demands, the first being considerably higher than the second which, by means of comparison, becomes reasonable. The manipulative trait of the above mentioned strategy is enhanced by the superposing over the law of perceptive contrast of what is called “the auto presentation” of the individual in society. People experience a profound need to avoid the inconvenient psychic moods, uncertain and unstable generated by the situation in which their actions are obviously incompatible with the standards or convictions shared on a large scale. In psychology there is a specific term for this need to seem reasonable: “the principle of consistency”. Applied to the “closed door in the face” strategy of negotiation, this principle leads to the inoculation of a state of discomfort in the person who refuses a first demand because the worry of his public

¹¹ Medicina, B., in: *Ideii de afaceri*, Nr. 12/1996, Bucuresti.

image being altered intervenes. This worry has an immediate consequence: the vulnerability of the person determines the inability of that person to refuse a more moderate demand.

“The role play” technique (auto-persuasion) is in its turn amongst the varied range of the strategy of negotiation. A man feels, thinks and behaves in a certain manner. Among the three types of reactions: affective, behavioural and cognitive towards an object, there can be incongruence.

The theory of cognitive dissonance presented by Festinger refers to the internal need of minimising the discordance between the three elements. According to this law a man can be influenced or manipulated in a certain dimension either by changing his line of thought, or his feelings, or his conduct. Consequently, the modified element will trigger the others.

“The practical applications of his law are to be found in the “Franklin syndrome”, described in the strategy of negotiation called “the foot in the door”. The method begins with the initial launch of a small demand, difficult to decline, so that in the next sequence of the technique, a higher demand with increased chance of being accepted should be formulated.

The strategy of negotiation is based on the principle of coherence according to which, when someone takes a stand, be it verbally or in written, he will consequently tend to defend that position and behave accordingly.

The technique of “the mosaic” and the tactic of “the damper” constitute two other strategies from the panoply of the methods of negotiation. The former lays at the basis of manipulating one’s partner the concept of “patience”. The small success may not be observed, but it cumulates and becomes strong. An important objective cannot be obtained all at once, but in turn through the determination with which we gather advantageous repeatedly, we come closer to the victory upon the opponent.

The tactic of “the damper” presupposes the diminution of the opponent’s position by making use of some strategies of silencing him down. The forthcoming effect inscribes itself, in the majority of cases, in the sphere of sentimental blackmail

or pertains to the already classic panoply of the means of seducing the partner. A real psychological game emerges, in which the individual tends to structure some of the relations with the other by a series of concealed transactions, indirect communications seeking to obtain an advantage on the partner.

Irrespective of where and between whom they are carried out, the negotiations make appeal to rhetoric, logic and elements pertaining to the theory of argumentation. Notions such as: offer, demand, position, pretension, objection, compromise, concession, argument, transaction, argumentation, test, may intervene quite frequently in the process of negotiation. More often than not, techniques of communication and manipulation are employed such as the transactional analysis, a theory through which the American psychiatrist, Eric Berne has tried to explain the psychological resorts which structure and make the interpersonal relations more dynamic. Every human behaviour has a communicative value. Far from being monophonic, the transmitted message is transposed into a fluid, polyphonic compound of various ways of behaviour (verbal, tonal, postural, contextual), each of them specifying the meaning of the others. Negotiation is communication, the animated direct interactive persuasive and manipulative dialogue of the partners set at the table of negotiation. The oral character of the language evidentiates to its fullest the charisma and capacity to convince and influence people. A skilled negotiator cannot do away with the power of words which facilitates the logic and immediate game of questions and answers, in a spontaneous and flexible display.

Being successful in a negotiation derives from the art of speaking but also from that of being a good listener. "If there should be a secret of success, it resides in the capacity of listening to the viewpoint of the other and in perceiving things from both perspectives"¹², Dale Carnegie stated. Every negotiation begins with the principle that information is power and that power gives you the freedom of annihilating the others' endeavours. The act of listening supplies indicia about the others' real needs, needs which are decisive for succeeding in a negotiation as it represents an important

¹² Carnegie, D., *Secretele succesului*, Editura Curtea Veche, Bucuresti, 1997, p. 54.

components of all the levers that may be used. There is only one step away from this point to the ability of obtaining the best alternative in a negotiated agreement.

“The negotiation is the process through which we manage to obtain what we want from those who want something from us”¹³, George Kennedy says. During a direct negotiation round, in order to reach the purpose, the non-verbal message can constitute a weapon worthy to be taken into consideration. It can be deciphered and countered by its own message. Not even the seating at the table of negotiation is random, being dependent on the adopted tactic. If co-operation is the goal, the partner shall be seated comfortably and a positive ambience shall be created. If the chosen strategy of negotiation is one of stressing and irritating the opponent, then the table and the seating shall be organised accordingly.

The space that a person needs, as an expression of his personality and for his own comfort, varies according to numerous parameters that cannot be easily evaluated. Taking this into consideration, it is worthy to approach the partner to that point where the first vague signs of distancing appear. In the present situation there is a tendentious appeal to the contrary hypostasis. Some other alternative manoeuvres created for the same purpose are: the indication of a luxurious chair, but which creaks, placing the opponent near a very intense source of heat, placing right in front of him a very irritating source of light.

This enumeration of these strategies of negotiation has not exhausted not even by far the infinite variety of tricks and persuasive strategies approached at the negotiation table. The present paper constituted itself in a timid attempt of pervading, merely on the surface, the complexity of the negotiation phenomenon, a fascinating component of social life.

“The communication presupposes the intertwining of forces” according to one of the famous axiom of the School of Palo Alto. At every level of communication, relations of domination and subordination occur. But let’s not forget the fact that we are humans and that we leave among humans. More than anything we need to

¹³ Kennedy, G., *Negocierea perfecta*, Editura National, Bucuresti, 1998, p. 9.

become more aware of the existence of the others and of their legitimate needs. Sometimes the most difficult thing in the world is to overcome your own suspicion regarding the reasons of those surrounding you. The opponent matters and the relationship is above any competition. The "win-win" strategy, making concessions, undergoing compromises is probably the most efficient method that can be applied in the laboratory of our daily existence.

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MANIPULATIVE NEGOTIATION TACTICS

Assistant Adrian SONEA, „Petru Maior” University, Tîrgu-Mureş

Abstract

Manipulation during negotiations is fairly common in Romania and worldwide, thus making essential the knowledge of neutralizing such tactics.

The purpose of this work is a defensive one. We do not encourage using manipulative tactics, as they can undermine the credibility of their user and can be effective only on short term. Nevertheless, one should be prepared against manipulative attempts during negotiation. Many of these tactics can be disarmed if recognized and denounced as such to the manipulative partner. We understand negotiation as a game and, if such an attitude is maintained, conflict can be kept under control and negotiations can be carried on even after the discovery of dishonest endeavor.

Our discourse is built on the very basis of persuasion. We consider that the present models of communication are incomplete; therefore we add one important element, the corpus of knowledge understood as a total of all the knowledge and understanding capacities that a particular individual possess. The contents of these corpuses interact through communication and they can be influenced through persuasion.

In an effort to create a deeper vision of this matter, we then point out psychological principles of persuasion that have a role in the process of manipulative negotiation, illustrating them through manipulation tactics.

Finally, we discuss the persuasion as a cycle, as resulted from the model of communication.

Key words: manipulation, negotiation, change, communication, model of communication, negotiation tactics

1. A Model of Communication Incorporating the Change

Shannon and Weaver offered the classical model of communication, understanding that the **message** is transmitted through a **channel**, from a **source** to a **receiver**. Also, they stated that the message is **encoded** by the source, affected by a **noise** while passing through the channel and, finally, **decoded** by the receiver. Norbert Wiener later added the feedback loop to the model. **Osgood** and **Dance** independently reached to the conclusion that the feedback was actually a linear communication process, so the receiver plays the role of the source during feedback. **Schramm's** model added the concept of '**frame of reference**' or '**sphere of experience**', saying that the encoding uses symbols known to both the source and the receiver, i.e. symbols situated at the intersection of their frames of reference. (DeFleur and Rokeach, 1999)

However, a model created using all the improvements from these authors still cannot satisfactorily explain the mechanism of persuasion. The persuasion has a *goal*, and a model of communication using all aggregated elements still does not cover that aspect. Therefore, we enlarged the definition Schramm gave to his frame of reference and understood it as a corpus of knowledge containing not only elements necessary for the encoding of the message, but also elements of beliefs, feelings, opinions, attitudes etc. This supplementary meaning gives a *purpose* for the communication,

and that is **influencing other's beliefs, feelings, opinions, attitudes etc. and/or enlarging one's own corpus of knowledge.**

Consequently, we understand communication as a process in which the source and the receiver aim to exchange knowledge, aiming to change or to be changed, that is to change the contents of their corpuses of knowledge or that of the interlocutor.

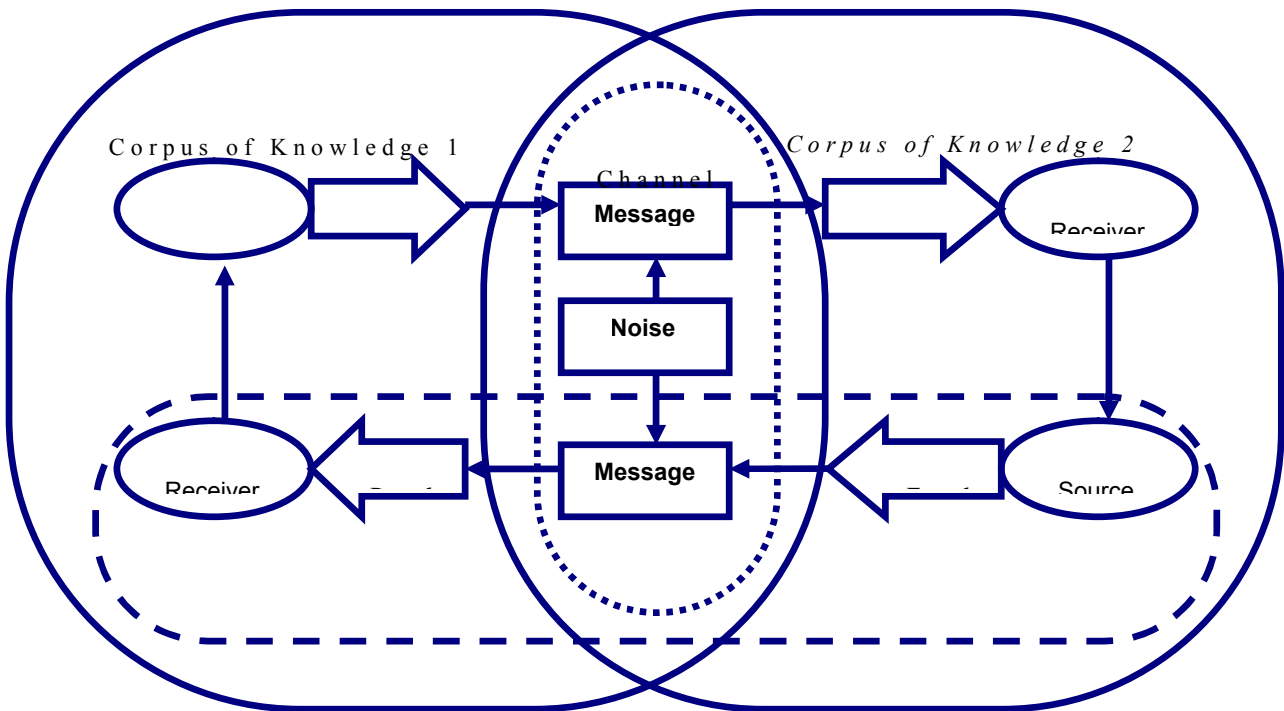


Figure 1. A model of communication suitable for analyzing the change through communication.

2. The Model of Change through Communication: Elements' Role in Persuasion

We took into consideration the elements of the new offered model, analyzing each part's role into process of influence under the form of **principles of persuasion.**

a) **Source:** the person emitting and codifying a message

Among other reasons, we decide on the attitude we take to the message by judging the *quality of its source.*

Experimental research carried on at Yale University (Hovland, C. I., Janis I. L., & Kelley, H. H., 1953) shows that an important role in persuasion plays the *attractiveness* of the source, its *trustworthiness* and *expertise*. We expose matters connected to the attractiveness and trustworthiness of the source when discussing about the **principle of sympathy**, and about expertise of the source under the name of **principle of authority**.

b) The **message** transmitted through communication

When there is a *low quantity of data* and therefore we find ourselves in ambiguous situations, we tend to replace the lack of information guiding our conduct simply by comparing it to other people's behavior (Festinger, 1954) and imitating it. We call it the **principle of social imitation**.

The *quality of data* is important to persuasion, too. We are selective to the received messages and we reject redundant data. What keeps our attention is the data that is *unique* or *rare*. Thus we can formulate the **principle of scarcity** based on these observations.

c) **Receiver:** the person who receives and processes a message

Decoding of the message takes place at receiver's level. During the inner processes of interpreting new information, we compare it to the previous information. We need a *point of reference* to judge the information; thus emerging the **principle of contrast**, saying that the attitude resulting from the process of communication depends on the previous information available.

We have certain *inner needs* (a high level of self-esteem, for example) that have to be accomplished in connection with the information perceived from the exterior. If the new information does not validate those inner needs, we sometimes *perceived the information the new information in an altered form*, in order to comply with those inner needs. Thus emerges the **principle of consistency**.

Along with self-esteem there are other inner needs that have to be satisfied. We need to be assured of our *material security*. If that is in danger, sometimes we

impulsively make sacrifices, endangering that material security on long term; we will deal with these issues also when talking about the principle of consistency.

d) **Feedback:** the loop of communication from receiver to the source

The feedback is an expression of what we received from others. We need to adapt through interaction with others. That also means keeping a balance between what we receive and what we emit. **Reciprocity** is the principle stating that we give back stimuli similar to those we receive.

Quality of feedback is noteworthy in the form of compliments, which is also an aspect of the **principle of sympathy**.

e) **Corpus of knowledge:** the totality of individual's information and abilities

Each of the two partners of communication can assume the role of the source and of the receiver. Balance of the source and receiver roles is significant because, many times, one part emits message of a greater quantity or of a better quality, as a result persuading the other part to accept his/her suggestions.

Persuasion is generally understood as a process in which the victim acts on her 'own free will', convinced by a better **quality** of the other part's messages. Though, messages of larger **quantity** and higher **intensity** can temporarily alter the victim's ability to process the information. Hence results a less subtle form of power, the source limiting the autonomy of the receiver for dealing out with the transmitted data or adopting consequent behaviors

During negotiations, the *attractive* style of behavior uses principles of persuasion, while the *repressive* style uses will force, insults, intimidation etc. to achieve that goal. These repressive tactics will be described in the fourth part of this work.

The **quantity of exchanged information** is a part of negotiators' intersection of corpuses of knowledge. It is an indicator of the relationship between communication partners. The information one partner gathers about the other one can give the first one information about what attitude he/she has to adopt in order to

persuasive, aspect to be discussed when dealing with the **principle of sympathy**. During negotiations, information is a precious tool to evaluate partner's and personal positions.

3. Principles of Persuasion

In our effort to illustrate the model of communication as a change we will formulate principles of influence using Cialdini's views (2001) as a starting point. We will demonstrate those principles of influence with the help of manipulation negotiations techniques.

3.1. The principle of contrast works on the fact that we use points of reference in our activity. If those points of reference are manipulated in a deceitful way, people may perceive things differently.

This principle points out that *two different things look even more different when placed close together in time or space*. On the other hand, this principle makes people gradually get used with situations, positions, behaviors or attitudes they would otherwise not accept.

- a) The first application is **lowball** (Mitchell, 2003). The manipulator starts with very high demands but gives them up relatively fast, thus creating a feeling of victory in the partner, feeling that tends to be completed by finalizing the deal. A variant of the tactic is to present some bad choices before making the real offer. This way, the real proposal has increased chances to be accepted.
- b) **Good cop – bad cop** (Mitchell, 2003) is another application of this principle, especially applicable in negotiations between management and trade unions. For example, two members of the management team can play this role. This way, the 'good' manager has better chances to settle an agreement with the trade union.

- c) **Salami slice** (Prutianu, 2000) technique consists in asking for little in the beginning, to gradually diminish the resistance of an opposite part that has a little intention to accept compromises. Another variant is **‘foot-in-the-door’** (Joule and Beauvois, 1997) which is asking for any minor favor that cannot be refused in order to gain other parts’ attention and cooperation.

3.2. The **principle of authority** states that *most people will accept easier a proposal, judging less its value (also moral one), when the person formulating it is considered to be an authority or an expert in that field.* The explanation is that we are used to obey to authority all our lives, from teachers and professors to experts in our company. They all tell us about things that look bad, but they are not, and attractive things that are indeed harmful.

First of all, expertise in a field is something hard to prove, so swindlers may mimic the status of an authority, for example wearing a symbol of a reputed group. While the quality of an expert or of an authority is itself an advantage in negotiations, there are specific tactics using the psychological principle.

- a) One of them is called the **statistic intoxication** (Prutianu, 2000) and it consists in presenting large data supporting the manipulator’s cause. Actually, that data is truncated and is kept only the part supporting personal interests.
- b) **Snow job** (Mitchell, 2003) is overwhelming the other side with mountains of information, difficult to sort out, understand and evaluate.

Another point is that negotiation with experts can be very difficult. A solution to this issue is **short-circuiting the hard link**, meaning that negotiation can be carried on with a person higher in rank.

3.3. Principle of Reciprocity teaches us that *after we perceive positive attitudes and behaviors or receive gifts from somebody, we feel obliged to offer back to sender something similar in value.*

This is the principle of equity, but it can also become an instrument of manipulation when somebody manages that we return something of a higher value than he/she gave us.

- a) **Bogy** (Mitchell, 2003) means pretending that a subject of little or no importance is quite important and later trading it for major concessions, important to the manipulator. This technique can offer a final balance of advantages of up to 1 to 10.
- b) **Telling confidences** (Prutianu, 2000) may allow someone to gain the trust of a negotiation partner that will exchange his own secrets. This way, valuable data can be gathered from a naïve negotiator.
- c) **Bribing** (Prutianu, 2000) is a well-known way of obliging someone to offer unfair advantages.
- d) **'Door-in-the-face'** (Cialdini and others, 1975) is a technique used between people that already have a mutual relationship. The first step is when the manipulator asks for more than the other part can offer, hoping that this partner will feel obliged to help in the second phase when the manipulator asks exactly what he/she needs.

3.4. The **principle of sympathy** (Medicina, 1997) states that *a sympathized person is likely to obtain more from a negotiation. The sympathy is based on pleasant interpersonal relationship, of victim's trust and of attractiveness of the source.*

One can use the following ways of creating sympathy:

- a) **physical appearance**, due to physical attractiveness, dressing, makeup etc.;
- b) **association of ideas**: the manipulator creates positive image undertaking attractiveness from other things or people, such as a beautiful woman that accompanies him/her, a positive context in which the manipulator approaches the victim, a good news the manipulator brings etc.;
- c) **compliments**, the manipulator offering the impression to the victim that it is more attractive than it really is;

- d) **looking alike**, meaning that the manipulator can invent a common feature with the victim;
- e) **cooperation**, when the manipulator ‘discovers’ that he/she works for the same purposes as the victim;
- f) **tolerance, polite behavior and listening** to the other part during negotiations is a benign way of manipulation, creating a positive atmosphere, also winning sympathy and gratitude; the principle ‘smile and win’ is also widely used.

3.5. Principle of social conformity affirms that *in cases of uncertainty we tend to mimic the behavior of other fellows.*

- a) That allows presenting favorable actions as widely respected standard procedures through generalisations like “**everyone else is providing this service as standard**”;
- b) Group pressure (such as trade unions) can be transformed in undeniable reason for actions: “**You just have to do it!**”
- c) Manipulators tell obscure associates to praise them as trustworthy – “**Everybody trusts me!**” trick.

3.6. The Principle of Consistency structures our understanding and makes us *integrate the new knowledge with the old one and also with different zones of our psyche.* This principle applies as well to the inner world of beliefs, attitudes and feelings as to the outer world of people’s actions and phenomena.

People feel discomfort when there is a cognitive dissonance between new facts on one hand and desires and self-protecting mechanisms on the other hand (Festinger, 1957). Therefore, they tend to connect facts even if there is no sufficient proof that they are indeed connected and, sometimes, even in spite of an obvious reality. This is the principle favored by illusionists, but manipulators also use it.

Like an illusionist, the manipulator creates the impression that he does something (or that the general situation goes towards a certain final) and then the curtain drops so the victim discovers it has been cheated.

We differentiate two groups of tactics using the criterion of manipulators' involvement in the proces.

3.6.1. The first type of manipulations is completed only if manipulators use the situation they created as a mean of pressure on the victims. We call them *pressure techniques* and they can follow one of the patterns:

- a) **Self-image as hostage** (Prutianu, 2000): the manipulator creates a strong connection between the image of the victim and satisfying the manipulator's demands. For example, if the victim describes himself as a great Christian, the manipulator says that charity is a main quality of any Christian and asks for a donation.
- b) **Negotiation Deadlines** (Coburn, 2006) applies in cases when manipulators determines victims to waste precious time, thus putting them in a situation they don't have time to find for another better variant than negotiating with the manipulators.
- c) The **hostage technique** (Prutianu, 2000) is used when large sums of money, valuable data or products are in control of manipulator and the other part is therefore forced to accept the manipulator conditions.
- d) **'Dead-man-in-the-house'** (Prutianu, 2000) is a technique somehow similar to the previous, with the exception that the valuable goods, data etc. are in the victim's control, but he can only use them with the manipulator's help. An example is an expensive machine that uses a specific type of consumables only the manipulators possesses or produces.

3.6.2. Dissimulation is a second type of manipulations using the principle of consistency.

- a) The use the **'Colombo' tactic** (Prutianu, 2000) makes the other part underestimate the manipulator. It consists in hiding under a harmless and naïve mask like the character from the famous American series. As a result of the tactic, the victim neglects his defense, perhaps negligently tells some important business secrets and consequently finds himself/herself in an undesirable position.
- b) The **'Accomplished Fact'** (Prutianu, 2000) is the result of a disloyal hidden action. Unknown to the victims, manipulations actively support their interests while undermining the victims' ones. The victims are allowed to find out about the subversive action when they cannot react to protect their interests or to punish the manipulators.
- c) **Infertile Negotiations** (Prutianu, 2000) are carried on in order to be used as a mean of pressure on a third partner, who is informed there is a competitor waiting to take his/her place. Some other techniques, like the *mandated authority* can be used during these negotiations. Another purpose for this tactic can be industrial espionage.
- d) The method of **Negotiation Deliberate Mistake** (Coburn, 2006) is a deceptive practice of the part creating the final variant of the contract, ready to be signed by both parts. Examples of deliberate errors are miscalculations and merely words that modify, sometimes substantially, the terms of agreement, offering supplementary advantages for the deceiver.
- e) Another scheme is **Positive Inertia** (Prutianu, 2000). The partner can be asked minor questions that require 'Yes' as an answer. After the partner gets used with saying 'Yes' he/she can be put the major questions that have now a better chance to be answered in the same positive manner.

- f) The scheme '**Yes, But...**' (Prutianu, 2000) hides the desired negative answer behind a formal agreement of principia. This way, the relationship with the partner is not hindered and the declaration to be made is completed.
- g) '**If... Then...**' (Prutianu, 2000) technique requires that after 'if' stays a condition the partner finds improbable and the manipulator knows as possible; after 'then' follows an advantageous condition for the manipulator.
- h) **Negotiation Planted Information** (Coburn, 2006) is a valuable source to gain negotiation power by boosting the image.

3.7. The **principle of scarcity** states that our desire is attracted more on the things that are presented as being rare or in small quantity. This principle is the basis for two kinds of techniques.

3.7.1. Tricks used *at the beginning of the negotiations*, as means to attract attention, determine the other part to discourage any competition for the manipulator and to push towards starting the negotiations. Usually, they are used in combinations with pressure techniques, such as time pressure, so the victims cannot escape the traps they have stepped in.

1. **Highball** (Mitchell, 2003), when the offer equals or surpasses the maximum expectation of the victim. **Get-rich-quick schemes** promise high rates of return for a small investment, while at the same time promising that they are easy and risk-free.
2. The '**Rare Pearl**' offer tries to convince the victim that the manipulative offer is actually unique and requires immediate attention.

One example is the **bait-and-switch** trick in which the fraudster lures in partners by promising high returns at low investments, then reveals that the initial business is not possible but that a substitute one is. Some negotiators will

accept the substitute business as a way to recover the sunk cost expended while trying to obtain the bait.

3.7.2. This class of tricks can be used also *at the end of negotiations*, in order to force the signing of the contract.

1. Through **False Competition** (Coburn, 2006) manipulators pretend they have a competitor of the victim that wants to make the same deal for a lower price.
2. **The Negotiaton Nibble** (Coburn, 2006) is another trick for the end of negotiations and it has two variants: the concession can be asked for, the partner being stimulated by the proximity of the done deal, or offered, if the partner needs to be convinced to sign the contract.

4. The 'Shark' negotiator

Some negotiators use their psychological power as a negotiation advantage. They can use intimidation and guilt but also they can almost hypnotize other people and make them listen to them. Due to their superior display of determination, they undermine determination in the opposite negotiators.

- a) Some can use the **'Scratched Disk'** (Prutianu, 2000) technique. It consists in the repetition of a certain demand in a relatively short period of time. The repeated demand hammers the psychological defense of the partner. The result is that in the end the exasperated victim cannot resist any longer and simply complies. It is a commonly known technique, largely use by children against their parents. This technique destroys the capacity of concentration of the victim and makes it feel powerless and unable to defend. The technique is also efficient because repetition itself appears to justify the demand and because the effects of the technique are frequently underestimated.

- b) The second is the tactic of **Surprise** (Prutianu, 2000). The manipulator quickly changes subjects and approaches, puzzling its interlocutor and thus making him unable to identify the goal of this game and react accordingly in order to support his/her interests.
- c) **Chicken** (Mitchell, 2003) is a tactic combining a large bluff with a threatened action to force the other party to "chicken out" and accept major concessions.

There are a few tricks that are effective against such manipulators, all of them being based on neutralizing the psychological power these negotiators use.

A simple tactic is called **time-out**. When the manipulator's speech reaches its peak and the pressure on the other part is intense, that part can ask for a break. This way, the manipulator's efforts are annihilated.

5. Manipulative strategies used in negotiations

Apart from the negotiation tricks using principles of persuasion that were named, manipulation during negotiation can be carried out through specific strategies used during negotiations.

5.1. Dissociation and association strategies

1. **Dissociating** other team's members can be an effective way of reducing other part's negotiation power. Some members of the opposite part can be ignored, while others can be given attention and sympathy.
2. **Association** can be used by the own part. That can be done by associating with a third part that can be involved in negotiations.

Fragmenting the negotiations is a strategy using the acquired information. **Mandated Authority** is based on the supposition of a limited negotiation mandate of the manipulator. There are two forms of it:

- a) The other party can only negotiate on certain items, whilst others remained fixed by a higher authority. The list with off the table items will gradually grow and the victim will have gained very little in exchange for his/her concessions.
- b) Final approval can only be given by a higher authority. A tactic used in circumstances of high risk and in new and unfamiliar markets.

Fragmenting the negotiations can be done by **changing negotiators**. New negotiators, with fresh energies can restart negotiations under some pretexts, while the other part needs to 'recharge batteries'. The new team of negotiators can discard previously negotiated aspects that are detrimental for their own position.

6. Anatomy of the change

The model of brainwashing (Ficeac, 2001) gives us an example of a complete cycle of manipulation in four phases.

- a) **Barrier removal**. Interests and abilities (corpuses of knowledge) of both manipulator and victim do not intersect on a certain aspect. Therefore, the manipulator has to deal with his/her rejection or to ignore by the victim. Attracting attention through a shock stimulus (not necessarily unpleasant) is the most successful method. Motives of rejection are analyzed one by one and annihilated. A remarkable technique used at this point is reformulation of the victim's objections in a desired manner. The victim gives up his/her hostile attitude and accepts a connection between with the partner. The 'protective crust' of her/his corpus of knowledge is removed and, at the end of the phase, the victim is opened for an attitudinal change.

The **principle of contrast** enters into action in this step of the change, producing the necessary shock.

b) **Relationship creation.** The victim has to know what to expect from the change and to be motivated to pursue it. The easiest way is to put the victim in a state of attraction to the manipulator, based on complementary features situated in the area of interaction of their corpuses of knowledge. Such complementary features are expressed like this: 'I have *that*, but you don't' or 'I am like that, you are otherwise'. Moreover, no matter how preposterous the manipulator's proposal is, once the victim gets used to it, he/she doesn't feel the discomfort so intensely. In order to prepare the change in the corpus of knowledge of the victim, the manipulator can create an inventory of the 'advantages' of his/her proposal – the more hooks, the better.

Another trick that can help the manipulator's cause is to see through the eyes of the victim, in order to find possible connections with him/her. Manipulators have to understand the personality of their partner and take an individual approach. Therefore, they understand that they have to promote advantages, not just goods.

The **principle of sympathy** is largely used in this phase, being the one capable of opening an intersection area between the two corpuses of knowledge.

c) **Comprehension of agreement conditions.** Once the connection being established, the agent of change (the manipulator) has to take under control the corpus of knowledge of the other part in order to change it. In other words, the agent of change has to implement it, adapting the desired change to the particular conditions of the subject. Conditions for an agreement between the previous position of the victim and that of the manipulator/attitude changer are therefore created. It is the *vertical* phase – causes being analyzed and a hierarchy of motifs or/and of people being created.

The **principle of authority** is important for this phase: in order to modify his/her corpus of knowledge, the manipulator has to be believed as an expert in a certain field.

d) **Consistency.** The approval of the agreement takes place now. The motifs for acceptance reside at one of these levels: thinking, feeling and behavior. Manipulators know that each one of these levels being kept under control; they can influence the other two towards congruence. So the **principle of consistency** finishes this job, making the victim's change completed.

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TRENDS OF FOREIGN DIRECT INVESTMENTS AND SUSTAINABLE DEVELOPMENT IN ROMANIA

Professor PhD. Gheorghe ZAMAN, Institute of National Economy -RA

Professor PhD. Valentina VASILE, Institute of National Economy -RA

Summary

The paper researches the relation between foreign direct investments (FDI) and the relevant macroeconomic indicators (total investments, gross capital formation, gross domestic product, export, import, real incomes, foreign debt and foreign payments balance) from the perspective of the efficiency report between costs and results in the period 1995 – 2004, highlighting the exceeding of the effect variables by the effort ones (costs) on long term, which means an unfavourable evolution of the efficiency indicators. In the second part, an analysis is made with respect to the relationship between FDI, productivity and labour market, underpinning a series of structural-qualitative effects generated in the host economy of foreign investments.

1. Trends and dimensions of FDI's macroeconomic efficiency

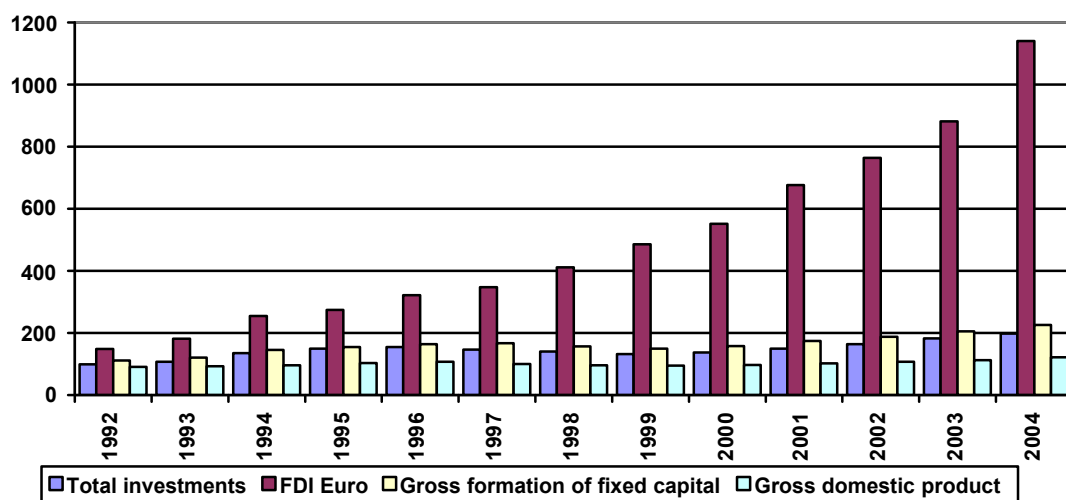
Romania's transition to market economy has represented a strong incentive factor of FDI with multiple effects at the macro- and microeconomic levels implied

by the involvement of new complementarity of the internal and external independent and dependent variables of economic growth, of diversifying and qualitative improvement of the latter.

The FDI dynamics, comparatively to the main macroeconomic indicators in the transition period to the market mechanisms offers the opportunity of deducing some significant trends of the **effort variables** (total investments, FDI and gross formation of fixed capital, imports, foreign debt on medium and long term), and of the **outcome variables** (gross domestic product and exports). The comparative analysis between the two categories of variables was based on the indexes with fixed and chain basis.

The highest dynamic at the level of the effort variables was recorded by FDI which grew 11.4 times against, the 2.2 times of the gross formation of fixed capital and the 1.9 times of total investments. This is explained by the very low level of FDI at the beginning of the transition period, but also as result of initiating the privatisation process of the state assets with foreign investors and of creating and enhancing an economy where the market mechanisms have started to ascertain themselves more and more.

Evolution of relevant economic indicators of the Romanian economy, 1991 – 2004 (1991=100)



Source: Own computations based on the data of the Statistical Yearbook of Romania and on the RNOC bulletins, years 1995-2005

Let's grew the GDP effect variable which for the analysed period increased 1.2 times.

It is interesting to notice that during the 14 years of transition, the investment effort by far exceeded as dynamic the effect expressed in GDP, which reflects the perpetuation of a “speed-lag” situation between the two variables, and consequently, **a state of underperformance**.

Another conclusion that might be deduced is that, despite the sustained FDI dynamic, for the analysed period, the GDP had also **rebound periods** which leads to the conclusion that the positive spill over effect of FDI for the entire national economy **could not counteract** the triggering factors of recession.

The effect indicators will be surpassed by outcome indicators also in the next periods, in accordance with the forecasts elaborated by the National Commission of Prognosis, which imposes, in our opinion, a reconsideration of the factors having the capability of stimulating to a larger extent the effects, so as to overcome situations of being very “**dynamic**” with respect to efforts and expenditures, and very “**slow**” as **regards effects and outcomes** as things were up to now.

Considering the fact that in the first transition years the Romanian economy was under the influence of particular impact factors that triggered also a substantial economic decline in a relatively short period of time, as well as some inherent difficulties of statistically recording exports, imports and debt on medium and long term, we have analysed the evolution of effort and effect indicators for a shorter period – 1995-2004 – in order to see to what extent the found trends changed during the entire period. Additionally, we have increased the number of effort indicators, by taking into account of exports and medium and long term debt, and the effect ones, by including exports.

In the period 1995-2004, is identified a **diminishment** of evolution lags between effort and effect indicators of national economy. Also, in this case, the highest dynamics were recorded for FDI on an ascending trend, with variations from one year

to the other, whereas total investments, GDP and exports between the years 1997-2000 recorded decreases.

Evolution of relevant indicators of the Romanian economy in the period 1995-2004

1995=100

Year	Effort indicators					Effect indicators	
	Total investments	Foreign direct investments	Gross fixed capital formation	FOB Imports	Medium and long term external debt	GDP	Exports
1995	100,0	100,0	100,0	100,0	100,0	100,0	100,0
1996	103,1	117,4	105,7	108,1	135,7	103,9	99,3
1997	97,5	126,9	107,5	96,2	181,3	97,6	93,4
1998	93,5	150,3	101,4	101,4	188,0	92,9	92,6
1999	88,0	177,4	96,5	95,6	204,4	91,8	99,8
2000	91,1	201,3	101,8	137,1	260,6	93,7	141,1
2001	99,8	247,1	112,1	167,4	316,9	99,0	159,1
2002	109,5	279,0	121,3	181,8	349,4	104,1	183,6
2003	121,8	321,9	132,3	204,2	370,8	109,5	195,4
2004	131,8	416,3	145,7	253,6	423,0	118,6	237,0

Source: Own computation based on data from the Romanian Statistical Yearbook, NBR reports and NOTR

The highest dynamic was recorded by the medium and long term foreign debt, which, according to the opinion of some specialists is still at a relatively low level as compared to neighbouring countries with transition economies.

The analysis based on chain indices for same effort and effect indicators, for the period 1995-2004 underscores sensible annual variations of the above with respect to the recession period, as well as for the one of reinitiating the growth. The only indicator that recorded for the entire period a positive dynamic was the one with respect to medium and long term external debt, even if there were pace differences from one year to the other.

Chain indices of effort and effect indicators in the period 1995-2004 (% against the previous year)

Year	Effort indicators						Effect indicators		
	Total investments	FDI Euro	GFFC(*)	Imports	Foreign debt	Employed population	GDP	Export	Real wage gain
1995	100,0	100,0	100,0	100,0	100,0		100,0	100,0	
1996	103,1	252,4	105,7	108,1	135,7	-	103,9	99,3	109,3
1997	94,6	54,3	101,7	89,0	133,6	-	93,9	94,1	77,4
1998	95,9	247,6	94,3	105,4	103,7	98,1	95,2	99,1	103,4
1999	94,1	115,4	95,2	94,3	108,7	99,4	98,8	107,8	96,2
2000	103,5	88,7	105,5	143,4	127,5	99,9	102,1	141,3	104,6
2001	109,6	191,0	110,1	122,1	121,6	99,4	105,7	112,8	104,9
2002	109,7	69,7	108,2	108,6	110,3	86,3	105,1	115,4	102,1
2003	111,2	134,6	109,1	112,3	106,1	99,9	105,2	106,4	110,7
2004	108,2	219,9	110,1	124,2	114,1	99,3	108,3	121,3	110,2

Source: Own computations based on data from the Romanian Statistical Yearbook, NBR reports and NOTE: (*) GFCF: gross fixed capital formation

In the period 2000 – 2004, the GFCF indices, of total investments and of imports have taken an ascending trend with growth annual variations, which triggered a GDP and export growth to sizes under the level recorded by the effort variables, mentioning the surpassing trend of effort indicators with respect to effect (outcome) indicators.

Table no. 1.4. **FDI share (%) against some relevant macroeconomic indicators in the period**

mill. Euro

Year	FDI/Total investments	FDI/GDP	FDI/GFFC	FDI/foreign trade		FDI/foreign debt
				Export FOB	Import FOB	
1995	4,97	0,90	4,19	3,98	3,31	5,15
1996	10,71	2,06	8,97	8,98	6,81	9,59
1997	4,24	0,74	3,49	3,08	2,48	3,90
1998	11,98	1,94	10,68	9,84	7,44	9,31
1999	14,04	2,16	12,20	8,95	7,79	9,88
2000	14,19	2,21	11,67	7,83	6,69	6,87
2001	22,58	3,95	19,12	13,98	11,06	10,79
2002	11,50	2,06	9,68	6,81	5,73	6,82
2003	12,78	2,39	10,78	7,378	6,19	8,64
2004		3,72	16,66	12,89	9,29	16,66

Source: Own computations based on data from the Romanian Statistical Yearbook, NBR reports and NOTR

The FDI share in the total investment effort for the analysed period is **relatively modest**, varying around 10 – 14% (save for the year 2001), which strictly viewed through the relevance capability of the respective report leads to the conclusion of FDI’s low level and insufficiency as financing source for economic growth in Romania. The same conclusion is drawn also with respect to the relation FDI/GFFC or FDI/GDP. Still, we mention that FDI have, next to the direct impact on production an indirect impact known as “spill over” or externalities that might be positive or negative. Unfortunately, we do not dispose of sufficient statistical data based on which to evaluate these effects one way or the other.

Generally speaking, it is said that FDI have **direct and spill over positive effects** regarding:

- the goods and services production and exports growth;
- labour force employment;
- raising the level of knowledge, competencies and expertise;
- management improvement and market behaviour enhancement of economic agents;
- use of external distribution channels of “parent” companies;
- companies’ capitalisation;
- conquering new market segments;
- better management of market advantages and risks at local, regional and national level;
- capital market and banking system development;
- creating new labour places adapted to the requirements of market and developing some support industrial relations to increase competitiveness;
- better embedding within the requirements of environmental protection;
- technology transfer;
- competitiveness increase.

These acknowledged de plano advantages must be still corroborated with a series of **concerns** or **less favourable aspects** of FDI on beneficiary countries, among which we mention:

- **the temporary character** (volatile FDI), especially after the period in which from profit have been integrally recuperated the expenditures with investments and the contaminating effect on other domestic and foreign companies;
- the issue of the **relation between the reinvested profit and the repatriate one**;
- strains on labour market with respect to **personnel restructuring** and **job stabilisation** of the performing ones, including issues related to **long time unemployment** because of mass lay offs within restructured/privatised companies, even if compensations are granted for limited periods of time;
- impact and pressure of multinational companies on political and economic decision;
- disadvantages of 'lohn' production and outsourcing;
- creation of some environmental issues related to pollution by delocalising industries from developed countries;
- impact on the **RDI** activities, **innovation**.
-

The comparison of FDI advantages and disadvantages presupposes a complex methodological approach, particularised on types of activities and effects. The corroboration (composition) at a local, regional and national level of these general favourable and unfavourable effects, as a rule, leads to a **net favourable result**, yet without eliminating also the existence of some net favourable punctual results.

2. Foreign direct investments, payment balance and foreign debt

The value flows of FDI directly or indirectly influence the components of the payment balance and of the foreign debt on medium and long term.

The contribution of direct investments to the article “Incomes” from the payment balance of Romania was unfavourable, its negative balance increasing from –114 mill. €, in 2001, to –896 mil.€ in 2004. The same negative trend is recorded also in the case of incomes from portfolio investments and other capital investments.

Within the financial capital account, a positive influence was recorded on the payment balance (surplus balance) to the capital account (transfers of capital of the public administration and of other sectors) and to the financial account, especially in the case of direct investments of non-residents in Romania and of other capital investments

In the first two months of 2006, the deficit of the **current account** of the payment balance was of 1018 millions Euros, higher by 80.5% than the one from the similar period of the previous year, especially due to the marked increase of the commercial balance deficit.

Covering in proportion of 98.2 % by direct foreign investments (1 billion Euro, comparatively with 0.5 billions Euro in the period January – February 2005) the deficit of the current account for the short term, might be regarded as a solution, but on long-term the sustainability with respect to the FDI factor might diminish.

The foreign debt on medium- and long-term¹ recorded on 28th February 2006 the level of 24556 millions Euros, on increase with 0.3% against 31st December 2005, which represents a very high dynamics, if the level of the debt in the ‘90s is taken into account. The foreign debt on medium- and long-term increased in Romania, from 13.57 billions Euros by the end of 2001 to 24.55 billions Euros in February 2006.

The external public debt, and the public guaranteed debt recorded on 28th February 2006 a balance of 11304 millions Euro and represented 46% from the foreign debt on medium- and long term (against 46.2 % on 31st December 2005). **The non-publicly guaranteed external debt** amounted to 12464 millions Euros on 28th

¹ The balance of the foreign debt undergoes monthly revisions.

February 2006, being 1.9 times higher than on 31st December 2005, which reflects a **credibility growth for the private sector in Romania.**

The **foreign debt service rate on medium- and long-term**² was in the period 1.01 – 28.02.2006 of 20.1% against 18.2% in 2005. The **coverage degree**³ was on 28 February 2006 of 6.7 months of import, against 6.4 months of import on 31 December 2005.

External debt of Romania on medium- and long-term on 28th February 2006 and the service of foreign debt in the period 1.01 – 28.02.2006 (mill. Euro, provisory data)

	External debt on medium and long-term		Public debt service 1.01- 28.02.2006
	Balance on 31.12.2005	Balance on 28.02.2006	
Public debt ^{a)}	6957	6971	83
Public guaranteed debt ^{a)} , from which:	4343	4333	118
-public sector	4131	4121	116
-private sector ^{b)}	212	212	2
Publicly non-guaranteed debt, from which:	12225	12464	571
-public sector	560	560	6
-private sector ^{b)}	11665	11904	565
Total external debt from loans on medium- and long-term	23525	23768	772
Deposits on medium- and long-term of non-residents	949(*)	788(*)	172(*)
Total external debt on medium-and long-term	24474	24556	944

(*) estimated data

a) loans contracted or guaranteed by MFP in accordance with the Law of public debt

b) Financial and non-financial entities with majority private capital

Source: NBR data.

² The service rate of foreign debt on medium- and long-term is computed as ratio between the foreign debt service on medium- and long-term and the export of goods and services

³ Degree of coverage for the reserve in months of import is computed as ration between the official NBR reserve (hard currency + gold) at the end of the period and average monthly import of goods and services for the respective period.

With negative balances on increase, the period 2001-2005, to the payment balance of Romania have contributed the current account and the deposits of residents from abroad.

International investment position of Romania (millions EURO; end of period)

Article	2000	2001	2002	2003	2004	2005*
Net Position	-9166.8	-	-9389.2	-	-	-
Assets	10206.2	10725.1	12762.6	13874.0	16634.1	20823.8
Liabilities	19373.0	12939.7	22151.8	12337.9	17101.5	25887.6
		23664.8		26211.9	33735.6	46711.7
EXTERNAL ASSETS from which:						
A. Direct investments of residents from abroad	146.4	132.0	138.3	165.0	220.5	205.4
-participation to capital	146.4	132.0	138.3	165.0	220.5	138.6
B. Portfolio investments	6.2	12.1	21.2	10.7	425.1	651.5
-investments of the bonds kind	0.4	0.3	3.5	2.9	422.6	308.6
-investments of the share kind	5.8	11.8	17.7	7.8	21.6	214.0
C. Other investments	6409.9	7286.5	5594.1	4670.6	4523.2	6799.6
-loans and credits	4395.3	4608.1	3717.3	3153.0	2989.8	4088.6
-loans and credits on long term	3898.8	4185.7	3527.9	2953.3	2745.4	3001.1
-loans and credits on short term	496.5	422.4	189.4	199.7	244.4	1067.5
-cash and deposits	1593.7	2244.2	1506.9	1209.2	1252.3	1826.3
-other assets	1139.0	960.1	969.1	807.7	770.0	884.7
D. Reserve assets (NBR)	3643.7	5509.0	7009.0	7491.6	11932.7	18256.1
-monetary gold	989.0	1063.8	1132.2	1118.0	1084.5	1460.5
-foreign currency reserves	2654.8	4445.2	5876.8	6373.6	10848.2	16795.6
-cash and deposits	532.1	779.0	683.7	595.3	2564.3	7263.0
-to other monetary authorities	228.4	450.9	0.3	449.0	1483	4678.9
-to other foreign banks	303.7	328.1	683.4	146.3	1081.3	2584.1
-securities of the bonds kind	2122.7	3666.2	5193.1	5778.3	8283.9	9532.6
EXTERNAL LIABILITIES , from which:						
A. Direct investments of non-residents in Romania	6965.7	8656.0	7482.0	10159.0	15039.9	20130.4
B. Portfolio investments	1757.5	2478.2	3113.3	3569.4	3541.6	4363.2
-of the share kind	523.5	561.0	495.0	555.0	643.0	831.8
-of the bonds kind	1220.1	1909.7	2609.3	3002.3	2844.5	3475.7
-instruments of the monetary market	13.9	7.6	9.0	12.1	54.1	55.7
C. Other investments	10649.9	12530.5	11556.5	12483.5	16647.8	22267.3
-loans and credits	10069.4	11766.6	10835.7	11389.2	14816.0	19239.1
-loans and credits on long term	9639.7	11216.7	10114.9	10863.7	12766.8	16314.5
-loans and credits on short term	429.7	549.9	720.8	525.5	2049.2	2924.6
-cash and deposits	379.4	577.5	637.4	1025.6	1803.4	2913.5

* Preliminary data.

Source: Annual Report 2004, NBR, p. 246, Monthly Bulletin no.2/2006, p.39, NBR

The relation between the FDI of non-residents in Romania and of residents from abroad shows a very large gap in the favour of the latter, resulting that **Romania is the country the residents of which, at least up to now, do not have the required financial power for far-reaching investments abroad.** We have to mention that there result different dynamics of the direct investments volume of residents and non-residents.

The volume of portfolio foreign investments in Romania of the bonds’ and shares’ kind is smaller than the one of FDI, indicating a growing trend in the period 2000-2005. It should be underlined that their volatility is rather high.

The foreign debt of Romania on medium and long term increased from 11.16 billions € in 2000 to 24,47 billions € in 2005, that is an increase of 2.0 times, from which the non-guaranteed private debt increased more than 3 times, fact that shows the consolidation of the position of the private sector with respect to its loaning capacity.

In the last years, it is found a **growth of the private not guaranteed debt**, the public and the guaranteed public one maintaining themselves, practically, at close levels. This trend of the non-guaranteed private debt represents the evidence of the increased functionality degree of the market economy in Romania as well as of the improvement of the favourable business climate for FDI.

Foreign debt of Romania on medium and long term, 2000 – 2004 (mill. €; end of period)

	2000	2001	2002	2003	2004	2005*
Foreign debt on medium- and long-term	11162,6	13575,0	14969,4	15859,1	18269,9	24473,6
1. Public debt	5001,1	5651,0	6040,6	6470,0	6369,2	6957,4
2. Guaranteed public debt	2472,5	3119,4	3147,7	3212,7	3668,6	4342,8
3. Private debt (non-guaranteed)	3688,9	4804,6	5781,1	6202,0	8081,8	13173,4

* provisory data

Source: *NBR data. Annual report 2004, p.245, Monthly Bulletin no..2/2006, NBR, p.4- 41.*

In conclusion, we highlight the fact that the **FDI flow in Romania has a favourable influence on the foreign payments balance** contributing, at the same time, to increasing the foreign currency reserves of the country. This positive influence shall be maintained also for the future, provided that FDI does not diminish its dimensions and continues to extend them.

In accordance with the estimates of the National Commission for Prognosis, the covering degree from FDI of the current account deficit in the period 2005-2008 shall decrease by 14.7 percentage points.

Covering degree of the current account deficit

	2003	2004	2005	2006	2007	2008
Current account deficit – mill. Euro	-3060	-4402	-4930	-5310	-5670	-5550
Direct foreign investments – mill. Euro	1910	4042	4100	3800	3800	3800
Covering degree from foreign investments - %	62,4	91,8	83,2	71,6	67,0	68,5
Portfolio investments – mill. Euro	529	37	110	430	450	470
Capital transfers – mill. Euro	188	505	700	930	1330	1400
Covering degree from foreign investments, capital transfers and portfolio investments - %	85,8	104,1	99,6	97,2	98,4	102,2

Source: Data of the National Commission for Prognosis

Such a trend is explained by the **conclusion of the privatisation process** for the main utilities and large trading companies with state capital in Romania. At the same time, it might be deduced that the FDI inflow by building green-field objectives shall have a relatively low dynamic due to the more and more higher level it has already reached. Of course, one of the objectives of the investment policies on medium-term in Romania shall be exactly the increase of the FDI volume – chiefly green-field, in the productive fields that give a higher stability to profits on long term.

For the forecasted period, the covering degree of the current account deficit shall be achieved to a larger extent based on capital transfers with a percentage contribution on increase from 14.1% in the year 2005 to 25.2% in 2008, and of portfolio investments with an increase from 2.2% to 8.5%. The credibility of these

estimates is rather high, considering that **in Romania the functionality of the market economy shall increase together with fulfilling the requirements for EU accession, as well as with rising the use degree of the natural human and financial potential that Romania disposes of.**

3. FDI impact on productivity and labour market

One of the theoretical and practical controversy issues aiming the impact of FDI refers to the effects of foreign investments on labour productivity in the host country. Even though, on one hand, many experts maintain that there is no clear evidence with respect to the beneficial effect spilled over by FDI on labour productivity growth for domestic companies (Djankov, Hockman 2000; Swarzynska 2002), on the other, this conclusion is reached by a majority of studies which emphasise the favourable spill over effects on labour productivity in foreign capital importing countries. A special attention is given to companies with FDI **oriented on exports and on the internal market** from the viewpoint of labour productivity level within the horizontal spill over effect they generate as result of technology transfer. The presence of foreign companies influences the performance of domestic companies in a positive manner (Aitken, Harrison 1999), even if the productivity of foreign companies is net superior to the one achieved by national companies (Aitken, Harrison 1999; Görg, Strove 2001, Kokko 2003) due to: superior technologies, inflow of intangible assets (know-how, management and marketing systems, commercial contracts, relation networks with the suppliers and buyers from abroad); a better absorption capacity for RD results and innovation, lower loan costs on the external market.

However, there are cases in which labour productivity in some companies with foreign capital, from the host country, have a lower level of labour productivity (Damijan et.al. 2003) against domestic companies, a fact which might be explained by:

- the foreign companies retain in the origin country the activities with the highest value added (for instance, R&D) and transfer abroad the assembly operations with lower value added (for instance, lohn operations);
- the use of less skilled workers and of inferior technologies for which a lower labour productivity is characteristic.

Between the labour productivity level and the size of exports there is a close bi-univocal connection that is a higher productivity offers superior competitiveness to export, which, in turn constitutes itself in an incentive factor of productivity. A series of empirical researches have shown that companies with foreign export-oriented capital have a higher productivity level as compared to the ones oriented on the internal market, a reason for which preference is given to companies pertaining to the first group (Gestrin 2001).

The spill over effect of FDI on labour productivity might be **horizontal** or intra-industrial (within the same industry) and **vertical or inter-industrial** (towards suppliers and customers). The main manifestations of the spill over effects are the following: **demonstration or imitation; competition; labour force mobility effect and improving the performances of the suppliers; promoting exports**. The most usual example of demonstration effect is targeting the improvement of productivity performances by copying organisation systems, technologies or workers transfer from foreign companies to Romanian ones. The effect of **competition** might influence favourably but also unfavourably (Greenway, 2001; 2004).

Whenever competition from foreign companies compels the internal producers to use more efficiently their technology and the other available resources, the FDI effect cannot be but positive. To the contrary, the negative effect occurs when fixed costs of local companies exceed by far the ones of foreign companies, the local companies being obliged to diminish or cease activity. The productivity of local companies shall decrease under such circumstances.

The spill over effect of export represents an indirect factor of increasing productivity. Very often, local companies learn from the ones with foreign capital how to develop export operations that ipso facto favourably influence productivity.

One of the conclusions of researches dedicated to FDI effects on economy without host is that **the quantitative-qualitative determination of these effects cannot be realised but partially, this being an as elaborate as difficult approach.**

If the analysis of the intra-industry effects is far better represented in the specialised literature, the research of the vertical effects – inter-industry – is a less known field. It should be assumed that the highest benefits are achieved based on FDI oriented on the internal market of the country comparative to the impact of foreign companies oriented on export (Swarzynska 2002; Kokko et. al. 2001).

In the research studies, less approached is the influence of **transferred prices** to products and services of companies with FDI, due to the existence of taxing differences between the host country and the origin country or other country. Practically, it is about the export of semi-fabricates or finished goods, realised by the subsidiaries of foreign companies in Romania, at a lower price which are thereafter re-exported to higher prices, after a summary ulterior processing or packaging based on a renowned trade mark/brand. From researches made on FDI in Romania, such a situation was identified for some metal products and cement. Transferred prices influence the wages size in both host and origin countries.

The subsidiaries of multi-national companies oriented on export are more interested, comparatively to the ones oriented on the internal market, in using the relatively abundant production factors from the host country. For instance, when the advantages result from the low labour cost, comparatively to the capital one, it is less probable that companies with FDI oriented on export shall have a positive effect on labour productivity in the host country, comparatively to companies with foreign capital participation oriented on the internal market of the host country.

FDI have a **complex effect** on labour market in Romania. While new foreign investments – green-field – **create new workplaces**, the privatisation of state

companies with foreign investors, on the contrary, had a contribution to diminishing the number of labour places, among others also due to the fact that in these companies were over-employment.

In the privatisation contracts of state companies, through special clauses was regulated the issue of lay-offs of personnel, i.e. its gradual realisation, in periods from 1 to 3 years, by compensatory payments, or by the pledge of the foreign owner to maintain for a given post-privatisation period a certain percentage of the number of employees.

In general, the foreign investors for medium and large size companies, through the **post-privatisation investment programmes** undertake to **increase the training level of employees** through CVT forms with the purpose of improving the productivity performances.

The relationship **between the foreign employers and trade unions** in companies with FDI has a series of particularities, out of which we mention:

- trade unions existing before privatisation, as a rule, continue their activity also after privatisation, but in some cases their activity is diminished or new trade union organisations emerge, on the initiative of the new employers, who wish for more co-operative and obedient trade unions;
- foreign owners, generally speaking, negotiate wages and constructively cooperate with trade unions, but in SMEs the trade union activity is low or inexistent, the owners showing a discouraging behaviour in this sense;
- coming from mature market economies, where industrial relations are far more rigorously regulated, and where they have a tradition, the representatives of the multinational corporations' subsidiaries comply with the **international labour standards** from the Conventions of the ILO no. 87 – freedom of association; no. 98 – the right to collective negotiation; no. 29 and 105 – prohibiting forced labour; no. 1000 and 111 – non-discrimination in employment and remuneration; no. 138 – minimum employment age and eliminating children's labour.

In attracting FDI, developing countries display a sort of “competition” in its negative sense, with respect to granting incentives to foreigners, including the ones referring to “failure” in complying with international standards of labour or of the standards referring to environmental protection.

The new Labour Code passed in Romania in 2004, and modified in 2005 still contains a series of provisions that are unsatisfactory, for instance, for the employers about the responsibilities they have with respect to their employees regarding the working time, employment and lay-off conditions, etc.

With respect to the support given by the public actors to foreign investors, we distinguish at least three areas of action, that is:

- bi- and multilateral agreements with respect to investments;
- governmental agencies or institutions of export crediting;
- investments and financing funds of the private sector.

Through bilateral investment treaties and other normative deeds, Romania has regulated the aspects related to entering the country and the labour permits for the management foreign staff within FDI, acknowledging the right to labour, to medical assistance and safety.

The analysis between **FDI and wages** represent one of the most researched fields because through wages a multitude of FDI determining factors are influenced, among which the impact on economic development, technological changes, foreign trade and income distribution (Balasubramanyam, Sapsford 2002).

The relation between FDI and wages might be analysed by taking into consideration the following criteria:

- FDI is attracted especially by countries with **relatively low wages** and a relatively high level of vocational training;
- foreign companies pay **higher wages** and, consequently, a so-called working force “aristocracy” is created, deepening thus the inequality between the incomes in the host country;

- foreign employers pay **higher wages** to highly skilled labour force that is able to operate the performing manufacturing technologies and they pay low wages to un- or low skilled labour force, thereby deepening the discrepancy of incomes;
- foreign investors pay somewhat higher wages to unskilled labour against the level of wages from domestic companies, thereby becoming more attractive to labour demand and diminishing the wage gaps;
- the negotiation capacity of trade unions for better wages and social conditions is weaker in the case of companies with foreign capital that have multiple possibilities of moving to other countries.

The objectives pursued by foreign investors by means of paying higher wages aim to the need of attracting highly skilled labour force, to prove that they are good citizens, to prevent entry on the market of other companies, and the wish to rise labour productivity, including these demands on employees. Most are convinced about the economic advantages obtained by paying higher wages (economy of high wages) but still these do not exceed the limit of **efficiency wages**.

By increasing the FDI volume in Romania, the labour market has known an important opening process to the impact of globalisation. The numbers of foreign personnel, as rule, in decision positions, who work within companies with FDI in Romania is low as share from total employed population, but is characterised through superior management and expertise capacity. For the large majority it might seem a paradox that a relatively small number of foreigners have the decision within a company with FDI, where the Romanian employees have a share of more than 90%. This paradox is explained, firstly, through the prevalence of managerial capacity and of the technological level, in parallel with the contribution of the foreign capital.

Even though some experts maintain that one of the FDI effects on labour market is **the heightening of wage gaps**, in the specialised literature there are studies which show that, just to the contrary, FDI did not aggravate these discrepancies (Falzoni and Corino, 2004). This fact is possible, due to the fact that the technology and

knowledge transfer through FDI, on medium and long term increase the level of professional training for employees in the host country and their labour productivity level and this, implicitly, means a higher wage (Galeotti, Navaretti, 2000).

The privatisation in Romania represented one of the important factors of FDI evolution, with implications on labour market from our country. The privatisation unfolds under the form of new **private investments** (green-field), and the **purchase of companies with state capital** by foreign investors. Each of these two forms has advantages and disadvantages for the foreign investors that chiefly refer to:

- **in case of green-field** the most important advantage consists in the fact that the entire enterprise is built in accordance with the technological and managerial concept of the investors, and to competitive performance parameters, and the **disadvantages** refer to the initial lack of utilities, labour force, connections to the business environment and local authorities, all increasing sensibly the realisation and operation costs of the objective;
- **in the case of purchasing state-owned enterprises**, the main advantage for the foreign investor is represented by the relatively low price, the existence of the infrastructure and of utilities, as well as of skilled staff, whereas the disadvantages refer especially to restructuring and modernisation costs, the trade union mentalities, revamping and changing the manufacturing profile, etc.

The options of the foreign company and of the government from the host country for one or the other from the two privatisation forms, depend on a multitude of economic, technological, social and environmental factors, subordinated mainly for the foreign investor to the criterion of profitability, and for the Romanian state to the criterion of economic efficiency, of social justice, as well as to the one of macroeconomic stability.

Unfortunately, the privatisation rhythm in Romania has been relatively slow, what led to a decrease in the market value of many trading companies with state

capital, especially for the machine building industry, as result of the harsh economic decline of the latter.

A key factor in selecting the FDI form is represented by the compromise between the **technological transfer cost and market competition** (Aoditya et al. 2001). By localising in one country, the companies intend to gain/preserve a competitive position on a market through strategies of maintaining the access to the respective market, or through penetrating on new and promising markets, the most important factors of localisation being know-how transfer, scale economies, availabilities of high skilled labour forces, a privileged competitive position, new supplier networks for raw materials, various advantageous costs, the grant of facilities and incentives by the governments, etc.

The tasks of governments consists in selecting those FDI with the highest propagated positive effects for the host country at local and macroeconomic level, on short, medium and long term. Unfortunately, we do not have but partial analyses with respect to such effects, so that a well founded conclusion cannot be drawn whether FDI succeeded in lowering or heightening the economic and social gaps separating Romania from developed countries.

Doubtless, foreign companies represent for Romania a development factor of the internal market and of the private sector by entering into **competition and/or cooperation** relation with domestic/foreign producers on the Romanian market. We may distinguish several situations with respect to the location behaviour of foreign and domestic investors (Collie D., Wandenbussche, 2001):

- when the level of wages from abroad is **relatively low** for the branches producing homogenous goods based on labour intensive technologies, FDI companies, as well as those from the host country shall orient themselves to more developed countries (FDI North-South), the optimum level of governmental intervention in the developed country being related to practicing zero custom duties for imports from less developed countries;

- for **relatively medium** wage levels, in more developed countries for the respective branches, foreign investors and the local ones prefer to localise on their own markets, and the optimum governmental policy presupposes practicing for imports some custom duties;
- for **relatively high levels** of wages in developed countries, the tariff policies for import shall be so as to favour localising FDI in less developed countries.

Up to now, the influence of FDI on labour market in Romania, viewed from the perspective of the two privatisation forms was earmarked by the **creation of new labour places** in the case of setting up new companies with foreign capital (green field) and, as a rule, the diminishment of the employees' numbers, especially of the low skilled ones in case of buying companies with state capital.

In the future, as result of diminishing the state patrimony available for privatisation, the largest share shall be represented by the green-field type investments.

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**STUDY REGARDING “THE POSSIBILITY OF
TRANSYLVANIA’S MINERAL WATER UTILIZATION FOR A
LONG TERM DEVELOPMENT STRATEGY”**

Petru Ştefan RUNCAN, Ioan COSTA, “ASTUR” Mureş

Abstract

The paper present our intention to get the attention of those involved in tourism business about the great potential Romania has by being blessed with so many sparkling mineral waters resources that can be exploited on long term for the human life and heath involve’s.

It is no longer a secret for anyone that starting with Romania’s adhesion to UE, our country is able to get a large amount of money only by exploiting properly the touristic potential of it. Gifted by God with a large palette of relief shapes, Romania is able to develop all kinds of tourism activities.

Most of these tourism activities we are going to refer further already exists in UE countries, but due to infrastructure base and high prices tourists are charged for, the countries going to adhere to UE can not face the competition of developed countries. That is the reason why few tourists are using the services these countries offer.

The analysis of tourism international market points out that the tourists are focusing more and more to balneo-climatic tourism, that is the reason why Romania has to promote and exploit properly its natural potential: mineral and thermal waters, gas resources, mud and salty resources, etc. This aspect must be paid enough attention knowing the fact that every person will give a lot of money in order to recover or maintain his or her health.

Generally, the persons asking for this kind of tourism belongs to the third age category, age that very person on Earth wishes to accomplish. One has to take into account the financial possibilities of tourists, those belonging to the third age category are presumed to be financially well assured.

The intention with this study is to offer a source for scientific research and to get the attention of those involved in tourism business about the great potential Romania has by being blessed with so many mineral waters springs, potential that can be exploit on long term.

This activity must get the support of local public administrations, medical personalities from our region as well as by tourism services providers.

Transylvania, as historic region of Romania, occupies a surface of 75000 square kilometers, being surrounded by Carpathians Chain Mountains. Harghita, Gurghiului and Calimani Mountains, of volcanic origin, point out the active past of Transylvania area, today an area very rich in mineral waters. Daily, in this area over 6 million litter of mineral water are being spoiled in contrast with studies results showing the mineral water effects on prolonging life. The complexity of mineral water formula presents a lower level or radioactivity, fact that allows its use in medical treatments.

Using mineral waters as a drink or just for bathing one can stimulate the human body metabolism. Vitalization of internal organs, especially of heart, assures the equilibrium between Central Nervous System and that of Digestive one. This treatment must be made under specialized medical guidance, a large use having negative effects on human body. What is really remarkable regarding the curative

properties of Transylvania’s mineral waters is the natural percentage of carbon dioxide which helps the assimilation of active elements existing in mineral water by human body. Other curative effects of mineral waters consists of an accelerated irrigation of Peripheral Nervous System, the dilatation of sanguine vessels producing a warm effect on human body and the acceleration of eliminating process by human body of uric acid, helping to the detoxification process.

The curative effects of mineral water from Transylvania have been studied by local medical personalities but few of them were comprised in a specialized study. The leak in informing process of people about mineral water curative effect is due to a weak support got by specialists from government and a lack of logistic support.

The test and researches made on people by medical staff in spas were restrictively made because of lack of modern medical equipments. We are still surprised by the positive results these researches led to and the present tendency of transmitting the knowledge of traditional curative treatments by father to son.

This effect of cure of the mineral waters from Transylvania must be studied and eventually build up a viable strategy but just as a lasting development system project.

This aspect is requested especially because of the needs to involve together all of decision factors from the national governmental level to the local public administration and to the regional tourism and medical service providers.

The catch of the mineral water resources from Transylvania has to be correlated to an adequate infrastructure to ensure the basic needs for rest and medical treatments.

Also this has to be combined to the direct accessibility in to the natural places of the sources in the mountains and linked to the basic facilities of electricity, natural gas, water, phone networks. The curative effects of these mineral waters on different groups of patients, obtained by medical centers from Borsec, Covasna, Geoagiu or Sovata are very well known on national level but less on international one.

This lack of information is the reason why tourists from UE are not accessing these services in the area and even if they have the knowledge the infrastructure base regarding this matter does almost not exist.

This aspect of infrastructure modernizations belongs to tourism services providers. A strategy for long term is needed in order to present the importance of these natural resources by well known medical personalities whom to recommend and use in their treatments the use of curative effects of mineral waters.

The human life is sustained by minerals in a divine mixture.

The life in generally and especially the human life, it is a permanent exchange of organic and non-organic substances between the live organisms and surroundings. In both cases, human and non-human lives, the major conversion catalyst is the divine power.

In Transylvania, are concentrated one of the largest mineral resources from the world, factual finding in natural mineral waters, natural therapeutically gases, hydrogen bicarbide (methane), auriferous mountains, different kinds of precious metals and rocks, thermal waters, salt mountains and deposits and of course an important world-wide vegeto-animal-minerals treasury.

It is easy to understand why this area is populated with uncommon legends and facts, why the local populations had different kind of myths and faiths, why the mythological creatures and supernatural existences are populate and cohabitates on these lands.

In a small area like Transylvania, are concentrated so much natural treasures like in two-three continents.

In fact, the Transylvanian area was populated from un-memorable times. The archeological sites are un-demolishable evidences. So far in time goes this evidence, that the modern known history can not include and establish the precise time and culture bordering.

As a short presentation we can remember the amazing Tărtăria pre-ancient art of writing, having been dated to around 4800 - 4500 BC, these tablets are about 2000 years older than the Sumerian writings, which have long been considered the oldest writings in the world. Neither the Tărtăria tablets, nor the Sumerian symbols have been deciphered, but they are considered "writing" by the same principle of abstraction (fig.1).



Fig.1. The Tărtăria's ancient writing

Also the oldest bronze furnaces in Europe have been discovered in today's Romania, and their age is over 8000 years. The bronze objects found together with these furnaces show good skill from their makers, which suggests that the civilization that produced them had some time to develop this skill, and thus it is much older than the objects, the spiritual and scientific preoccupations of this ancient cultures can be seen in the calendars they left us, which are made up by structures similar to those found in the Britannic peninsula. The most well known calendar of this kind is that in the Sarmisegetuza city (the capital of the Dacian kingdom), where researchers have

uncovered a solar sanctuary with a complex structure, apparently used for measuring time and keeping track of astronomical phenomena.

The ancient Greeks - which called the local population hyperboreans - wrote that they ate mostly vegetables, honey, milk and derivatives and those they lived in perfect harmony with the nature. So wealthiness were these lands, that at Rome Empire conquest, in 106 A.Ch., the Rome Emperor Traian, ordered a 123 days long celebration, the biggest celebration in the history of the Roman Empire. The emperor was so proud of this victory that he ordered bread and money to be given to all roman citizens, and he suspended taxes for his people for a whole year.

From the ancient times there are chronics which mentioned the high level of longevity of these populations. The Dark Age chronicles spokes about 130 years ages at Romanian shepherds in Transylvania.

How? To explain is very simple.

The senescence is defined to be the period wherein it happening a long-time massive de-mineralization of the human body, the reason why the agility, ability and health are in regress.

One of the secret f the long-lasting life is the permanent re-mineralization, across eating, drinking high quality mineral water, and bathing in therapeutically waters. Certainly, these conditions must to be permitted by living environments. Let's enumerate a few natural health resources from Transylvanian areas:

natural mineral waters;

salt lakes and helio-therm lakes containing high levels of natural Iodine and Bromines; therapeutically mud's; high level of air negative ionization; natural choke damp; salt mines and salt mountains; pure and reach in aerosols atmosphere medicinal plants, mostly wide; healthfully foods; open-air activities;

It can be observed the life natural environmental conditions mixed by a divine benevolence in Transylvania. In Latin language, Transylvania means "The land behind forests".

Introductory to the natural mineral water springs in Transylvania

1. Prepossessed essay

Once upon a time, the Great Zamolxe (the ancient supreme divinity of these lands and inhabitants) realized that the trusty and well-beloveds are working hard, practices a lot of sacrifices, they had well donned villages, but they cannot growth because the hard and long-time wars against the invaders. However he was had great powers and large known-world influences in ancient gods brotherhoods, he can't stop the invaders malefic influences acting on own believers.

Must to know that The Great Zamolxe was a very peaceful god, which teaches he's folks the Earth and Sun benefits, the right ways and the differences between bad and good, teaches them the ancient writing, and arithmetic and geometric operations.



Fig.2. The ancients writing modes in Transylvania and Dacian territory.

So, He decided to create land abundances, in animals, agriculture, forests and rivers. It was a significant growth period of his people. So good life had his folk, until

they forget to work, to respect their country and respect their God. They had drunk a lot of wine and eat honey.

Seeing that, the Great Zamolxe asked his earth-born son, called Burebista, which was the King, to eradicate all vineyards and promulgate limitative laws for the population. So said, so done! The folk abandoned they faith-foreignism and return in to a very conformable, good and hard working people again. So much liked to Great Zamolxe's those changes; even He started to show His face to the people. They lived a long times in peace and prosperity. The high level of prosperity becomes very attractable to the other people and emperors. The Rome Emperor decided to conquer these lands. There were two great wars, and finally the Rome Emperor conquered these lands. In those times, the King was Decebal, one of the earth-born grandchildren of Zamolxe, and he was so proud that kill himself at Rome's conqueror. Zamolxe becomes so moody; even he decided to transform himself in earth-treasures to be closer to his fallen folk and don't let them to disappears in the History's ruins. So, in this way appears the multitude of natural resources in Transylvania, which are the assurances to longevity and health.

2. Transylvania, a wellness and long-lasting promises Land

Across whole territory, appear a lot of natural mineral water springs, starting with oligomineral waters, sodium-chloride-iodized waters, sulphureous waters, thermal waters, ferrous waters, calcium-magnesia's waters and a lot of different kinds of mineral waters. In this area it is so abundances in mineral waters that every day over 6 billions liters of high-quality mineral water, flow on the fields, brooks and rivers. Is it lavishness or common phenomena? In our opinion, both! These natural resources must feed the humans, animals and plants! There are not human monopolies!

In our opinion, these natural mineral resources and the environment conditions are the thoughtfully motifs and valid reasons which determine the wild animal's longevity and healthfully and powerfully natural acceleration build-up, reaching dimensions and ages further than other areas and also the vegetation biodiversity shown this incredible mixture between the organic and inorganic conditions. Thanks to the high

mineralization, the area’s soils permit to the spontaneously inoculation of plants to grow-up in different kinds and consistence of soils, assuring life resources and ideal habitats for a large number of animals – mammals, birds, reptiles, insects, fishes, even underground and on-ground living dumb animals, in a large biodiversity.

For example, a few picture, to illustrate these words see fig. 3.



Fig.1 The Sângeorgiu de Mureş Spa Salt Water swimming pool



Fig.2 The Sovata Spa Salt Water swimming pool



Fig.3 The Sovata Spa Salt Water Heliothermal Bear Lake



Fig.4 Salt hills and sodium-chloride-iodized waters at Săsar



Fig.5 Sulphurous and ferrous mineral water river - Harghita Spa



Fig.6 Ferrous and thermal mineral water swimming pool - Tuşnad Spa



Fig.7 Mineral waters Springs Glade at Selters Spa



Fig.8 Home-made mineral water swimming pool at Lueta

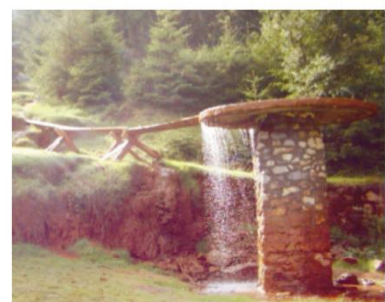


Fig.9 Mineral waters Spring at Tuşnad Spa - The city emblem



Fig.10 Household mineral water wishing well at Şanţ vileage



Fig.11 Long-lasting living horses (over 40 years) on Gurghiuului Valley

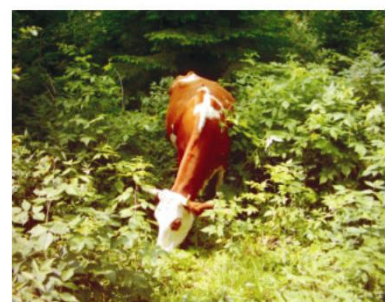


Fig.12 Cow grazing and drinkink natural mineral water in Harghita

In Transylvania, especially at local population, we find a special culture of mineral water! In many places the mineral water is called “wine water”, which mean that the mineral water is qualified same level with wine. To prevent alcoholism, they mix the wine with natural mineral water, obtaining a pleasant carbonated soft alcoholic drink, called “Şpriţ”.

The local culture of mineral water use is extended to feed the domestic animals, to cook with minerals waters and chiefly to have therapeutically cures with bathing with and drinking mineral waters. Spontaneously and of course with divine influences, the domestic animals and also the wild animals uses the mineral waters unconditionally day by day.

Like a geo-hydrological curiosity, in Transylvania are more than 4.000 mineral water springs with economically potential, which represents almost 1/3 of European mineral waters resources. It is significant, isn't it?

Why the mineral waters assure guaranteed rejuvenating and long-lasting life? Theoretically, is a very simple answer: these waters supply the necessary of minerals in the bodies! What is life brick? The cell. How complex organism is the cell? It's hard to answer, because with actually scientific cognizance we don't know the complete basic's of cells functions.

But what is well known is the fact that the cells are feeding and then generate life supporting energy. The cells need basic minerals, in different forms: elaborated, synthesized or naturally. Which is better and directly? The natural minerals. How can be reaching the natural mineral? Directly from sources. What kind of sources? For the first, is the water than the food.

In the Transylvanian waters we can find all of types of vital minerals, in Ion forms. The great advantage is that ion's of mineral pass directly in the cellular tissue thanks to osmosis. Because there are a few electro-chemicals molecular changes like: active transport, diffusion, water balance, bio- electrostatic equability, mineral concentration balance, voltage-gated ion channels, etc, all these in well-established mediums like: isotonic, hypotonic and hypertonic environments. These all important

and vitals life conditions are assured by Transylvanian mineral waters diversity. For example, even the Kallium accumulations in muscle cell determined reduced elasticity and lower power, in presence of Natrium (Sodium) ions, the Kallium is eliminated (across the bio-chemical Sodium-Kallium pump) and determinate the Calcium accumulation and both, the Sodium an Calcium, generate the grow of muscle power, respectively the amplification of the muscle mechanical work. In same time, the vital minerals allow to re-edify and increase the cell membranes elasticity. These means, an important rejuvenation fact of the cells, and naturally, of the living organisms.

Mineral water, spring water containing various mineral salts, especially the carbonates, chlorides, phosphates, silicates, sulfides, and sulfates of calcium, iron, lithium, magnesium, potassium, sodium, and other metals. Various gases may also be present, e.g., carbon dioxide, hydrogen sulfide, nitrogen, and inert gases. Ordinary well or spring water, in contrast, contains far fewer substances, mostly dissolved sulfates and carbonates, and calcium and other alkali and alkaline earth metals. Many mineral waters also contain trace elements that are thought to have therapeutic value. Spa therapy widely practiced in Romania, advocates bathing in and drinking mineral waters as a cure for a variety of diseases. We ca enumerate a few important minerals, like: Chlorine (Cl-), Bromine (Br-), Nitric (NO₃-), Shulphuric (SO₄-), Bicarbonaic (HCO₃-), Sodium (Na⁺), Potassium (K⁺), Calcium (Ca⁺⁺), Magnesium (Mg⁺⁺), Ferrous (Fe⁺⁺), Aluminum (Al⁺⁺), Ammide NH₄, Carbon dioxide CO₂, Metasylicilic acid (H₂SIO₃). Also there are a multitude of thermal mineral springs used for both external and internal treatments ; sulphurous chloro-sodic, calcic, hypotonic thermal springs ; bicarbonated, chloro-sulphated, calcic, sodic, magnezic, oligometalic mezzo-thermal springs ; chloro-sodic, calcic, hypotonic thermal springs ; sulphureous, sulphuohydric, chlorosodic, calcic, hypotonic thermal springs ; chloro-sodic, calcic, sulphurous, hypotonic, mezzo-thermal and thermal springs. But these are only a part of the multiples mineral waters sources! Many of them are un-investigated or un-known. Many of springs appears then move in other layers or

areas. It is very important to be investigated and classified, in a serious archive to the optimal use and benefits for environment and for the human use, so curative purposes so common uses.

Thanks to the great Transylvanian aquiferous, which working like a huge flooding agent of these subsoil's, and it is feeded with multitudinous, smaller or biggest, natural funnels across the surface waters passing through earth mineral layers and arriving to the Great Zamolxe's soul, and hence from here, these waters returns to the earth livings, blessed with life support mystic powers.

For those which not believe these facts, it is still available the invitation to visit and taste these natural treasures trove and of course, to feel and enjoy the Transylvanian Spirit.

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7. Directia Sanitara Harghita - Factorii Terapeutici Naturali din jud. Harghita

THE COSTS' FINANCIAL ADMINISTRATION ON ELEMENTS OF EXPENSES BETWEEN NECESSITY AND POSSIBILITY

Professor PhD. Rodica CISTELECAN, „Petru Maior” University, Tîrgu-Mureş

Lecturer PhD. Ioan RUS, „Petru Maior” University, Tîrgu-Mureş

The goal of activity displayed by lucrative units is to obtain profit, seeking permanently its maximization. The profit obtained and the capacity of the unit to give a positive response in a competitive environment specific to market economy imply the managerial ability to hold in and control the costs of the developed activity.

In our research we set the goal of studying the expenditures generated by the production activity of heterogeneous type units, in which the pursuance of expenditure using calculation articles is difficult. In order to reach this goal we investigated the organization and costs management on agricultural sector units, mainly on vegetable glass house.

In these units it is difficult to segregate the direct expenditure generated by raw materials and other materials, on types, while the manual labor costs are indirect costs. Eventually we propose an organizational, accounting, costs and expenditure pursuance methodology that will ensure, at managerial level, the opportune information needed for decisional act of activity's further evolution.

The informatics of costs pursuance activity can give a dully working lever for

organizations management. The informatics approach of the aspects treated in this paper work, in authors opinion, can be done by using integrate informatics systems or by makings of specific informatics applications. The authors realize a definition of suitable economic and organizational contexts to one or other solutions. Likewise, are described aspects and effects of one or other solutions implementation.

The goal of activity displayed by lucrative units is to obtain profit, seeking permanently its maximization. The profit obtained and the capacity of the unit to give a positive response in a competitive environment specific to market economy imply the managerial ability to hold in and control the costs of the developed activity.

Knowing the costs and using the offered information in the decisional process implies the organization and leading the financial administrative accountancy in accordance with the conditions from each company, the activities' particularity and not in the last, about the objectives followed by the managerial team [2].

Referring to the organization of the financial administrative accountancy, the inuring legislation says: “Trading companies, national societies, researching institutes, co-operative societies and the other juridical people have the obligation to organize and lead a proper accountancy, respectively a financial accountancy proper the law and a financial administrative accountancy adapted to the specifics of the activity” [1].

The methods' and procedures' choice implies the particularities' knowledge referring to the population structure, the technological process, the bounds and dependences between the fabricated products, the possibilities of selection, processing and data improvement referring to expenses and costs.

Our investigation followed the organization and costs management on agricultural sector units, mainly on greenhouses;

From the specific elements from these enterprises which influence the costs organization, we mention:

- The organization disposes of organizational structures whose activity, as duration in time is different: the hot greenhouses, closed, with continual production; cold greenhouses where the production process is seasonal, field production with seasonal production process, but with bigger duration in time and dependent on climatically conditions;
- Some arrays are obtaining entirely from sowing to the harvest in the same organizational structure; at others the production process is retracing in two organizational structures: the sowing is done in the hot greenhouse and the seedling is passed in the cold greenhouse or in the field; the tracing and the expenses' registration must correspond to this situation;
- The structure and the expenses level differs from an organizational structure to another: there are common expenses like: water consumption, the general expenses of administration, the expenses with productive staffs' wages and salaries, and so on; but ordinary expenses too, whose level differs in very large limits: electricity expenses, expenses with gas consumption who are very high in the hot greenhouse especially in cold season; the seed as row material is retrieving with high value in the hot greenhouse, where the seedling is prepared for solariums and field crop and with a smaller value on the field crop.
- The expenses with work forces differs in very large limits from a period of the year to another, the top being touched in April – September, and the minimum in November– Mars, this determines the existence of a large number of floaters;
- The price of products capitalization is imposed on the market but it differs for the same product and in accordance with the period between the harvest to utilization, for some products (salad, dill, parsley), unutilization in the first two days from the harvest determining their drawing out from the market, so real loss for the companies; in order to avoid these loss, the salesmen are obliged to practice oscillating prices adapted to the real market conditions even in the time of the same

day. The price in some cases may be even smaller than the costs at which the products were obtained.

The existing particularities from these companies determine some particularities in the organization, calculation and costs following [3].

At the investigated units we found out that there are two directions on this line.

- On the stage of the plan, through income and expenses budget, there is estimated, through calculation the product cost, on products groups; the calculation base represents the consumption from the past year. The leaving point represents the surface is going to be cultivated with each crop, the production estimated in tones, the estimated consumption per final production and through the method of simple division, there is estimated the production cost and the selling price [2];

The income and expenses evolution is followed monthly, without being a comparison between the mainly indicators which determine the profit, respectively: the stipulated cost, the effectively cost, the income realized from the product sale.

In our investigation we followed the expenses structure on elements of expenses as it is organized on profile units and the weight of different expenses

Absolute Relative

Costs	Costs	
1. MaterialExpenses	1088	10,88%
2. Combustible Expenses	380	3,80%
3. Gas Consumption Expenses	90	0,90%
4. Water consumption Expenses	179	1,79%
5. Postal expenses, telephone	25	0,25%
6. Electricity Expenses	463	4,63%
7. Seed and Plantingmaterials expenses	567	5,67%
8. Salariesand Wages Expenses	4559	45,59%
9. Insurances and Social Protection Expenses	1655	16,55%

10. Transport Expenses	202	2,02%
11. Other Operating Expenses	300	3,00%
12. Taxes Expenses	12	0,12%
13. Depreciation	480	4,80%
TOTAL	10.000	100%

The analysis of expenses structures on elements shows, the small weight of expenses with raw material (5,67%), with materials (fertilizers, pesticides) 10,88% and the raised weight of insurances and social protection 62,14%.

We consider that it would be good, for the unit, a modality through which you can follow and know in every moment the estimated expenses, the effectively expenses and their weight in both cases. This would be possible through the implementation of some specific elements destined to this intention.

The elements' computerizing which compose the production costs in greenhouses must ensure to the management information in real time upon them.

Gathering, processing, hoarding and data' remittance referring to following the costs on greenhouses can be realized in two ways [6]:

Through some integrated informational systems,

With specific independent applications

The implementation of some specific independent applications approaches the problems of following the production costs through three modulus: the production following modulus, management bookkeeping modulus and decision holder modulus. As a rule, the modulus which ensures the information decision holder represents an operative processing of data giving the executive management daily dates about costs' evolution.

The most modern integrated informational systems works at the level of decision holder modulus with specific technologies for processing the data' cubes. These technologies are known as OLAP (Online Analytical Processing). The advantage of this

technology is that once the processing data model is defined the processing results as reports, indicators and graphics actualize immediately in accordance with the modification of operative data.

The specific independent applications represent informational programs or simple modulus which records the costs and presents their evolution toward target level and on costs elements. The most used instrument for the implementation of an informational model fated to the following the costs in the production greenhouses is the component of tabelar calculation “Excel” from Microsoft Office.

The advantage of a specifically informational application is the fact that this can be realized exactly on the specific demands of the user, it can adapt easily to his needs and it isn't very expensive (about 500 € with Excel license). In this case it is better that the user (manager or specialty staff) to have the necessary knowledge to use the Excel.

There can be realized sophisticated programs with elements of self-learning that hoards and analyze the data on more periods of time, can make predictions of the costs or of other cost's elements in accordance with other cost's elements or of production. This way you may control the process of administrating the resources which represent elements of cost (water, temperature, fertilizers and so on).

Following the costs in real time offers to the decisional system, elements of control, foresight and regulation.

If we dispose of performant systems of observing the parameters for the plants growing in greenhouses (water system, fertilizers administration, heating, humidity, and so on) we may connect these systems directly as terminals for data introduction in the application of costs' following

Highlighting and following the expenses on elements, inclusively their weight per total, would permit the knowledge at the end of each line of the expenses elements where were recorded overfulfilment and causes investigation, that generated it.

The causes that are generating the majority of the expenses may be subjective or

objective. Between the subjective, there are the one caused of an inefficient management, at company level or at organizational structure, and these can be known and eliminated. The problems are impossible or almost impossible to solve when the increasing expenses are owed to some objective causes, external which are in some cases, governmental decisions with important effects upon the expenses level. I am mentioning, between these, the increasing value at usefulness – marsh gas, electricity, which can't be foreseen in the foreseeing. The program we propose would permit the enterprise to know in every moment the weight it has the expenses element affected on the external measures; governmental and adjustment, of the sale prices. This would permit the knowledge of the percentage to which every extern factor influences the rise of cost and at case the suitable increasing of the sale price or profit diminishing, for reasons independent on managerial politics. Using the informational program permits the simulation of some politics cost – sale price which to offer different variants to production – cost – sale price, with choosing the best variant from those three perspectives.

Another problem which draws our attention was following the efficiency on those three technical – organizational subunits: hot greenhouses, cold greenhouses and field crop. We consider that in the account 902 “Internal clearing concerning the obtained production” would be recommended the opening of three syntactical accounts of second degree on each subunit, and in the credit account to register the sum realized from selling the products at sale price, and in the debit account the effectively cost, the expenses generated by production realization. This would permit (with small adjustment) determining the difference between the products cost and the sum received from their sale, a very important information for appreciating the measure in which the selling price covers the production expenses and the activity efficiency of each technical – organizational subunits.

Highlighting the cashing from selling the products on subdivisions requires some organizational measures like: elaborating the delivery documents differentiated on technical – organizational subdivisions, the retail to be made only on sales slip in which to be mentioned

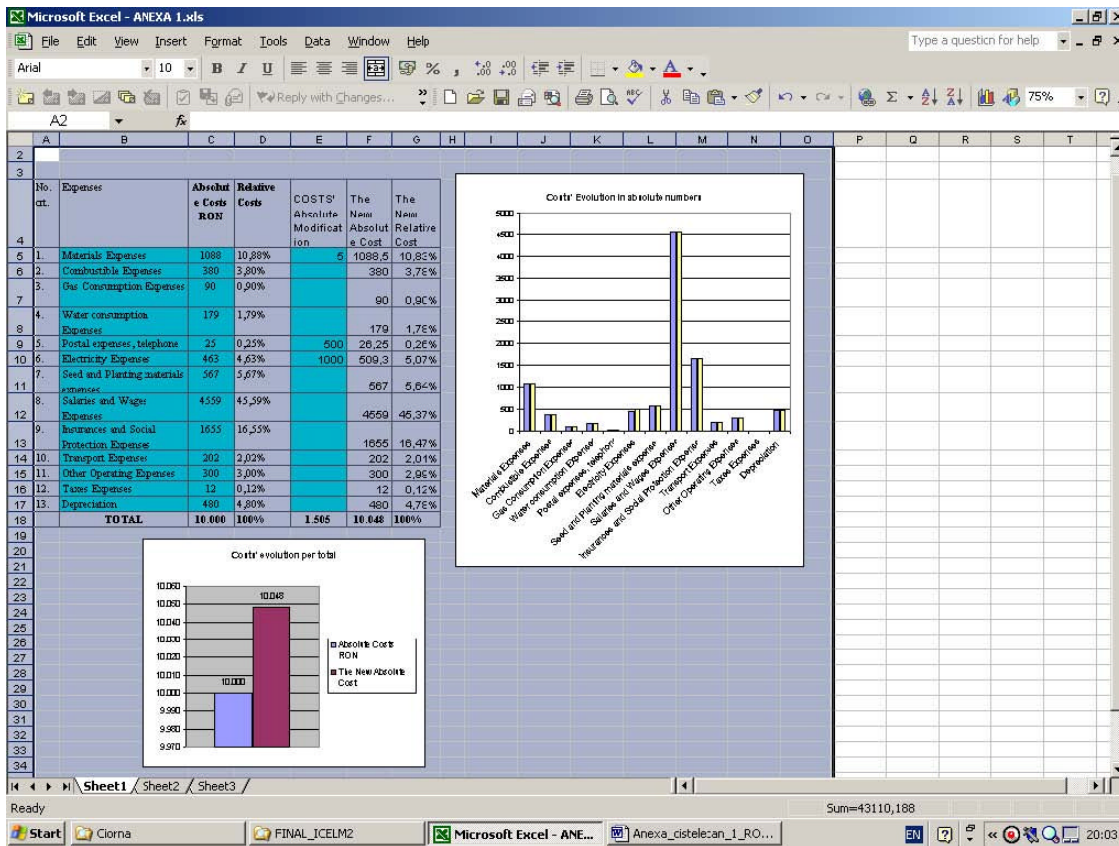
the product name so that to be possible the registration in financial administration accountancy, in the creditaccount 902 "Internal clearing concerning the obtained production" of the cashing resulted from selling the products on each subdivision [4].

The organization and leading the costs accountancy with the help of informational programselaborated on the presented procedures would permit following the cost evolution on expenses elements so that the manager would base his decisions on correctly and appropriate information.

The information from the account 902 "Internal clearing concerning the obtained production" permits the efficiency appreciation of each technical – organizational subunit and of the contribution which these bring to the realization of company profit.

Apendage no. 1

COSTS' FOLLOWING IN GREENHOUSES



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ASSURANCE SERVICES VERSUS AUDIT SERVICES

Professor PhD, Tatiana DĂNESCU, “Petru Maior” University, Tîrgu-Mureş

The need of assurance is required by business practice. There are different forms of organizing public interest for satisfying the demand of assurance. The person that provides assurance must be independent and impartial in relation with the users of the information that is examined. Audit corporations are able to perform both assurance and non-assurance services. The two types of services overlap when the quality of information constitutes the main purpose of rendering them.

Investors need independent assurances regarding financial informations and performance’s indicators of the entities. The accountants who are employed and are under their managers’ order offer financial information through the financial situations made with responsibility by them, but there is need of other professionals’ endorsement appreciated by the investors because of the following issues:

- Their own economic, technical, judicial knowledge;
- Their own independence regarding the interests of other users of the financial situations;

- Their suggestions given to the companies regarding the profit's increase and the operational efficiency's improvement.

These professionals' services – the auditors' ones – offer assurances regarding the information's concordance with the norms and settlements on this sphere and with the reality of the carried on operations, transactions.

The need of assurance is required by business and public life practice. It is not new. There exist numerous and various forms of judicial organization in public life created in order to satisfy the request for assurance like:

- Public services which are decentralized

E.g.: The consumer's protection which publish the result of the evaluation of products' quality by offering assurances to the consumers.

- Non-profit organizations, entities which estimate different domains in order to offer to the public assurance's services:
 - the assurance of the standards of quality control ISO 9000;
 - the assurance regarding the observance of the norms, the laws referring to the protection of the surroundings;
 - the evaluation and the effectuation of TV and radio programs' classification;
 - politicians and commercial procedures' assurance, the evaluation of the risks in a commercial agreement;
 - the assurance of the observance of the author's rights for the entertaining programs;
 - the assurance offered by the expert accountants, auditors through:
 - the services of the financial situations' certification;
 - other types of services like:
 - the assurance of different games and contests' development in a

impartial manner and according with the rules established by lotteries;

assurances regarding the veracity of financial previsions, of the control mechanisms in an entity, etc.

In the future, the request for the assurance services will increase according to the development of the anticipated information's request and of the quantity of information offered to the public through the internet.

Generally, the increase of the request for the assurance services takes place as a sequel of realizing the decision factors in entities regarding the utility of the assurance services for the improvement of the information relevance which is used in the process of taking decisions.

Assurance services are valuable because the person who offers the assurance is independent and impartial from the information he/she is evaluating.

The types of services offered by the companies from the accounting domain may be classified from the assurance's point of view as follows: 1

- services with a character of assurance;
- services which do not have a character of assurance.

I. The services with a character of assurance may be grouped in:

A. Certification services which include:

1. the audit of the financial historic situations;
2. the revision of the financial historic situations;
3. others services of certification (asked by the bank, regarding the efficiency of the internal control, etc.);

B. Other services with a character of assurance:

1. the assurance of the information' technology;
2. the assurance of other kinds of assurance.

A. Certification services:

1. The audit of the financial historic situations has the following characteristics:

- It is the predominant form of the services with a character of assurance offered by the audit companies;
- It is compulsory for the opened societies or other entities according to the legislation used in this domain;
- In most of the cases, it is assessed by the financial creditors (banks, etc.);
- It offers a high grade of assurance;
- It is finally done by sending a report where it is stated the opinion regarding the concordance of the significant aspects of the financial situations with the accounting principles generally accepted;

The users rely on the audited financial situations when they take decisions, making reference to the auditor's report like to an indicator of that situations' veracity.

2. The revision of the financial historic situations is a service of assurance requested by the entities which are not obliged to effectuate audit, which do not want to support an audit's costs and, though, want a certain assurance on the information in the financial situations. Its peculiarities are:

To offer a moderate assurance regarding the financial situations, necessitating less probative information in order to justify this level of certification; asking for less money than an audit.

3. Other services of certification may be required by:

- Banks, in order to observe certain financial clauses in the loan-contracts;
- Shareholders, the administrative council in order to test the efficacy of the mechanisms of internal control;
- Financers, for the provided financial situations in order to obtain finances, etc.

B. Other services with a character of assurance

¹ Loebbecke, Arens, *Audit – An integrated approach*, the 8th edition, Chişinău : ARC Publishing House, 2003, – pg. 7 – 8.

These ones can not be included in the certification services' definition even if specialists (accountants, auditors) who effectuate them must be independent in order to give an assurance regarding the information used by the decision factors.

They are different from the certification services because they do not require imperative the effectuation of a written report and the assurance does not aim at the fidelity of a written declaration of a third person, referring only at information's relevance and correctness (characteristics which may or may not be declared by a third person).

At this kind of services, specialists, accountants, auditors are confronting with a harsh rivalry because of other experts.

E.g. the evaluation of the correctness of the information given by the market's studies where specialists, accountants, auditors are vying with the firms which offer services in the market's studies' domain.

Even so, the advantage of the audit societies on the market of the assurance services is assured by their reputation on this field, by competencies and auditor's independence.

Other services with a character of assurance aim at the need of assurance of the traditional services' users (institutional clients, physical persons) for other types of information than the historic financial information necessary in the process of taking decisions.

For this type of assurance The American Institute for Authorized Public Accountants (A.I.C.P.A.) created the Special Committee of the Assurance Services

(Elliott Committee) whose aim is to develop different opportunities of services with a character of assurance.

The committee first report was published in 1997 as a virtual one accessible only on The American Institute for Authorized Public Accountants' web-site. The report includes the result of the studies in this domain.

In the future, the requirement for these services will rise because of:

- the new types of risks the business world is confronting with;
- the increase of the number of information sources which are asked for;
- other types of services like:
 - the assurance of the informational technology;
 - the assurance of other kind of information.

1. The services of informational technology's assurance are requested because of the development of the internet, of the electronic trade (e-commerce).

They appeared are developed because of the fact that:

- payments and orders are made through the internet – on-line – having as aim the transmitted data and the security of transaction;
- it requests the utilization of web-sites which implies assurances on the control mechanisms that are in use.

The category of the services of informational technology's assurance includes:

- a. the services of the electronic commerce's assurance;
 - b. the services of the assurance of the informational systems' correctness.
- a) the assurance services effectuated for economic transactions made through the internet are called *Assurance Services CPA Web Trust* and the societies or

bookkeeping examination obtained here a license for carrying out the services. Helped by an electronic seal *Web Trust* attached to the web-site by the specialist, these services offer the security that the web-site's owner is in concordance with the pre-established criteria through the practice assuring the integrity of transactions and informational processes.

Web Trust is a service of certification and its seal is a symbolic representation of the report made by the specialist after he had analyzed the management's declarations about its own practices related to the electronic commerce.

b) the services of the assurance effectuated by expert accountants referring to the informational systems' correctness give the opportunity to observe, on the one hand, if the informational system is made and used on a way that it can generate correct data and, on the other hand, if it is protected against the factors which cause errors in data.

If the assurance services *Web Trust* offers assurances to the web-sites' users, the services regarding the correctness of the informational systems offers assurances to the management and to the third persons that the data are correct and delivered in a real time.

2. The assurance services of other kind of information include:

- a. Services of economic performances' valuation;
 - b. Services of valuation of medical services' quality;
 - c. Services of some events' valuation.
- a) Services of economic performances' valuation

The economic performances' valuation by the financial situations' users require more complex activities than the ones offered from the historic financial

situations. Measuring the economic performances with the performance's indicators included in the board's chart is a necessary thing for the managers for the definition of the entity's goal and objects:

- a larger number of clients;
- more satisfaction given to the customers;
- the incomings' increase;
- the patrimony's increase; etc.

For this thing the managers introduce valuation systems of the performances on which the expert accountants offer the assurance that:

- financial and non-financial information reported by the valuation system of the performances are correct;
- performance's indicators assurance a concrete orientation to the strategic goals and objectives.

b) Services of valuation of medical services' quality done to the old persons.

When offering the assurance of the medical services' quality the expert account plays the role of a coordinator of these activities using specialists from the medical field.

c) Services of some events' valuation like giving prizes at conquests for : miss, the man of the year, the best director, national lottery etc.

All of these are supervised by bookkeeping services' firms in order to assure the audience that these conquests took place according to the rules and without frauds.

Remark: maybe you will not win an Oscar, but being an employee of an audit firm you may have the chance to participate at the Oscar awarding of prizes.

II. Services which do not have a character of assurance include:

- Accountancy services and services for managing the registers;
- Fiscal services;
- Services for managerial consultation.

The services for managerial consultation have an area of superposition with the services which have an assurance character. The difference between consultation and assurance services is made because of the goals of each type of service.

Consultation services' aim is to make recommendations to the management meanwhile the assurance services have in view to improve the quality of information.

Information's quality is an important criterion in a consulting contract, but it is not the basis goal of the consultation.

E.g. an auditor may be employed according to a consulting contract in order to transform the ideas for a business in a business. In this case, the aim is to realize a business, the qualitative information being just a low-result of the contract.

The two types of services are superposed when the quality of the information represent the main goal of the consulting contract.

The services of consultation made by the audit firms have increased significantly and due to this thing they have created departments involved exclusively in services of managerial consultation.

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THE ROLE OF THE FINANCIAL AUDIT IN THE INFORMATIONAL RISK’S REDUCTION

Professor PhD. Tatiana DĂNESCU, “Petru Maior” University, Tîrgu-Mureş

The need of financial audit is based upon three fundamental theories: motivating theory, agent theory and assurance theory. In accordance to these theories, the need of financial audit is proved at least through these arguments:

- accountants are motivated to perform their duties according to criteria set by the users of financial statements;*
- an independent opinion is expressed upon financial statements;*
- through the expressed opinion, there is a reasonable assurance level upon the true and fair view of financial information describing companies business.*

Financial audit contributes to the reduction of the risk that reported financial information is not correct. This type of risk is different from the risk of bankruptcy. The effects of reducing informational risk consist, mainly, of reducing the risk premium that is claimed by the investors, as well as reducing the cost of capital.

In the specialized literature, the necessity of the financial audit is explained through three theories:¹

- a) The motivational theory;
- b) The agency’s theory;
- c) The assurances’ theory.

a. **The motivational theory** explains the necessity of the financial audit through a superior professional behavior of the ones who are responsible for the drawing up of the financial situations.

It is considered that the audit not only it rises the financial situations credibility, but also adds a certain value to the financial situations’ information due to some motivational reasons; in other words, the ones who prepare the financial situations will do a better quality job because they know that those financial situations will be audited. It can be compared with the motivation of studying an object when knowing its needed for a final examination.

According to this theory, it is not encouraged the practice of drawing up financial situations which are not in conformity with the reality, thing made by accountants who know that those financial situations they are working for will be audited.

Consequently, the financial audit is necessary because it assures the control on the information’s quality because of the following reasons:

- According to a pre-established criterion in conformity with the user’s needs and desires of bookkeeping information it assures an independent verification of the bookkeeping information;
- It motivates the accountants to a work in concordance with the user’s criterion knowing that his situations will be checked by the independent financial auditor.

¹ Dobroteanu, C.L. Dobroteanu, L. *The Audit- Concepts and Applications*. Bucharest:Economical Publishing House, 2002, pg 30-33.

b. The agency’s theory justifies the audit’s necessity through the fact that investors can not really trust managers that they will use adequately the allocated funds without misappropriating them for their own use.

The agency’s theory is explained by the following aspects:

- The owners and the managers constitute different categories of users and each of them has as goal to get to the maximum with their fortune;
- Managers have the tendency to present the information in the financial situations on a way they can win owners’ trust while owners are not convinced that managers present them the truth, the reality of the facts;
- The information which is held by the two groups of users is different, thing which determines each of them to take advantage of the other one.

Due to the shown motives owners need – and managers admit and desire this thing – the designation of an extern and independent financial auditor to supervise the financial situations.

Owners’ motivation is eloquent and in the case of managers must be taken in consideration too the fact that, being the owners’ employees, are interested that owners have confidence on the way they lead the whole business or their incomes may become lower or owners may give up to their services.

On this way, managers too desire an independent financial audit which explains a favorable opinion on the financial situations in order to improve the image of the business’ management in front of the owners.

c. The assurance’s theory explains the necessity of the financial audit through two principles:

- The assurance’s principle which supposes that the auditor delivers a certain degree of assurance to the persons who rely on the audited information

- The information's principle according to which the audited information is more credible and useful in the process of taking decisions for the main users (investors, managers, etc.)

The necessity of the financial audit is justified by the request that exists for this activity due to:

- The existence of a conflict based on interests between accountants (the ones who prepare the bookkeeping information), entity and users of bookkeeping information;
- The utilization of the financial information in the decisional process, thing that may have economical consequences for the ones who are taking decisions;
- As a rule, the users of bookkeeping information are not prepared to appreciate the quality of the bookkeeping information.

The opinion of the independent financial auditor brings more credibility to the audited information from the accountants' point of view and the financial information's users. Most of the users are the shareholders, potential investors. Public is another category of users, being interested on the auditor's opinion because its present and future incomes depend on the financial situations' credibility. ²

This thing is eloquent for the public sphere, audited sector for an efficient use of public money, the audition being made by the Accounts' Court or by independent auditors.

Justified by the assurance's theory, the necessity of the audit is realized by reducing the risk that the presented are not correct. As follows, there is a risk of the information which differs from the business' risk to fail as a result of events that can not be anticipated even if the presented information was correct.

²Malciu, L. *The Bookkeeping Information's Request and Offer*. Bucharest: Economical Publishing House, 1998, pg. 31.

In the situation when the shown information presents a risk investors will desire to cover that risk by increasing the advanced capitals’ remuneration. On this way, the reduction of the presented information’s risk will determine a reduction of the bounty of risk pretended by investors and the audit will determine the reduction of the costs that are afferent to the allocated capitals and the promotion of the resources in businesses.

On this way, the auditor has to deliver a reasonable assurance through an independent opinion on the measure there is realized a true image of the financial situations. It is the motive because of which the auditors are called the “guardians” of the integrity of financial situations published by firms.³

The extern users of the financial situations need the audition of the financial situations in order to trust the presented situations. They need a person with the status of an expert accountant, a financial auditor to express his own opinion on the information from the financial situations.

The financial situations’ audition is realized according to strong established standards, some of them being useful too in carrying out other types of services with an assurance character.

E.g.

In order to take a decision related to giving or not a loan to the X Company, a bank manager needs the financial situations’ audit of the X Company.

Manager’s decision is based on:

- Previous financial relationships between the bank an the X Company;
- Financial position of the company, its performances presented in the financial situations.

³Dobroteanu, C.L. Dobroteanu, L. *The Audit- Concepts and Applications*. Bucharest:Economical Publishing House, 2002, pg 32.

The level of the interest's installment⁴ practiced by the bank (if it agrees with the loan) will be negotiated depending on 3 factors:

1. the interest's installment for the investments without risk, equal with the one obtained by the bank if it invested with the state's legal obligations having the same term as the requested loan;
2. the economical risk shown by the client;

It would be taken into consideration the entity's possibility not to repay its loan because of some general economical conditions or specific to the developed activity like: economical recess, unexpected rivalry in the activity's branch;

3. the informational risk which express the probability that the information which was taken into consideration in order to estimate the economical risk not to be exact, that the financial situations to be wrong.

The negotiation of a low interest's installment is due too to the audit services which contribute to the diminution of the informational risk.

As a result, the audit reduces the informational risk, assures the capitals' acquirement at reasonable costs.

E.g.

It is supposed that:

- the requested loan means 50 millions Euro;
- because of the audit, the interest's installment is reduced with 1%;
- the savings made at outgoings with an interest of 500.000 Euro;
- audit's cost: 15 000 euro;
- net savings: 485.000 Euro.

The main causes of the informational risk are:

⁴ Loebbecke, Arens. *Audit – An Integrated Approach. The 8th edition*, Chişinău : ARC Publishing House, 2003, pg. 8-11.

1) **A big volume of the information** due to the business and commercial transactions' development. They rise the probability that in the bookkeeping information may exist some information wrong registered.

E.g. At a big company, which has thousands of contractors, they have to pay a contractor with 1.000 Euro more due to some inadequate intern procedures, error which was not discovered. If there are other undiscovered errors, the accepted total of them may touch a significant level.

2) **Complex commercial transactions**

The transactions' increase determines these to be registered harder and, on another way, to necessitate the application of the professional reasoning.

3) **The distance between information and its users**

The decision` factors from the entities can not know directly all the information about the entity as it is given by other persons, thing that rises the possibility of not obtaining deliberately or not the whole information.

4) **Favoring information by the information's contractor**

If the person who delivers the decision factor`s information has different goals from the ones of the decision factor, there is the risk that the involved information be manipulated in the favor of the information`s bidder and the result will be a wrong information.

E.g.

In the financial situations used in order to obtain a loan there exist a big probability that they are presented in such a way that the debtor rises his chances for obtaining the loan.

The disinformation may be:

- Direct- by presenting wrong information;
- Indirect – by presenting incomplete and inadequate information.

The effect of the informational risk's reduction

In an article published in December 11, 1995, in „Accounting Today” magazine, an auditor from KPMP expressed his opinion on the possibility of reducing the capital's cost in the next 10 years. The auditor presents the following model of calculation:

- Capital's cost – 13%;
- Capital's elements of cost:
 - The interest's installment at no risk investments - 5,5%;
 - The bonus for the economic risk - 3,5%;
 - The bonus for the informational risk - 4%.
- The weight of the informational risk in the capital's cost – approximately 30%.

The auditor's prognostication foresaw:

- the informational's cost reduction with 37%, in short from 4% to 2,5%;
- the reduction of the capital's cost from 13% to 11,5%.

The article's author foresaw the following factors which play a role in the reduction of the informational risk:

1. the technological progresses which will reduce the costs of the relevant and convenient information's.
2. the diminution of the risk to obtain old information by developing the "on-line" activities.
3. new standards for accountancy and audit:
 - the financial information's presentation;
 - risks and incertitude;
 - the presentation of the information which is not financial;
 - the foreboding information's presentation.
4. new levels of assurance offered by auditor through:
 - new and more efficient methods to effectuate audits;
 - continual audit of the systems based on informatics.

The problem of the informational risk is seen differently by entities according to their size. On this way, the small entities prefer paying larger interests to increasing the outgoings with the informational risk's reduction (the financial audit's cost); the big entities like better abiding the outgoings for the informational risk's reduction by appealing to the following methods:

a) **the financial situations' audition**

The financial audition is the most used modality and offers reasonable, complete and impartial information; auditor have a significant responsibility for the work done by them, for their own opinion which is expressed.

If there is found out that the opinion is incorrect, the auditor may be summoned at laws by the financial situations' users, by the managers who employed him.

b) **To assume the informational risk** of the entity's management, thing done by the financial situations' user, for example, by the financial creditor.

These cases are frequent. The company's managers have a responsibility regarding the given information through financial situations. If the users (for example the financial creditor) registers a financial loss as a result of the incorrect financial situations presented by the company, they may summon in law the company's management, it is less probable that those funds will be retrieved (for example in case of failure of the financed company).

c) **The verification of the information by the financial situations' user**

The user (e.g. the bank) examines the financial situations in order to obtain information about their correctness.

The method is not efficient for the user even if there are enough people who are doing this.

E.g.

- the fiscal inspector checks the declarations of taxes and duties;
- the company which purchase another entity employs an auditor for the independent examination of the information in the financial situations.

To conclude with, the market of the services with an assurance character (where the audit is included in) will extend itself according to the technological and informational developments, case in which the audit's value will rise due to the thing that it reduces the informational and, as a consequence, diminishes the cost of the capital's attracting.

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LIFE INSURANCE PRODUCTS AND ECONOMIC DEVELOPMENT

PhD. Candidate Alin Tudor BĂIESCU, “Lucian Blaga” University, Sibiu

Every person possesses at a given moment in time a certain patrimony made up of his or her entire amount of goods, or other valuable objects he or she owns. Any person approaches these belongings in two main ways: 1 – Patrimony Maintenance – which refers to financial patrimony protection against certain events whose occurrence could lead to a decrease in its value (by property insurance, and life insurance, respectively); 2 – Patrimony Development – which means the increase of the total value of a person’s belongings as a consequence of different investments, including life insurance with an endowment policy.

But taking out life insurance in order to maintain and develop personal patrimony has not only microeconomic effects (at individual level), but also these effects, on their turn, have consequences at the level of the entire economy. More concretely, those who buy such a financial service maintain and even stimulate the demand for goods and services, which represents the “engine” of business development in any economy.

I. People's Approaches towards Individual Patrimony

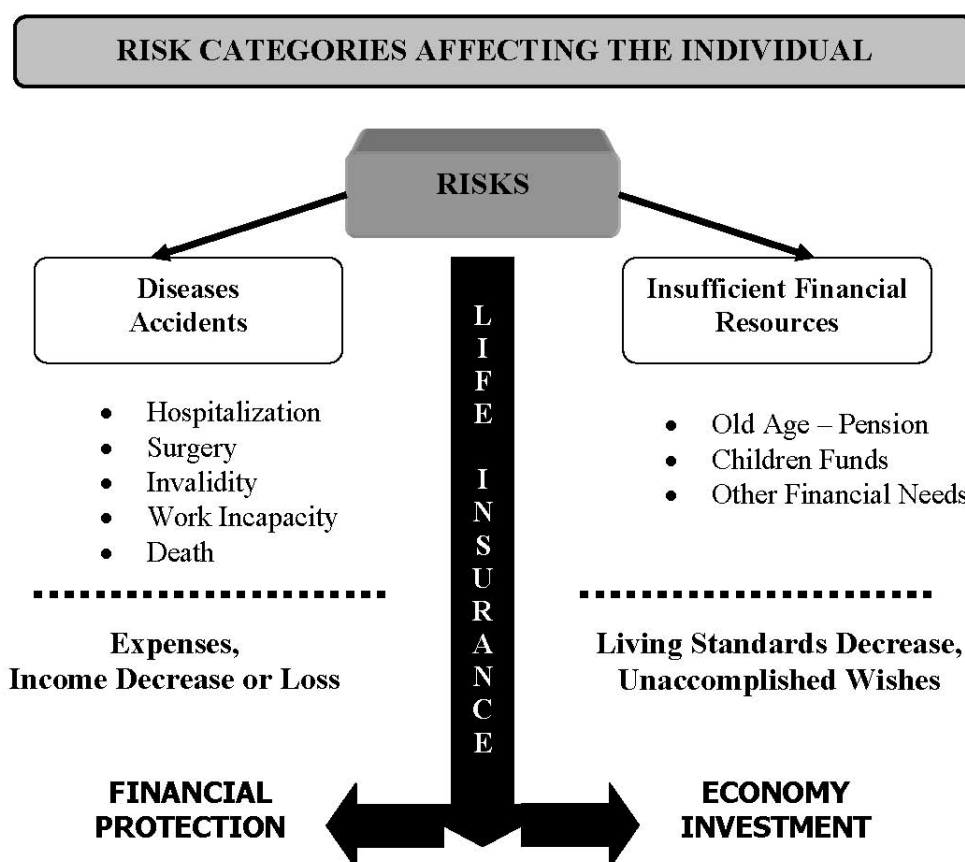
Independent of age, sex, education, occupation, or living area, almost everyone in the world possesses at a given moment in time a certain **patrimony**. The size, value, and "make-up" of that fortune vary, of course between individuals and moments in time. However, most of the times, personal patrimony is made up of the entire amount of goods or other valuable objects owned by the person, such as: one or more houses (apartments), one or more cars, works of art, jewelry, home appliances, financial resources directed to different placements.

At the same time, any person approaches these belongings in two **main ways**:

1. Patrimony conservation - which refers to financial patrimony protection against certain events, whose occurrence could lead to a decrease in its value. The two most used patrimony conservation manners are property insurance involving all the elements that make up a person's fortune, and life insurance taken by the person who owns the goods, respectively. For example, if a person's car is stolen, his or her patrimony decreases by the value of that vehicle (for example, EUR 25,000); if the property is protected by car insurance, the insurance company has to give compensations to its client amounting to the exact actual value of the car (EUR 25,000), which means that, although the risk of theft has occurred, the person's patrimony value has remained unchanged, being conserved.

2. Patrimony development - which means the increase over time of the total value of a person's belongings as a consequence of different investments made in bank deposits, investment funds, public securities, bonds, shares, life insurance with an endowment policy, private pension funds, real estate investments (land, buildings), etc. Thus, if every such placement generates a certain profit (taking the forms of interest, dividends, or rent), the fortune of the person who owns all these elements increases with time.

We should also mention that these two main types of individual approach (patrimony conservation and development) are determined by the existence of two main types of risks concerning each individual, which, if they occur, cause serious problems and inconveniences to the involved parties. More concretely, we talk about⁵:



A) The risk of disease or accident occurrence – as a result of the occurrence of any of these cases, the respective person would need hospitalization, surgery, he or she could become an invalid, or even die; financially all these cases determine, on one side, expenses, and, on the other side, a decrease in or even the loss of income made by the

⁵ The author's own approach to the types of risks affecting people.

individual affected by the risk.

B) The risk that, at certain times in life, a person does **not** have sufficient **financial resources** in order to reach his or her goals, times such as:

a) Retirement time – when the lack of financial reserves that would be added to the state pension affects the living standards of the respective person, standards that significantly decrease;

b) Certain wishes concerning the children in the family (education, car, or house funds), or other personal objectives (a special vacation, a new car, a larger house, business development, etc.) – all these require large amounts of money, which, if not available, make the desired goals impossible to attain.

Under these conditions, the life insurance products represent financial services whose role is to diminish or even eliminate the negative effects of personal risk occurrence. More concretely, we can say that **life insurance** performs **two** extremely precise **functions (roles)**:

- 1st Function – **Financial protection**;
- 2nd Function – **Endowment** (Economy / Investment).

And the concrete ways by which life insurance products perform these functions, and further the ways in which they contribute to the country’s economic-financial development process are the themes that will be largely discussed in the following paragraphs.

II. Life Insurance Products’ Contribution to Achieving the Financial Protection Necessary to Individuals, and its Effects on Economic Development

When an individual becomes seriously **ill** or is the victim of a bad **accident**, a series of major financial problems occur:

a) The respective person may need *hospitalization, surgery, and specific treatment*; all these involve, on one side, a temporary income decrease regarding the risk affected person, and, on the other side, expenses, which are most of the times very large;

b) The disease or accident may also lead to (temporary or permanent, total or partial) *invalidity*, case in which constant medical care is required, as well as treatment, all of which mean more expenses; moreover, invalidity may mean that the respective person can no longer work (temporarily or permanently), which determines additional financial problems generated by the decrease in / loss of the income earned by the sick person;

c) Last but not least, a disease or an accident may lead to the death of the risk affected person; in this case, the financial difficulties are determined by two different situations: the expenses the family of the deceased person has to make at the time of death (the costs involved by organizing the funeral ceremony, fees paid by the heirs, and other expenses), as well as the loss of the income earned by the deceased person.

As far as the **impact** of such unwanted events **on economic development** is concerned, the income decrease leads to:

1. A decrease in consumption and investments made by the family whose member is affected by the disease or accident;

2. The decrease in demand generates a reciprocal reaction on the market, which on turn leads to a **decrease in the supply** of different provided **goods and services**, situation which

3. Negatively affects the country's economic-financial development process.

It is, however, evident that **the overall effect generated by the few number of families whose one or more members become ill or suffer from accidents annually does not basically affect a country's economic-financial evolution, but the phenomenon is present and has reduced global effects.**

In order to **act against** these particular **negative** (individual and global) **financial effects** of diseases and accidents, **life insurance products** provide their buyers with the so-called **FINANCIAL PROTECTION**: a substantial fund (a large amount of money called SUM INSURED) that has two **main purposes**:

- **Covering the expenses** generated by hospitalization, surgery, or different types of treatment, so that these costs were not born out of the insured's or his or her family's own financial resources;
- **Replacing the income** that is lost due to work incapacity or death, for a certain period of time, so that the living standards of the risk affected person or his or her family remained unchanged until viable financial recovery solutions could be identified.

In conclusion, independent of the unwanted events that occur in a person's and his or her family's life, and usually generate financial difficulties, **the existence of a life insurance product** leads to a decrease in or even disappearance of these problems, and allow the maintaining of the current living standards (including consumption habits). And as far as the impact on the economic-financial environment is concerned, it is reduced or even eliminated; therefore, **the country's economic development process is not negatively affected**.

III. Life Insurance Products' Contribution to the Accumulation Process of Financial Resources Necessary to Individuals, and its Effects on Economic Development

As it has already been said, **the second category of personal risks** that may affect a person and his or her family is constituted by the **lack of adequate financial resources** at certain times in life, which could make the living standards of the

respective person decrease, or some very important wishes remain unfulfilled. More concretely, these cases refer to:

A) The time of **retirement**, when state pension becomes the main income source of most of the people who cease their professional activities; then a real problem occurs because in most countries the state pension system does not provide sufficient income for maintaining the living standards at least at the level of the active period.

In Romania as in other countries in the world, the state pension system cannot adequately answer people's needs anymore. Although it was efficient when first introduced, the state pension system generates income that currently does not allow people who cease their professional activities to maintain their living standards at least at the level held before retirement.

First implemented in Otto von Bismarck's Germany (at the end of the 19th century), **the state pension system** worked according to a simple scheme: every active person had to contribute some of his or her income to a state budget centralized fund, which was used to pay people who had ceased their professional activities and, consequently, had no income source.

However, the changes that have occurred over the years (including in our country), both in the economic, and in the social life, have made this mechanism stop working as well as it did when first implemented. Here are the main reasons that have led to a dramatic decrease in the level of state pensions provided to the population:

- The decrease in the percentage of active vs. non-active people (the number of those who contribute to the pension fund). For example, in 1989 in Romania 6 active people contributed to the income of a retired person, while in 2002 the proportion was 1 to 1, and in 2003 there were about 4 million active persons and approximately 6.5 million retirees;

- An increase in the age at which people start working and begin contributing to the Fund (this phenomenon occurs as young people increasingly pursue academic and postgraduate studies and postpone starting their working life);
- Average life expectancy has increased over time (meaning that the period of time during which a retiree has to be supported by the Pension Fund is increasing).

B) The lack of an adequate **fund** to be used at **financially supporting children's studies** or **other** of their **needs** (such as buying a house, starting a business, etc.) evidently affects the fulfillment of these objectives.

C) The same applies to the fulfillment of **other wishes** of a person and his or her family, such as **buying a house**, starting or developing a **business**, or **meeting other needs**.

The **impact** of such unwanted events (the decrease in the living standards at retirement time, and the failure to fulfill needs related to children or other personal objectives, respectively) **on the economic environment** is represented by the following:

- 1. A decrease in consumption and investments** made by the retired person or by the family with insufficient financial resources;
- 2.** The decrease in demand generates a reciprocal reaction on the market, leading to **a decrease in the supply** of different provided **goods and services**, situation that
- 3. Negatively affects the country's economic development process.**

Compared to the relatively reduced negative impact that the occurrence of a disease or accident has on the economic environment (due to the small number of people affected by these risks), this case is different. And that is because **the number of**

retirees and families with insufficient financial resources is currently extremely large in Romania; therefore, the effect of this situation on the economic-financial environment is also extremely substantial.

In order to **act against** these **negative** (individual and global) **financial effects** generated by the lack of sufficient financial resources at different times in a person's life, some **life insurance products** offer their buyers the so-called **ENDOWMENT POLICY (relating to individual PATRIMONY DEVELOPMENT)**: the opportunity of accumulating a substantial fund over time, fund that has at least **three main purposes**:

- **Starting private pensions** that would be added to the state pensions, providing the respective persons with financial support that is absolutely necessary in order to maintain or even increase living standards after retiring from the professional activities;
- **Accumulating funds** that are necessary for fulfilling different needs related to **children**, such as financing their studies, buying them a car or an apartment;
- **Accumulating financial resources** that are necessary for fulfilling **other wishes** of the respective person and family, such as buying a larger house, starting or developing a business, objectives that can be accomplished under the conditions of adequate financial support.

All life insurance products that pay a certain amount of money at the end of the contract may be used as an excellent method of starting an additional pension that will be added to the state pension. As the value of state pension is very difficult to estimate and control (we do not know how many active people will there be in, for example, 20 years, what their income will be, how many retirees will have to be paid out of the Pension fund), **private pension obtained by means of life insurance**⁶ gives the special

⁶ We should distinguish between the **optional** private pension system that is represented by life insurance products (the system we are discussing in these paragraphs and that is already at work) and the **compulsory** private pension.

advantage that every person can decide its particular level. Thus, if the contribution to such insurance is substantial, so will be the value of the private pension, and if the contribution is smaller, the benefits will be as such.

Another **major advantage** of a placement in a life insurance policy as compared to investments in bank deposits, securities, or other investment forms is **investment protection**.

For **example**, let us discuss the case of a person who will need a certain amount of money in 10 years in order to **finance his or her children’s studies**.

If the respective person chooses to gradually accumulate money in a bank placement, there is a risk that the accumulation process might stop in case the respective person becomes ill or suffers an accident that prevent him or her from working (making money). Moreover, the respective person might have to appeal to the resources that he or she has already accumulated in the bank account in order to cover the expenses generated by the unwanted events. Consequently, he or she can no longer accumulate the desired amount of money.

In case the money is invested in life insurance, the situation is very different. Even if the previously mentioned events occur, the insurance company will cover all the necessary expenses, without deducting the payments made during the duration of the policy from the benefits to be paid at the end of the contract. Consequently, the entire amount of money the client desires to have in 10 years remains intact, independent of the events that occur during that time.

Obviously, before making any placement, the client-investor should thoroughly analyze the creditworthiness of the insurance company with which he or she intends to place their financial resources. We should emphasize here that the elements that any investor should analyze before making a placement are reliability, profitability, as well as investment liquidity.

In **conclusion**, at the most important times in life the **living standards** of an individual or his or her family may **remain unchanged** or **even increase** as the endowment policy (the patrimony development component) of life insurance provides the buyer of such a service with the financial resources necessary to fulfill different wishes related to children (education, house, etc.), or other family needs (a better house, a better car, special vacations, starting or developing a business). All these actually determine:

1. An **increase in the market demand** for different goods and services, situation that will
2. **Encourage the production** of such merchandise, and thus the **business development** of the companies producing it, all these leading to
3. **The stimulation of the country’s economic development.**

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CONSIDERATIONS REGARDING THE RECOGNITION AND EVALUATION OF GOODWILL

Associate Professor PhD, Adrian TRIFAN, “Transilvania” University, Braşov

The paper puts forward the analysis of the specific way of recognition and evaluation of the goodwill and its correlation with the applied requirements of the recognition of the elements of financial statements in general. More exactly, the purpose of our step is to clarify, for correct application, the specific notions and, at the same time, the applied ways of recognition and evaluation of the classified elements as goodwill.

The goodwill may affect significantly the comparability of the financial statements between different companies that use different accounting methods. Under these conditions, the user of the financial-accounting information must possess the knowledge necessary to eliminate any possible deviation that could be created by the goodwill, its recognition, amortization and impairment.

On the other hand, the enactment of the International Financial Reporting Standard (IFRS) 3 Business Combinations replacing IAS 22, which is outdated, improves the process of evaluation of the goodwill, offering at the same time more consistency to the theoretical presentations which define its particularities, accounting treatment, presentation, interpretation and specific analyze.

There are many interpretations given to goodwill.

In general, from the point of view of accountancy the goodwill is known to represent an intangible asset, which contributes to the maintenance and development of the potential of a company's activity. It is represented by customers (customers' fidelity and attitude towards the firm, the capacity of attracting new customers due to market expansion, customers' number and quality, etc.) the quality of the relations with the suppliers (the quality of the services and of the goods delivered by the suppliers, the possibility to select the suppliers, etc.), outlets, reputation, etc.

According to the Accounting Regulations harmonized with the European Directives, approved by the Public Finances Minister's Order no. 1.752/2005 the goodwill “appears - as a general rule – at the consolidation and it represents the difference between the cost of acquisition and the value at the date of transaction, of the part from the net assets acquired by an entity”.

The goodwill may be under the form of goodwill or badwill.

More exactly, the goodwill appears when the cost of a group of companies is superior to the quota given to the buyer from the net fair value of identifiable assets, liabilities and contingent liabilities of the acquired company. It is actually a payment made by the buyer due to the anticipation of the future economic benefits. These benefits may result from the synergy of the purchased identifiable assets or of the assets which individually are not qualified to be recognized in financial situations, but the buyer is ready to pay for them within the acquisition. Thus, it may be said that the goodwill is represented by some virtual assets.

On the other hand, badwill appears when the cost of the acquisition of the titles is inferior to the quota given to the buyer from the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired company.

Once we made clear what goodwill is and what its forms are, the obvious question to ask is: How will goodwill affect the financial statements of the company?

We mentioned above the fact that goodwill is represented by virtual assets. Under these conditions it seems logically to include this goodwill in the category of intangible assets.

Regarding this aspect, in the special literature there are different opinions concerning the recognition and evaluation of the goodwill, and one of the most important problems that arise is if this totally accomplishes the criteria of recognition of the assets.

One of the arguments against the recognition of the goodwill is given by the fact that it does not satisfy, firstly, the definition of the intangible assets.

Thus, according to IAS 38 Intangible Assets, the application of the criteria of the recognition of the intangible assets generates the following definition of these: an intangible asset is an identifiable nonmonetary asset, without physical substance, which is separable and which arises from contractual or other legal rights, that is capable of being separated from the entity and sold, transferred, licensed, rented or exchanged - either individually or together with a related contract, asset, or liability and that is clearly distinguishable and controlled separately from the entity's goodwill.

The same Standard specifies that the goodwill cannot be sold separately from the acquired entity, so it does not have a separable character, for it may be identified only as a difference. In addition, the norm also specifies the fact that the goodwill generated internally (from its own resources) must never be recognized as assets. An entity may have expenses with the purpose to generate future economic benefits, but if an intangible asset does not have a result in order to satisfy the criteria of recognition of IAS 38, it is often described as a contribution related to the goodwill generated internally. This is not recognized as an asset, because it is not an identifiable resource controlled by the entity with a cost which could be measured credibly. Consequently, it does not respect the definition of assets according to the International Accounting Standards.

Another argument against the recognition of the goodwill would be the fact that it cannot be evaluated for a certainty, except for the moment of grouping the entities. Later, its value is determined through appraisals, appraisals which are based on the appraiser's assumptions. As such, the value of the goodwill is subjectively determined.

The subject of recognizing the goodwill in the financial statements has found, besides the opponents whose arguments were presented above, proponents, too, among the professionals. The proponents of the recognition of the goodwill affirm that this would really represent the present value of the excess returns that an entity could obtain. This group claims that determining the present value of these excess returns is analogous to determining the present value of future cash flows associated with other assets and projects.

Each of the two groups, because of their well-formulated arguments, has its merits.

As it is the case with the recognition and evaluation of the goodwill, the accounting regulations from our country regarding the accounting treatment of this have not kept up with the new existent trend at the international level either. Then, it is very well known the fact that different accounting treatments applied according to the professional judgment generates distinct influences upon the results.

Both in the accounting practice and theory the following main methods for the treatment of the goodwill have crystallized:

- maintaining the goodwill in the asset without amortizing or provisioning;
- imputing the goodwill to its own capital;
- capitalizing and provisioning the goodwill in the case of the impairment of the acquired assets;
- capitalizing the goodwill and its amortization.

Before IFRS 3, IAS 22 Business Combinations stated that the goodwill had to be

amortized systematically during its useful life. The period of amortization had to reflect the best estimation of the period during which the future economic benefits were awaited to be generated by the entity. In this situation it functioned the suggestion – disapproved by the specialists – that the useful life of the goodwill did not have to exceed 20 years from its initial recognition. Then, the used method of amortization had to reflect the way in which the economic benefits arising from the goodwill were waited to be consumed. The linear method was recommended, except the case in which there was a convincing argument or proof that another method and other duration of amortization were more suitable under the given circumstances.

In addition, the same IAS 22 stated that the entity, at the end of every financial year, had to estimate the recoverable value of the goodwill being amortized during a period exceeding 20 years from the date of the acquisition, even if no clue of its impairment existed. This thing was difficult to put into practice, especially when the goodwill had a long useful life.

The same Standard stipulated a special accounting treatment for the badwill. As long as this corresponded to awaited future loss, loss identified in the acquirer’s plan of acquisition, this badwill had to be recognized in the profit or loss account. In the other situation, when the badwill did not correspond to the future loss it had to be recognized at income, thus:

- that part which did not exceed the fair value of the acquired nonmonetary identifiable assets, had to be recognized, systematically, along with the weighted average and the remained useful life of the acquired amortizable identifiable assets;
- the part which exceeded the fair values of the acquired identifiable assets had to be recognized immediately at income.

In accord with IFRS 3, the excess of the cost of acquisition over the acquirer’s interest

in the fair value of the identifiable assets and liabilities acquired is described as goodwill and is recognized as an asset.

According to the same IFRS, goodwill is not amortized. The goodwill should be tested for impairment annually.

We have already noticed a fundamental change. It is now forbidden the amortization of the goodwill. Then, for the purpose of impairment testing, goodwill should be allocated to each of the acquirer’s cash-generating units or groups of cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are allocated to that unit or those units.

At this moment we should clear up what a cash-generating unit represents.

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

On the other hand, the excess of the acquire’s interest in the fair value of the identifiable assets and liabilities acquired over the cost of acquisition is a gain and is recognized in the profit or loss. This difference is not recognized on the balance sheet as negative goodwill. It is recommended that, before any gain is recognized, the acquirer should reassess the cost of acquisition and the fair values attributed to the acquiree’s identifiable assets, liabilities, and contingent liabilities.

The first example

SM (big society) acquired 70% of the common shares of a SF (subsidiary) for the sum of 9.000.000 u.m. (monetary units) on the 1st of April exercise “N”. At the date of acquirement the equity of the SF was made of: paid-in capital 7.500.000 u.m., reserves 3.000.000 u.m., resulted 300.000 u.m. The fair value of the identifiable assets and liabilities of the SF resulted after the reevaluation is smaller than the accounting value with 2.250.000 u.m.

To be demonstrated the result of the acquisition:

- thousand u.m. -

The cost of acquisition of the titles		9.000
Paid-in capital	7.500	
Reserves	3.000	
Resulted	300	
The difference between the fair value and the accounting value of the acquired assets and liabilities	(2.250)	
Equity evaluated at the fair value	8.550	
Quota of the equity evaluated at the fair value, which belongs to SM (8550 70%) ×		(5.985)
Goodwill		3.015

We would like to mention that while determining the goodwill the deferred taxes were not taken into account.

The accounting treatment for a business combination may be different from the fiscal treatment. Under these conditions some differences may appear between the fair value of the assets, liabilities, acquired identifiable contingent liabilities and their base of taxing. Thus, according to IAS 12 Income taxes, while counting the business combinations, we should take into consideration the deferred tax, too.

When the control over an entity, more exactly the power to govern its financial and operating policies, is obtained following the successive acquisitions of titles, each transaction should be treated separately with the purpose of determining both the fair value of the assets, liabilities, acquired identifiable contingent liabilities and the value of the goodwill.

The second example

SM takes over the control of the SF after two successive acquisitions of titles,

thus: on the 1st of January exercise "N" acquires 30% of the titles for the sum of 500.000 u.m., and on the 1st of July the same exercise 40% for the sum of 800.000 u.m. The value of the equity of the SF on the 1st of January was of 1.500.000 u.m., and on the 30th of June of 1.750.000 u.m. We assume there is no difference between the accounting value and the fair value of the assets, liabilities and contingent liabilities of the SF.

- thousand u.m. -

The equity at the fair value at the moment of the acquisition of the titles			Cost of acquisition	Goodwill
Total	% acquired	Quota acquired from the equity at the fair value		
1.500	30%	450	500	50
1.750	40%	700	800	100

The things presented in this paper reinforce through their nature the fact that goodwill represents in accountancy a very complex and highly controversial subject at the same time. Then, the information provided by the entity through the financial statements it produces is at the base of some very important decisions both for the entity's management and for the users of the information. Consequently, we should be able to distinguish between the economic goodwill and the accounting goodwill. The economic goodwill is based on the economic performance of the entity. The accounting goodwill has at its bases the accounting standards. Thus, we consider that it is good while analyzing the financial situations of an entity to eliminate the goodwill from the balance sheet. The excess returns obtained by an entity will reflect in the price of the common shares.

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ACTIFS INCORPORELS ET PARTS DE MARCHÉ LORS DE LA TRANSITION IFRS

Jean-Jacques JULIAN, Commissaire aux comptes inscrit a Chargé d’enseignement à l’Edhec, à l’Elsca et à l’Intec, Formateur national pour la Compagnie nationale des commissaires aux comptes

For some groups, markets shares can represent more than half of the consolidated balance sheet total. Contrary to the French standards, the norm IAS 38 “intangibles” does not permit the separate disclosure of market shares within intangibles. The purpose of this article is to emphasize that the use of the IFRS norms would allow a better comparability between the groups regarding this matter.

Résumé de l’article

- 1. Au 30 juin 2005, seulement 95 groupes étaient cotés au MID 100.*
- 2. L’étude porte, en effet, sur tous les exercices clos depuis la date de publication du règlement européen le 11 septembre 2002. En effet, ci-après, sera étudié comment les groupes français qui avaient des parts de marché à l’actif de leur bilan, à la date de publication du règlement européen, ont traité la divergence comptable entre le référentiel français et les IFRS.*
- 3. Depuis le 1er janvier 2005, date de l’application du règlement 2004-06 sur la*

définition, l'évaluation et la comptabilisation des actifs (CRC, règlement 04-16), le maintien de la position du CNC d'avril 1990 est devenu provisoire dans l'attente de l'alignement du règlement 99-02 sur la norme IFRS 3 et avec les nouvelles règles concernant les actifs (CRC, règlement 04-06) qui ne permettent sur la comptabilisation séparée des parts de marché à l'actif. En effet, le règlement CRC n° 2004-2006 n'a pas précisé les modalités de première application du nouveau traitement des parts de marché acquises lors d'un regroupement d'entreprises et indique que ces modalités feront l'objet de dispositions ultérieures (CRC, règlement 04-06 art. 17). Le groupe de travail “Actualisation du règlement. 99-02” du CNC examine notamment ce point et les évolutions qui en résulteraient pourraient être applicables à partir de 2006.

4. Toutefois, les relations clients non contractuelles répondent à la définition d'une immobilisation incorporelle lorsqu'elles font l'objet de transactions d'échange. A titre d'exemple, nous verrons, ci-après, le cas de Thomson.

5. Accor et Groupe Gascogne n'ont pas communiqué sur le passage des parts de marché aux IFRS. Concernant Accor, la responsable de la communication financière nous a indiqué que les parts de marché ne sont pas significatives (0,6 % du total du bilan fin 2004), c'est la raison pour laquelle aucune information ne figure sur la transition en la matière. Toutefois, nous avons été informés que les parts de marché seraient reclassées en “Ecart d'acquisition”. Concernant le Groupe Gascogne, le directeur financier ainsi que le responsable des normes nous ont informés que les parts de marché seront reclassées en écarts d'acquisition lors de la transition aux normes IFRS.

L'étude des rapports annuels et documents de référence des groupes cotés en France au CAC 40, au NEXT 20 et au MID 100 met en évidence l'hétérogénéité de la communication en matière de traitement des parts de marché.

L'analyse des parts de marché inscrites à l'actif du bilan des comptes consolidés,

sous le référentiel français (CRC, règlement 99-02) met en évidence que pour certains groupes elles représentent plus de 50 % du total du bilan. Cette possibilité d’inscription à l’actif qui était très utilisée par les groupes avant la publication du règlement 99-02 a été maintenue en dépit de la divergence avec les IFRS (IAS 38 – Immobilisations incorporelles et IFRS 3 – Regroupements d’entreprises).

La plupart des regroupements d’entreprises répondent à l’objectif d’accroissement des parts de marché. L’acquisition est le mode principal de regroupements d’entreprises dans lequel l’acquéreur prend le contrôle de l’actif net et des activités d’une autre entreprise. En France, les conséquences sur les résultats dépendent du traitement comptable retenu par les groupes dans leurs comptes consolidés. Il en résulte que la comparaison des performances n’est pas toujours aisée.

Après l’identification des principaux groupes cotés en France qui inscrivent des parts de marché à l’actif de leur bilan consolidé, puis le rappel des textes français et des normes IFRS en ce domaine, il a paru utile de présenter les traitements de ces actifs incorporels lors de la transition IFRS.

Groupes présentant des parts de marché à l’actif de leur bilan consolidé

L’échantillon pour cette analyse est basé sur les groupes cotés en France au CAC 40, au NEXT 20 ou encore au MID 100(1) au 30 juin 2005. Ainsi, cette étude repose sur l’examen des rapports annuels et / ou documents de référence relatifs aux comptes consolidés et sur l’analyse de la documentation disponible sur les sites Internet de 155 groupes pour les exercices 2002, 2003 et 2004. Seulement 29 groupes, sur la population étudiée, ont présenté des parts de marché à l’actif de leur bilan consolidé au moins une fois pour les exercices 2002, 2003 et 2004 (2).

Tableau 1 : poids des parts de marché dans les bilans consolidés des
29 groupes en 2002, 2003 et 2004

Groupes	2004 (millions d'€)	% Total bilan 2004	2003 (millions d'€)	% Total bilan 2003	2002 (millions d'€)	% Total bilan 2002
ACCOR	75	0,6	75	0,7	75	0,7
BACOU DALLOZ	282	29,9	300	27,6	349	27,6
BOLLORE	8	2,8	8	3,0	8	2,9
BOUYGUES	4358	17,5	5064	20,2	4387	17,7
CAPGEMINI	1055	18,1	678	11,2	724	12,3
CASINO	956	6,1	965	6,3	965	6,2
CIMENTS FRANÇAIS	594	12,2	635	12,9	696	13,3
EIFFAGE	82	1,3	73	1,2	55	0,9
ELIOR (a)	183	9,5	183	9,5	183	9,3
ESSILOR	57	2,2	54	2,2	64	3,0
FININFO	24	13,0	24	14,6	24	15,0
FRANCE TELECOM	3232	3,4	3204	3,2	3560	3,3
GEODIS	53	2,8	67	3,9	77	4,3
GASCOGNE	4	0,8	4	0,8	4	0,8
LAFARGE	2270	9,2	2421	9,8	2603	9,8
L'OREAL	1061	5,8	1024	6,8	1137	7,6
NEOPOST (b)	281	21,5	281	22,7	264	19,9

P.P.R.	7349	31,6	6104	24,8	5523	18,4
RALLYE	965	5,2	965	5,5	965	5,4
REXEL	224	6,4	229	6,3	261	6,4
RUBIS	165	30,2	186	33,9	186	33,4
SODEXHO ALLIANCE (c)	2410	31,5	2556	31,5	2794	32,7
STERIA	93	14,1	93	12,6	93	12,2
THOMSON	374	4,4	397	4,3	393	4,1
TOUPARGEL AGRIGEL	91	50,2	91	44,7	7	12,4
UNILOG	10	2,0	4	0,9	4	1,0
VINCI	63	0,3	79	0,4	114	0,6
VIVENDI	1030	2,4	2827	5,2	2903	4,2
VEOLIA	499	1,4	1227	3,2	2284	5,4

(a) clôture au 30 septembre

(b) clôture au 31 janvier

(c) clôture au 31 août

Ce tableau met en évidence que les parts de marché peuvent peser plus de 50% du total de l'actif du bilan consolidé, c'est le cas du groupe Toupargel-Agrigel en 2004. Ce tableau met également en lumière que depuis la date de publication du règlement européen relatif aux normes IFRS, le 11 septembre 2002, le montant des parts de marché des sociétés appartenant à l'échantillon n'a pas évolué de manière significative sur la période 2002 à 2004. Ainsi, les groupes de l'échantillon n'ont pas reclassé les montants inscrits en parts de marché dans le poste "écarts d'acquisition" entre 2002 et 2004. Sur

la base des montants inscrits en immobilisations incorporelles, nous pouvons conclure que les groupes n’ont pas traité de façon anticipée la divergence comptable entre le référentiel et les normes IFRS avant l’exercice d’adoption (exercices ouverts à partir du 1er janvier 2005).

En quoi consiste cette divergence ?

Les textes comptables relatifs aux parts de marché

La divergence entre le référentiel comptable français et les normes IFRS concernant les parts de marché peut être résumée comme suit.

Référentiel comptable français

Le règlement 99-02 (§2111) a confirmé la position du Conseil national de comptabilité (CNC) d’avril 1990 selon laquelle les parts de marchés constituent des actifs identifiables si elles respectent certains critères (3). Ainsi, dans le cadre d’une prise de contrôle, un élément incorporel acquis doit être considéré comme un actif identifiable si la société peut l’évaluer séparément selon des critères objectifs et pertinents fondés pour l’essentiel sur :

- les avantages économiques futurs que l’élément permettra de générer
- ou sur la base de sa valeur de marché lorsqu’il existe un marché actif pour des biens similaires ;
- ou, à défaut, sur d’autres méthodes faisant référence aux pratiques du secteur concerné.

Par ailleurs, la société doit pouvoir suivre l’évaluation de cet élément incorporel dans le temps afin de déterminer l’évolution de la valeur à la clôture des comptes annuels et d’enregistrer une dépréciation, le cas échéant.

Les groupes qui n’avaient pas la possibilité de suivre ces valeurs ont enregistré ces éléments en écarts d’acquisition et pas en parts de marché. Or, ce classement n’est pas

sans conséquence sur le résultat consolidé. En effet, les écarts d'acquisition sont amortissables alors que les parts de marché ne le sont pas. En revanche, elles peuvent être dépréciées. Dans la pratique, sur la période étudiée, peu de groupes ont constaté une dépréciation de leur part de marché.

Normes IFRS

La problématique de la norme IAS 38 réside, d'une part, dans les critères de reconnaissance d'un incorporel comme un actif et, d'autre part, dans la comptabilisation de cet actif. Cette norme, qui est en cours de révision par l'IASB, a pour objectif d'indiquer le traitement comptable, les modalités d'évaluation et les informations à fournir au sujet des immobilisations incorporelles. La norme IAS 38 s'applique à toutes les immobilisations incorporelles non traitées spécifiquement par d'autres normes. Elle définit une immobilisation incorporelle comme étant un actif non monétaire identifiable sans substance physique détenu en vue d'une production ou d'une fourniture de biens et services, pour la location à des tiers ou pour une utilisation propre à des fins administratives. La norme rappelle (IAS 38 §7) qu'un actif est une ressource contrôlée par une entreprise du fait d'événements passés et dont les avantages économiques futurs sont attendus par l'entreprise. Par ailleurs, la norme IAS 38 impose que cette immobilisation incorporelle soit identifiable du *goodwill*. Pour satisfaire aux critères d'identifiabilité, elle doit être séparable de l'entreprise acquise et doit faire l'objet de protection légale ou contractuelle (4).

En normes IFRS, comme en principes français, les éléments incorporels liés aux clients peuvent, en général, être comptabilisés séparément des écarts d'acquisition ou *goodwill*.

Cependant, selon les normes IFRS et contrairement aux principes français, il n'est pas possible de comptabiliser séparément des écarts d'acquisition les relations clients non contractuelles ne faisant pas l'objet de transactions d'échange, comme par exemple les parts de marché, ces éléments étant considérés comme insuffisamment contrôlés

pour répondre à la définition des immobilisations incorporelles.

Toujours selon la norme IAS 38, les immobilisations incorporelles à durée d'utilité définie sont amortissables. En revanche, celles dont la durée d'utilité est indéterminée ne doivent pas être amorties et selon la norme IAS 36 – Dépréciation d'actifs, un test de dépréciation doit être effectué à chaque fois qu'il existe un indice selon lequel l'immobilisation incorporelle a perdu de la valeur. Les immobilisations acquises dans le cadre d'un regroupement d'entreprises sont traitées dans le cadre de la norme IFRS 3, qui a remplacé la norme IAS 22. Selon la norme IFRS 3, un test de dépréciation doit être systématiquement réalisé sur les écarts d'acquisition même s'il n'existe pas d'indice de perte de valeur.

La communication sur le traitement des parts de marché

L'analyse de la communication des 29 groupes étudiés permet de mettre en lumière les pratiques hétérogènes en matière de traitement des parts de marché, lesquelles sont enregistrées dans 12 postes différents de l'actif, comme le montre le tableau 2.

• Présentation des parts de marché à l'actif du bilan consolidé selon le référentiel français

Tableau 2 : rubriques utilisées pour les parts de marché dans les bilans consolidés des 29 groupes en 2002, 2003 et 2004

1. Marques, parts de marche et fondseditoriaux
2. Droits de propriete intellectuellle et commerciale
 - 3 Margues,parts de marche fonds commerciauxes,
 - 4 Enseignes, marques, parts de marche

5 Positions commerciales

6 Clienteles

7 Bases d'abonnes

Groupes	Parts de marche	Immobilisations incorporelles	Concessions, brevets, marques, parts de marche	Ecarts d'acquisition	Marques parts de marche	1	2	3	4	5	6	7
ACCOR	x											
BACOU DALLOZ			x (a)									
BOLLORE				x								
BOUYGUES		x										
CAPGEMINI	x											
CASINO	x											
CIMENTS FRANÇAIS	x											
EIFFAGE		x(b)										
ELIOR			x (c)									
ESSILOR								x				
FININFO		x (d)										
FRANCE TELECOM												x(e)
GEODIS				x								
GASCOGNE	x											
LAFARGE										X		
L'OREAL			x									
NEOPOST	X											
P.P.R.									X			
RALLYE	X											
REXEL	x											
RUBIS	X											
SODEXHO ALLIANCE	x											
STERIA	X											
THOMSON							X					

marché pour la transition IFRS montrent que 27 groupes (5), parmi les 29 de l'échantillon, vont reclasser les montants correspondant aux parts de marché, avec le référentiel français, en écarts d'acquisition à l'occasion du passage aux normes IFRS.

Les deux groupes qui n'ont pas procédé au reclassement en écarts d'acquisition sont France Télécom et Thomson. Ils ont procédé à une analyse du contenu des parts de marché qui leur permet de conserver les montants correspondants parmi les immobilisations incorporelles, selon le référentiel IFRS, en 2004.

En effet, pour France Télécom, ainsi que nous l'avons vu, pour anticiper le passage aux IFRS une nouvelle analyse des parts de marché a été effectuée. Ainsi, les bases d'abonnés viendront se substituer en IFRS aux parts de marché pour leur montant net d'amortissement.

Par ailleurs, Thomson, dans son document de référence 2004, mentionne que ces parts de marché correspondant à des “relations contractuelles avec les clients” répondent à la définition d'actifs incorporels selon IAS 38. Les informations recueillies proviennent du document de référence 2004

Il n'a pas été possible d'élaborer un tableau mettant en évidence le nouveau poids des montants inscrits en écarts d'acquisition correspondant aux “anciennes” parts de marché, par absence d'information concernant les montants dépréciés. La valeur brute des parts de marché ne changera pas avec la transition aux IFRS. En revanche, les écarts d'acquisition ne sont plus amortis car ils feront l'objet de tests de dépréciation avec les normes IFRS et il n'existe que très peu d'informations relatives aux impacts de ces tests dans la documentation étudiée. * * *

En conclusion, cette analyse permet de mettre en lumière les pratiques homogènes des groupes français en matière de traitement des parts de marché grâce à l'application des normes IFRS. L'impact différent sur le résultat consolidé en fonction du classement des parts de marché, observé dans la pratique selon le référentiel français, n'existera

plus. Ainsi, une lecture plus facile des comptes va permettre une meilleure comparabilité en la matière.

Jean-Jacques JULIAN

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THE FISCAL TREATMENT OF MERGER

**Lecturer PhD, Ioana Monica HORJA, „Dimitrie Cantemir” University,
Tîrgu-Mureş**

The merger is a way of reorganization. For obtaining benefits companies are put in some decisional situations about their future. Any company tries to develop, to enlarge the market share. The merger is a complicated operation, with many steps. In economy any company is under fiscal laws. The reorganizational operations, which includes merger are guided by fiscal rules. The fiscal treatment of merger is reglementated in Romania by the M.F.O. no. 1376/2004 about the merger, division, liquidation and their fiscal treatment. The paper present the fiscal treatment of merger, and the taxes which a company implicated in merger has to pay.

In economic literature there are many definitions about enterprises merger. The notion of merger is a notion about reorganization of enterprises. For reaching the main object, the profit, an enterprise has to take many decisions about the future. An enterprise tries to increase her market rate in connection with competition or at least to maintain it. This requires suitable concentration strategies or business reduction or even breaking the

entity in many parts⁷.

So, the merger is an operation whereby one or more entities decide to transfer their patrimony to another entity and to develop their activity together. The merger is one of the capital concentration form⁸.

The merger has taken place in a long period of time and supposes a long preparation, during are studied the financial conditions of merger.

About the taxation system, a long period of time the merger was vague presented. Although the juridical frame was established by Law no. 31/1990, the taxation rules weren't presented. A few aspects about merger taxation were presented in Law no. 414/2002 about income tax.

The procedural, accounting and taxation forecasts were presented also in M.P.F.O. no. 1223/1998 which soon was abrogated and replaced by M.P.F.O. no. 1078/2003. This order elucidated a few aspects about merger taxation.

In 2004 appeared M.P.F.O. no. 1376/2004 for approving The methodological rules about merger, division, dissolution, liquidation of entities and about excluding an associate and their fiscal threatment. This order replaces the old rules and is based on Fiscal Code approved by Law no. 571/2003.

The merger is submitted by the next rules:

1. Income tax

The Fiscal Code treats in Title II, art. 27 the taxation of a few reorganizations forms, through is merger too. So, the Fiscal Code specifies that in merger between two or more juridical entities, when shareholders of any merging entity acquire shares in the new entity, there are the next rules:

⁷ Carcei, E., *The Working and Stopping of a Joint-stock Company*, Economic Publishing House, Bucharest, 1996, p.138

⁸ Dumbrava, P., *Patrimonial modifyings*, Universitary Press Publishing House, Cluj Napoca, 2004, p.26

- the assets and liabilities transfer is not a taxable transfer
- the exchange of shares held at a romanian juridical entity for shares held to another Romanian juridical entity is not a taxable transfer
- the tax value of an asset or liability is equal for the person who obtain that asset is equal with fiscal value of the asset at transferring entity
- the tax value of shares obtained by an entity should be equal with fiscal value of the transferred shares
- the transfer of a provision or a reserve is not considered a reduction or cancel of the provision or reserve if another entity takes those and maintain those at the same value
- if a romanian juridical entity holds over 25% of another Romanian juridical entity shares which transfers assets and liabilities to the first entity through merger, the cancel of the shares is not a taxable transfer.

The Fiscal Code clarifies also the tax value term. The tax value of an asset, a liability or a share is the value which is used for calculating the depreciation or profit or loss. The fiscal depreciation is calculated according to art. 24 from Fiscal Code.

The legal reserve is deductible in a limit of 5% of net profit before determination of the income tax, minus non-taxable incomes plus expenses of these, until de 5th part of subscribed and paid-up capital. If the reserve is used for adjustment or for distribution the reconstitution of reserve is not deductible anymore. The reserve of juridical entities which supplies utilities for the reorganization entities can be used for adjustment of shares from changing debts.

Also, decreasing or canceling of any provision or reserve which was previously deducted is included in taxable incomes, indifferently if the decrease or cancel is about modify the provision destination or reserve or the provision or reserve is distributed to

the merging entities.

The incomes for assets transfer are non-taxable incomes and the demise assets expenses are non-deductible expenses.

2. Dividend tax

For equity elements of net profit (reserves, net profit for previously exercises which was not distributed) the dividend tax is calculated and payable in case of merger.

3. Value-added tax

Value-added tax is owed for goods delivery , which according to art. 128 from Fiscal Code is any transfer of goods deed from the owner to another person, directly or through persons acting in the owner`s name.

In the same article, alin. 5 specifies that goods transfer made as assts and liabilities transfer in merger is not goods delivery indifferently if is with payment or not.

4. Fiscal losses

Fiscal loss who is registered by the tax payers ceases to exist through merger is not recuperated by the new company or by acquiring company.

Fiscal loss registered by acquired company until the date on which merger takes effect is adjusted.

In European law the system of taxation applicable to mergers is settled by the Directive issued in 1990.

According to M.P.F.O. no. 1376/2004 the taxable treatment of merger is different by merger`s form.

In merger by acquisition the taxable system is:

- a) at the acquired company

The incomes from assets transfer, in account 7583 “Revenues from disposal of assets and other capital operations” are non-taxable incomes. Also, expenses from disposal of assets, account 6583 “Expenses from disposal of assets and other capital operations” are non-deductible expenses.

The acquired company transfers to the acquiring company assets and liabilities at their tax value, based on the value used for depreciation calculation, without reevaluations and accounting values, the depreciation is going to be made in the left period.

The decrease or cancel of any provision or reserve previously deducted at payable profit calculation is taxable income, except when the acquiring company takes the provision or reserve.

The financial statements and payment of income tax has to be made 10 days before publishing date when merger takes effect.

b) at the acquiring company

Fiscal loss at the acquired company is not recuperated by the acquiring company.

For determination of taxable profit the assets and liabilities tax values are used, same values at the acquired company. If the tax value from the acquired company is not known for the acquiring company this value is zero.

If in the transfer are provisions or reserves previously deducted these are included in taxable incomes. Also, if the legal reserve value is over 1/5 of capital, the difference is not a taxable income if the reserve is maintained at the same value.

In merger by formation of a new company are the next taxable rules:

a) at the ceases companies

Like in merger by acquisition, the assets transfer incomes are non-taxable incomes and the expenses are non-deductible expenses.

The ceases companies transfers to the new companies the tax value of assets and liabilities, calculated without reevaluations and accounting values.

The decrease or cancel of any provision or reserve previously deducted at payable profit calculation is taxable income, except when the acquiring company takes the provision or reserve.

The financial statements and payment of income tax has to be made 10 days before publishing date when merger takes effect.

b) at the new company

Fiscal loss at the acquired company is not recuperated by the acquiring company.

For determination of taxable profit the assets and liabilities tax values are used, same values at the acquired company. If the tax value from the acquired company is not known for the acquiring company this value is zero.

If in the transfer are provisions or reserves previously deducted these are included in taxable incomes. Also, if the legal reserve value is over 1/5 of capital, the difference is not a taxable income if the reserve is maintained at the same value.

So merger is an important operation of reorganization in our days. All the operations are governed by many rules, through taxable rules. Every company has to pay taxes, and merging companies too.

The taxable system is very important and also very changeable in our days, for this the merging companies, the managers of these companies must know the taxable system of merger.

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THE IMPACT OF DIGITAL MONEY ON FINANCIAL ENVIRONMENT

Lecturer PhD. Răzvan SERBU, “Lucian Blaga” University, Sibiu

Beyond electronic banking or electronic brokerage, the financial sector is intimately involved in the broader realm of electronic commerce in its role as enabler of online payments for transactions between businesses, consumers, and governments. The fast-paced global environment of both the electronic and physical worlds' demand that financial intermediaries offer easy-to-use payment tools that allow rapid electronic funds transfer across borders. However, the more anonymous real-time business environment also demands a high degree of client verification as well as security and authentication of funds transferred. Financial partners or payment vehicles that cannot deliver both these services will not be competitive.

At the present juncture, the development and use of electronic banking and electronic money are still in their early stages. Electronic payment media are likely to figure importantly in the development of electronic commerce. While providing new opportunities for banks, electronic banking and electronic money activities carry risks as

well as benefits and it is important that these risks are recognised and managed in a prudent manner.

While existing risk management principles remain applicable to e-banking activities, such principles must be tailored, adapted and, in some cases, expanded to address the specific risk management challenges created by the characteristics of e-banking activities.

The integration of e-banking applications with legacy systems implies an integrated risk management approach for all banking activities of a banking institution. To this end, it is incumbent upon the boards of directors and banks' senior management to take steps to ensure that their institutions have reviewed and modified where necessary their existing risk management policies and processes to cover their current or planned e-banking activities.

Each bank's risk profile is different and requires a tailored risk mitigation approach appropriate for the scale of the e-banking operations, the materiality of the risks present, and the willingness and ability of the institution to manage these risks. This implies that a "one size fits all" approach to e-banking risk management issues may not be appropriate.

Given the degree of uncertainty about future technological and market developments, it is important that supervisory authorities avoid policies that hamper useful innovation and experimentation. There are a couple of documents as an initial step in an ongoing review and discussion of supervisory issues and responses related to technological advances in electronic retail products and services. The document has the expectation of facilitating the development of appropriate supervisory approaches to the management of risks in electronic banking and electronic money activities.

The report focuses attention on the need for effective Home supervision of cross-border e-banking activities. There are plenty report identifying bank's risk management responsibilities with respect to cross-border e-banking. It supplements last year's risk

management principles published by the Basel Committee, providing both obligations and suggestions for bank and supervisory action. We can note that cross-border e-banking has not developed as rapidly as domestic e-banking in most countries due in large part to customers' perceptions regarding the safety and security of e-banking transactions with foreign institutions and banks' concerns regarding uncertainties with respect to national jurisdiction, choice of law and consumer protection requirements for cross-border e-commerce transactions.

Specifically, the principles indicate that banks should conduct risk assessments of the cross-border aspects of e-banking activities, particularly those related to potentially different regulatory and legal requirements. In addition, banks should provide sufficient disclosures on their websites so that potential customers can identify the bank, its Home country, and its regulatory licenses.

The guidance generally stresses the need for international cooperation in order to promote safe and sound cross-border e-banking without creating undue regulatory burdens or impediments to the delivery of banking services on-line.

The principles appear well-crafted given the nature of cross-border e-banking and the challenges it poses for Host country supervision. Whether the principles are sufficient to address a broader set of issues (e.g., consumer protection; fraud) remains to be seen in practice. Such issues may not be subject to the bilateral Home and Host supervisory relationship as contemplated under the Basel Concordat.

Technological innovation and competition among existing banking organisations and new entrants have allowed for a much wider array of banking products and services to become accessible and delivered to retail and wholesale customers through an electronic distribution channel collectively referred to as e-banking. However, the rapid development of e-banking capabilities carries risks as well as benefits.

It is expecting for such risks to be recognised, addressed and managed by banking institutions in a prudent manner according to the fundamental characteristics and

challenges of e-banking services. These characteristics include the unprecedented speed of change related to technological and customer service innovation, the ubiquitous and global nature of open electronic networks, the integration of e-banking applications with legacy computer systems and the increasing dependence of banks on third parties that provide the necessary information technology. While not creating inherently new risks, the Committee noted that these characteristics increased and modified some of the traditional risks associated with banking activities, in particular strategic, operational, legal and reputational risks, thereby influencing the overall risk profile of banking.

In the futures technical solutions are to be addressed by standard setting bodies as technology evolves. Risk management principles and sound practices identified in this paper are expected to be used as tools by national supervisors and implemented with adaptations to reflect specific national requirements and individual risk profiles where necessary. However, some issues, such as the management of outsourcing relationships, security controls and legal and reputational risk management, warrant more detailed principles than those expressed to date due to the unique characteristics and implications of the Internet distribution channel.

The board of directors and senior management are responsible for developing the institution's business strategy and establishing an effective management oversight over risks, so they are expected to take an explicit, informed and documented strategic decision as to whether and how the bank is to provide e-banking services. The initial decision should include the specific accountabilities, policies and controls to address risks, including those arising in a cross-border context. Effective management oversight is expected to encompass the review and approval of the key aspects of the bank's security control process, such as the development and maintenance of a security control infrastructure that properly safeguards e-banking systems and data from both internal and external threats. It also should include a comprehensive process for managing risks associated with increased complexity of and increasing reliance on outsourcing

relationships and third-party dependencies to perform critical e-banking functions.

While the board of directors has the responsibility for ensuring that appropriate security control processes are in place for e-banking, the substance of these processes needs special management attention because of the enhanced security challenges posed by e-banking. This should include establishing appropriate authorisation privileges and authentication measures, logical and physical access controls, adequate infrastructure security to maintain appropriate boundaries and restrictions on both internal and external user activities and data integrity of transactions, records and information. In addition, the existence of clear audit trails for all e-banking transactions should be ensured and measures to preserve confidentiality of key e-banking information should be appropriate with the sensitivity of such information.

Customer protection and privacy regulations vary from jurisdiction to jurisdiction, banks generally have a clear responsibility to provide their customers with a level of comfort regarding information disclosures, protection of customer data and business availability that approaches the level they can expect when using traditional banking distribution channels. To minimise legal and reputational risk associated with e-banking activities conducted both domestically and cross-border, banks should make adequate disclosure of information on their web sites and take appropriate measures to ensure adherence to customer privacy requirements applicable in the jurisdictions to which the bank is providing e-banking services.

Online financial services, and electronic banking, is growing in Europe and also in all emerging market economies. In nowadays, and most probably in the near future, the german market is the biggest but not the fastest growing market within Europe. Financial institutions have to consider trends in the market in order to survive and prosper in this very dynamic and competitive environment. Online banks dig for continued quantitative growth in account number, transaction, and value of transaction since these factors are essential for valuation of the company at the stock exchange.

The banking and payment systems need to be able to process transactions in real time, both domestically and in multiple currencies on international markets. One way to jump start this internally is to encourage participation in the local market by foreign financial institutions that already have this capability. The technology and knowledge transfers are important to improve domestic activities. Moreover, the partnership between international institutions with technology and local institutions with local expertise brings the domestic institutions into the global network of financial institutions.

Legal and reputation risk, e-banking services must be delivered on a consistent and timely basis in accordance with high customer expectations for constant and rapid availability and potentially high transaction demand to protect banks against business. Banks should also develop appropriate incident response plans, including communication strategies that ensure business continuity, control reputation risk and limit liability associated with disruptions in their e-banking services. The bank must have the ability to deliver e-banking services to all end-users and be able to maintain such availability in all circumstances. Effective incident response mechanisms are also critical to minimise operational, legal and reputational risks arising from unexpected events, including internal and external attacks that may affect the provision of e-banking systems and services. To meet customers' expectations, banks should therefore have effective capacity, business continuity and contingency planning.

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THE ROLE PLAYED BY THE INTERNATIONAL MONETARY FUND IN MANAGING THE FINANCIAL CRISES

Lecturer PhD. Ramona TOMA, „Lucian Blaga” University, Sibiu

At the beginning of the 80`s the international monetary system had to go through crises but the IMF was condemned for its role in the financial crises at the beginning of the 90`s. They proved the risks associated to the sensibility of the financial global markets.

The full deregulation in a too rapid rhythm concerning the capital movements with no fulfillment of some previous minimum conditions can be - and has proved to be - dangerous. The lessons that have come out of the financial crises entail the estimation of foreign vulnerability of country before it has come to look for the deregulation of capital movements. Participating at a global market means macroeconomic stability, a healthy financial system and the transparency of economic policies.

The financial role of the IMF has to be a unitary one under the reserve of its limited resources. The countries, which have been taking benefit of financial support programs from the Fund for years or decades, are not genuine proofs for the success of the institution. The IMF should try to prevent the situations as those where the countries of the world might become addicted to the funding that is being offered by this body.

A number of studies examine the catalytic role of IMF financing in helping to restore confidence and a resumption of private capital flows following a crisis. This literature can be viewed as focusing on *crisis resolution*.

Crisis prevention is rather different, not least because it refers to what does not happen to private capital flows. The existing literature provides a useful point of departure since some channels through which IMF support may help restore capital inflows following a crisis are likely similar to those through which it may help prevent outflows in the first place.

If IMF support helps prevent crises, the next question is how. The literature on the signaling role of IMF financing provides some clues. This literature emphasizes four channels through which an IMF-supported program may reduce the likelihood of a run, by: providing liquidity; supporting stronger policies; signaling these better policies to financial markets; enhancing their credibility via program conditionality.

Since the 30 billion USD bailout of Mexico in 1995, national currency and financial crises in developing countries have increased, as has the incidence of IMF-led bailout packages. Since 1997 those packages have totaled 280 billion USD for Latin America, Asia, Russia and Turkey. Many of those bailouts and the turmoil in international financial markets resulted in the United States contributing 18 billion USD to massively increase the IMF's resources in 1998.

But the monetary costs of supporting the IMF were not the most important reasons to have opposed more funding. The costs to the global economy are high and the people who are most directly affected by IMF interventions - the world's poor - are those who can least afford it. If the goal is to help developing countries progress economically and to promote a liberal global economy, then, at the very least, rich countries should seek to reduce the IMF's resources and activities.

International financial crises may have brought much attention to the Fund in

recent years, but the lending agency's record over the past 50 years has been dismal, as numerous books and studies have documented. The IMF does not appear to have helped countries either to achieve self-sustaining growth or to implement market reforms.

Despite its poor performance, the IMF has proven to be a remarkably resilient institution. When the system of fixed exchange rates ended in the early 1970s, so did the agency's original mission of maintaining exchange-rate stability by lending to countries experiencing balance of payments problems. Instead of closing down, however, the Fund has created new missions for itself with each new crisis, each time expanding its economic influence or resources, or both. On average, the IMF has requested and received an increase in resources every five years.

Although the IMF in theory makes short-term loans in exchange for policy changes in recipient countries, it has not helped countries move to the free market. Instead, the Fund has created loan addicts. More than 70 nations have depended on IMF aid for 20 or more years; 24 countries have received IMF credit for 30 or more years. Once a country receives IMF credit, it is likely to depend on IMF aid for most, if not all, of the following years. That is not evidence of either the success of the IMF's conditionality or the temporary nature of the IMF's short-term loans. The Fund has thus moved away from its original mission of providing short-term balance of payment assistance and has instead fostered dependence on aid. Because of that, the Meltzer Commission has advised that the Fund should stop providing long-term loans. Neither the IMF nor the US Treasury has discontinued that IMF function. Using the IMF to bail out a country experiencing a currency or debt crisis is a bad idea for *three reasons*.

The first reason is that it creates moral hazard. That is the more we can expect countries to slip into crises in the future because governments and investors will engage in risky behavior in the expectation that, if anything goes wrong, the IMF will come to their rescue. IMF bailouts are expensive, bureaucratic and fundamentally unjust solutions to economic crises.

There is *another reason* why IMF conditions have little credibility. As we have seen with Russia over the past several years, a country that does not stick to IMF conditions risks having its loans suspended. When loans are cut off, recipient governments tend to become more serious about reform. Unfortunately, when policy changes are forthcoming, the IMF resumes lending. Indeed, the IMF has a bureaucratic incentive to lend.

Third, IMF bailouts undermine superior, less-expensive market solutions. In the absence of an IMF, creditors and debtors would do what creditors and debtors always do in cases of illiquidity or insolvency: renegotiate debt or enter into bankruptcy procedures. In a world without the IMF, both parties would have an incentive to do so because the alternative, to do nothing, would mean a complete loss.

Effective ***IMF surveillance*** of both global economic risks and national economic policies has been fundamental to that vision from the very start of global economic cooperation. The founders of Bretton Woods recognized that effective surveillance over national policies was critical to the international stability and cooperation on which prosperity and growth depended. The original Articles of Agreement established the importance of exchange of information and gave the Fund authority to hold consultations with countries that had not lifted exchange restrictions. With the eventual collapse of the fixed exchange rate system and the expansion of capital markets, IMF surveillance or oversight over members' policies became the centerpiece of international economic cooperation.

International economic surveillance was rightly seen an essential tool for strengthening crisis prevention and promoting global stability and growth. It offered a unique means to assess national and global economic prospects, to detect vulnerabilities at an early stage, to provide policy advice, and more broadly to promote international economic cooperation. And, following the Second Amendment of the IMF Articles of Agreement in the 1970s, the IMF was uniquely placed to undertake surveillance with its

responsibility under the new Article IV to oversee the international monetary system and the economies of what is today a membership of 184 countries.

An effective surveillance mechanism needs to be authoritative, comprehensive, focused, influential and accountable. This is essential in order to ensure that surveillance detects problems at an early stage, has an appropriate impact on members' policies and so helps to strengthen crisis prevention and promote stability and sustainable growth. This need for effective surveillance is more important in a world of global capital markets both for countries concerned and for the international system. Globalization brings new opportunities but also can open new inequalities that need to be anticipated and addressed in developed and developing countries. Opening up fully to globalization too early and too quickly, without the necessary preparation, is dangerous.

The succession of primarily capital account crises since the mid 1990s raised concerns about the authority, comprehensiveness, focus, influence and accountability of the Fund's surveillance.

First, on its comprehensiveness and focus, a common feature of all the crises since late the 1990s is that they started from weaknesses in their domestic economic policy framework in the fiscal or financial systems often combined with unsustainable fixed exchange rate pegs upon which macroeconomic credibility was pinned. In each country - Thailand, Korea, Indonesia, Malaysia, Brazil, Russia - large and rapid capital outflows exposed inappropriate macro-frameworks and fragile banking sectors, with massive costs for budgets and economies and ultimately their people. But in each case Fund surveillance had not ex-ante stressed the weakness of domestic or financial sector frameworks or questioned the sense of linking credibility so clearly to a fixed peg.

Second, the social impact of crises on countries raised questions about the IMF's approach, its quality of advice and accountability. It was criticized for advocating rapid capital account liberalization and paying insufficient attention to the foundations for stability and growth, for applying a one-size-fits all model that was insensitive to

countries' individual circumstances and needs, for advocating policies that served primarily the interests of creditors and for being insufficiently open to outside views and advice.

Third, the frequency of crises raised questions about the influence and effectiveness of the IMF's approach. Traditionally, it had sought to exert influence through peer pressure "behind closed doors". IMF documents and discussions remained confidential, despite the fact that increasingly the rest of the international community emphasized the role that greater transparency could play in encouraging governments and markets to address risks at an early stage, without compromising candor.

It was put in place *a new framework for global stability*, including: internationally agreed codes and standards for monetary and financial transparency; greater transparency at the IMF itself; stronger cooperation on financial sector issues; crisis prevention and crisis resolution based on a partnership public-private; a stronger focus at the IMF and World Bank on the social costs of crises.

There has been considerable progress since then. There is evidence that the risk of contagion from financial crises is less than might have been the case only a few years ago and that investors are beginning to discriminate more between countries.

Emerging markets are also adopting strategies to insure themselves against contagion by, for example, building up reserves or shifting to more flexible exchange rate arrangements. While bond spreads have risen in some countries in Latin America in response to the difficulties, the effect has been much less marked in those countries, which are seen to have the strongest policy framework and there has been little impact on spreads in emerging markets in Asia.

But more needs to be done to educate the private sector and ensure adequate information is available to enable efficient investment decisions to be taken. *There are necessary next steps* on codes and standards, greater transparency, reduced vulnerabilities and institutional changes in order to strengthen IMF surveillance.

Relevant to all countries-rich and poor-covering fiscal policy, monetary policy, banking supervision and other key aspects of public policy, they emphasize the importance of clear and sound long-term policy objectives, a precommitment to long-term stability through institutional arrangements and procedural rules and maximum openness and transparency, providing a foundation for stability in the global economy.

Enhancing transparency is critical to strengthening crisis prevention, helping to ensure that vulnerabilities are addressed at an early stage and strengthening the accountability of the international financial institutions. Greater transparency would not only benefit countries, but strengthen public confidence in the IMF's policies and operations - making clear the basis for the Fund's findings, opening the Fund up to outside critical review and enhancing its accountability, reputation and credibility.

It is vital to ensure that IMF surveillance focuses on the key risks and vulnerabilities, paying more attention to the sources of growth, exchange rate regimes, medium term debt sustainability and external financing needs.

The availability of IMF resources lowers the likelihood of a crisis. Even though money matters, stronger policies and the credibility of these policies evinced through the IMF's financial support are also important to avoid abrupt private capital outflows. IMF financing as a *crisis prevention* tool is most effective for countries with an intermediate range of economic fundamentals.

The IMF provides financial support to assist member countries in addressing their balance of payments needs. In exchange, the member country commits to implement policies and reforms that would help in restoring external viability. The hope is that IMF support has a *catalytic role*, either by restoring confidence and supporting the return of private capital or by serving as a framework for the provision of bilateral and multilateral official financing.

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SINGLE-ENTRY ACCOUNTANCY IN AGRICULTURAL EXPLOITATION OF ROMANIA – AN EFFETE COLLOCATION?

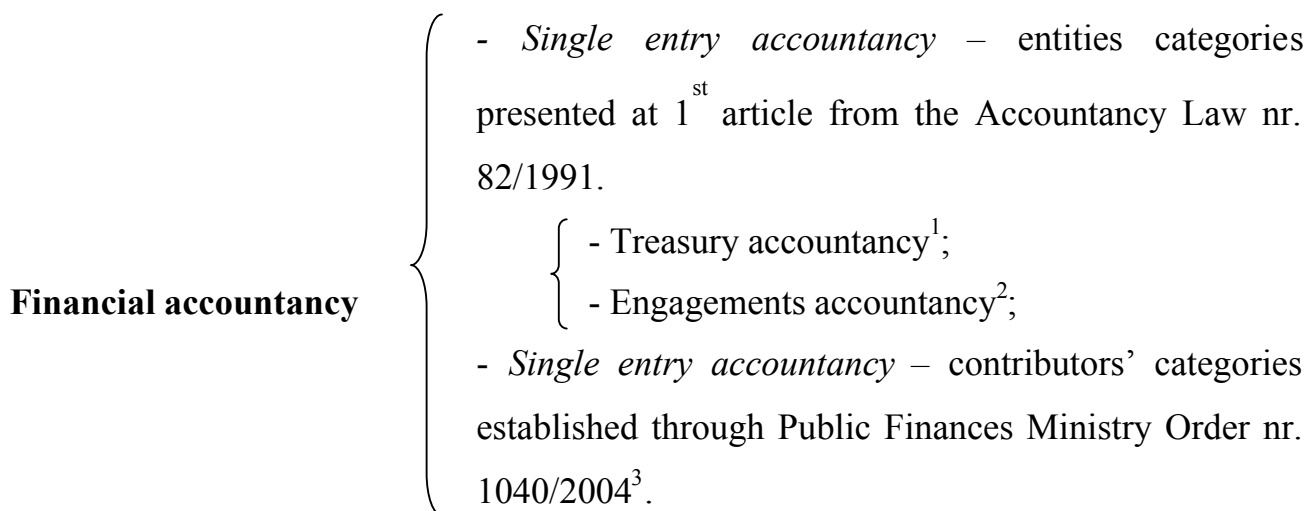
**Ph.D. Student Sorin-Constantin DEACONU, „1 Decembrie 1918” University,
Alba Iulia**

This paper treats aspects concerning agricultural exploitation and basic elements concerning single-entry accountancy. In the article we present aspects concerning double-entry accountancy in agricultural exploitation and significant information elaboration by models presentation.

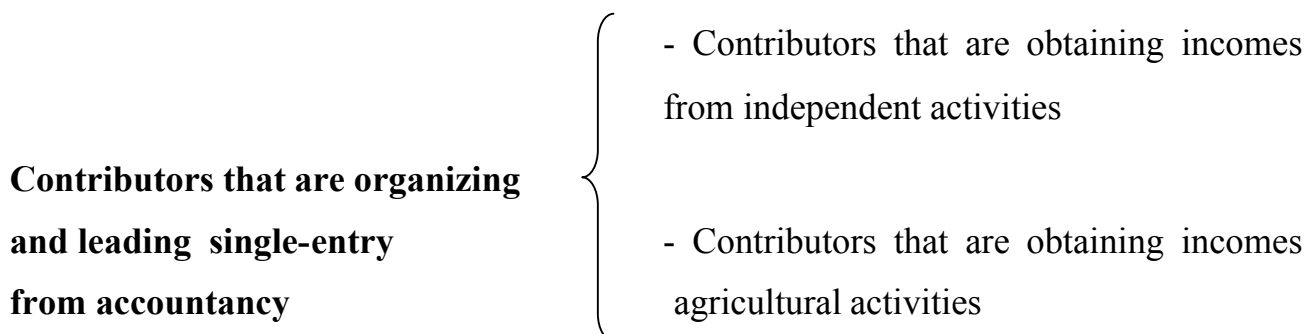
According to Accountancy Law nr.82/1991, republished in the Official Monitory nr. 48/2005, patrimonial entities, which are including also the agricultural exploitations, inclusively the individuals that are developing incomes generating activities, they have the obligation to organize and to lead financial and administrating accountancy.

In the same accountancy law the 5th article is stipulating, “the persons categories that can keep single-entry accountancy (our underline) are established through an order of the finance ministry”.

We are presenting as a scheme the area of the financial accountancy and the contributors that are organizing and leading single-entry accountancy:



Scheme nr. 1. Financial Accountancy's Area



¹ Considering the treasury accountancy, recording the expenses and incomes that are generated in the moment in which operations generates entries or exists of resources that are incorporating economic benefits.

² According to this concept, the reflection of the transactions and events has to be recorded from the generating moment.

³ Contributors that obtain incomes from independent activities. Incomes from the independent activities include commercial incomes, incomes from free professions and incomes from the intellectual property rights, realized individually and/or in an association shape, including adjacent activities. In the methodological norms of the Fiscal Code is presented the fact that persons that are realizing incomes from the presented categories have the quality of physical person and not of juridical persons.

Scheme nr. 2. Contributors categories that are organizing and leading single entry accountancy

In the accounting plan approved b through Public Finances Ministry Order nr. 1752/2005 there the 8 class “Special accounts” (is presented below), which is containing accounts that are functioning in single entry regime and which have to be used by the entities presented in 1st article from the Accountancy Law nr. 82/1991. Single-entry accountancy has to be organized and lead not only by the contributors categories established through Public Finances Ministry Order nr. 1040/2004, but also by the entities presented at 1st article from the Accountancy Law.

Single-entry accountancy is assuring the unilateral recording of the economic and financial operations.

Continuing we will present the single-entry accountancy organized by the familial agricultural exploitations.

Familial agricultural exploitations are defined, according to the Urgency Ordinance nr. 108/2001, depending on the maximum dimensions of an entity⁴. These ones have some characteristics that are influencing the book keeping and organization⁵:

- Reduce patrimony existence;

⁴ A. For the vegetal sector: a. cereals, technical and medicinal plants: plain area 110 ha, heal area 50 ha; b. natural fields cultivated with forages for the mountain area 25 ha; c. vegetables 2 ha; d. tree area and nursery 5 ha; e. strawberries and fruits trees 1 ha; f. noble wineries, nurseries and hop 5 ha; g. glass houses and solar 0,5 ha;

B. For the animal sector: a. milk cows 15 heads; b. fattening cattle 50 heads; c. sheep and goats 300 heads; d. pigs 100 heads; e. other species 100 heads; f. eggs laying chickens 2000 heads; g. meat chickens 5.000 heads; h. other species 1.000 heads; i. beekeeping 50 families;

C. For the fishing sector: a. piscine for fishing nursery 10 ha; b. piscine for consume fishing 20 ha; c. trout basins 1 ha.

⁵ Review Gestiunea și contabilitatea firmei nr. 7/2005, Printing House Tribuna Economică, Bucharest, 2005, p. 63.

- Simple patrimony administration through surpassing the owner quality with the administrator for a single person;
- Predominance of the familial labour force;
- The owner has to dispose of vary technical and economic knowledge as well as a rich experience that will allow finding viable solutions regarding the accomplishment of an efficient administration of the resources existing in the patrimony.

Single – entry accountancy in the familial agricultural exploitations can be organized by using the following documents categories:

- Financial-accounting forms, common in economy, with special regime in printing, writing and numbering: invoice, bill of lading, store-sheets, monetary, payments bordereau extract.

- Registers and financial-accounting forms, commons in economy: encasing and payments register; inventory register; fixed assets list; consumption bon; storage-sheet; inventory-sheet; foreign currencies bills; treasury register (for foreign currencies); acquisitions bordereau; salaries sheet; register for different operations; different operations journal; cumulative document.

From the documents remanded before, encasing and payments register presents a major importance for the single-entry accounting, because it is used as a document for: recording the cash payments and encasings, as well as through bank account; establishing the financial situation of the contributor; prove in law suits. It is realized in a single exemplar and it is recorded and signed by the territorial fiscal organ.

In the specialty literature, the single-entry accountancy for the familial agricultural exploitations supposes the existence of the following elements⁶:

- “Production expenses” sheet in which are recorded the expenses realized, as well as the obtained production for the agricultural cultures, cultures categories, animals

⁶ *Ibidem.*

categories or for the industrial products resulted from the agricultural goods processing;

- "Treasury" sheet in which are recorded the payments and encasings in cash or through banking transfer;

- "Debits" sheet in which are recorded the debtors of the familial agricultural exploitation;

- "Liabilities" sheet in which are recorded the obligations of the agricultural exploitation reported to different suppliers;

- "Exploitation inventory" sheet in which are recorded the inventoried assets, as well as the total amount of the obligations;

- "Results" synthetic accounting sheet in which are presented the *gross merges* partially on cultures, cultures categories, animal's categories, industrial products and others.

Single-entry accountancy in the familial agricultural exploitations framework *should be realized* by using the accounts from the 8th class "Special accounts". With the help of the accounts from the 8th class pointing out the assets and contingents liabilities that are represented by the following elements:

Given engagements;

Received engagements;

Other extra-patrimonial elements (Corporal immobilizations rented, debtors set off from the active of the enterprise, but continuing to be followed and others).

*Contingent Asset*⁷ represents a possible asset that appears as a consequence of the

⁷ The concept of "contingent" has the following significance: which can or can not to be, to happen or not to happen; accidentally. Romanian Academy, Institute of Linguistics "Iorgu Iordan", Dicţionarul explicativ al limbii române, Univers Encyclopaedic Printing House, Bucharest, 1998, p. 218.

anterior events of which existence will be supported only through the appearance or non-appearance of some future uncertain events, which can not be entirely controlled by the agricultural exploitation⁸.

Contingent Liability is a possible liability, appeared as a result of passed events and which's existence or non-existence will be confirmed only by the appearance or non-appearance of one or more future uncertain events, which can not be entirely controlled by the agricultural exploitation⁹.

If we made a comparative study between the concepts of “asset – contingent asset”, respectively “liability – contingent liability” we can find discrepancies between the agricultural exploitation control regarding the resources that are available.

⁸ Class “Special accounts” has the following structure (according to Public Finances Ministry Order nr. 1752/2005): 80. ACCOUNTS OUTSIDE OF THE BALANCE SHEET: 801. Given engagements, 8011. Endorsements and given guarantees, 8018. Other given engagements, 802. Received engagements, 8021. Endorsements and given guarantees, 8028. Other given engagements, 803. Other accounts outside of the balance sheet, 8031. Rented corporal immobilizations, 8032. Received material values for processing or repairs, 8033. Received material values for keeping or in custody, 8034. Debtors set off from the assets, continuing to be follow, 8035. Stocks of inventory objects nature given in use, 8036. Administrating locations, rents, and other assimilated liabilities, 8037. Discounted effects inside of the lifetime, 8038. Other values outside of the balance sheet, 804. Amortized corresponding to the level of non-using the fixed assets, 8045. Amortized corresponding to the level of non-using the fixed assets, 805. Interests rate corresponding to the leasing contracts and other assimilated contracts, inside of the lifetime, 8051. Payment interest rate, 8052. Encasing interest rate.

⁸ Public Finances Ministry, Ghid practice de aplicare a Standardelor Internaționale de Contabilitate, Economică Printing House, Bucharest, 2001, p. 233.

In the 8th class (according to the Public Finances Ministry order nr. 1752/2005), compared to the 8th class Public Finances Ministry order nr. 94/2001, we are finding that it was introduced the account 805 “Interest rate for the leasing contracts and other assimilated contracts, inside of the lifetime”, which is functioning through two analytic accounts.

A discussible aspect is the one referring to the contingent assets, which we consider that is represented by the stocks and the inventory objects nature¹⁰. The Romanian normalizing factor has introduced in the 8th class the account 8035 “Stocks of inventory objects given in use”. We consider that this account does not reflect a contingent asset because we are not in the situation of a possible asset, but of an asset, which is already recognized in the accountancy of the agricultural exploitations. This account already contains the records regarding the inventory objects stocks passed on expenses and which’s nature needs the extra balance-sheet following¹¹.

In practical activity of the single-entry accountancy is not given the appropriate importance and is organizing and leading double-entry accountancy¹². Can we talk about an “impossible coexistence” of the two accountancies in the practical activity? Surely because the single-entry accountancy can offer information that the double-entry accountancy can not assure. If we consider a debtor set off from the asset of an agricultural exploitation, double-entry accountancy can not offer information, but the single-entry accountancy, *if it is organized and lead*, supplies information regarding a

⁹ Ibidem.

¹⁰ We precise that the material like inventory objects have a big part in the circulate assets of the agricultural exploitations (scissors for different activities and others). If we attempt to the international settlements, this category of the inventory objects is inexistence because we operate mostly with the corporal immobilisations.

¹¹ Atanasiu Pop, *Contabilitatea financiară românească armonizată cu directivele europene, standardele internaționale de contabilitate*, Printing House Intelcredo, Deva, 2002, p. 1008.

¹² The accounting theory often makes references to the single-entry accountancy. In this case the professional accountants and praticiens have to consider also the information supplied by the single-

contingent asset that can transform into a contingent asset that could transform into a fixed or circulated asset by recording the debt into the account 8034 “Debtors set off from the asset, but continuing to be followed”, for example. This is a good example through which the practicing specialists have to focus on single-entry accountancy. We do not questioning the pertinent information supplied by the double-entry accountancy, but we consider that the two accountancies should be organized together at the enterprise’s level generally, and at the level of an agricultural exploitation, and particularly assuring the reciprocal completion.

Concluding we can say that the dispute between double entry and single-entry accountancy is “almost” won entirely by the double-entry accountancy, especially because it represents the vertebral spine in constituting the accounting information. If we are regarding on long term, we hope that the agricultural exploitations will become in Romania veridical ranches resembling to the European and American models, between which it exists a symbiosis between the single-entry and double-entry accountancy leading to the increase of the efficiency and a better propagation of the information towards different users.

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entry and not only of the double-entry accountancy.

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ROMANIAN PENSION SYSTEM IN THE NEED OF CONVERGING TO SIMILAR EUROPEAN SYSTEMS

Lecturer PhD. Iuliana CENAR, „1 Decembrie 1918” University, Alba Iulia

Internationalizing represents the process that determines the imminent need of the social policies’ convergence at the European Union level, considering the situation in which the interventionism in the member countries’ allowances systems is heterogeneous. Developing the allowances system represents a priority for Romania (and not only) as a candidate country for European Union adhering process, where most of the countries are pleading for the need of reforming the national allowances systems and projecting a structure meant to assure financial sustainability on long run.

Rising and declining in the respect of different pension systems

Globalization and deepening the economical integration determines the imperativity of social policies armonization at the European Union level. European expanding towards East stands as the most important challenge, being the only valid option in expanding the prosperous economical area, social security and political

ballance, while interfering in the pension policy of the member countries is heterogenous.

The imperative condition in Romania's joining to European Union process is ensuring a high level of social security. Although the popularity and the effective importance of social programmes went as the basis of national executives, the deepening of the joining will have second results. Unlike the North American and Japanese models of pension systems, those in European countries characterise themselves by a high protection level and the wholeness of the services. The model of social pensions system founded by Otto von Bismark in Germany at the end of XIX century turned out to be the base for modernization of European human society, especially contributing to the adapting of economy to the fluctuations of the social needs. Interdependence raising between national economies diminish the capacity of the national states to maintain the principles of solidarity and wholeness in the respect of pension systems.

The largest part of pension systems dimension is based upon the principle of repartisation and needs an intergenerational and intrasystemical dimension. The key-examples are public systems of retirement in Belgium, France, Germany and also Dutch and British.

Public systems of pension schemes has risen rapidly in importance in the last century, coming as a result of the high generosity and continuously expanding . reaching its point when covering almost totally the ageing population (In the European Union it represents the most important source of income for old people, covering almost 90%¹ of after-pensioning resources).

The reasons for raising the importance of redistributive system of pension

¹ Rother P., Catenaro M., Schwab G., *Ageing and Pensions in the Euro Area Survey and Projection Results*, Social Protection Discussion Paper, no 0307, 2003, p. 3.

PAYG² include the political attraction due to the low cost, especially in the context of increasing population number and the independence towards long term contracts which exist in the private system of pensions. Such contracts have been invalidated countless times from the economical point of view and so, the public contracts sustaining the PAYG systems, seem to be more durable.

Between the '50s-'70s there was a high point in developing pension systems in European countries but not uniformly, dividing into models as follows: Scandinavian (Norway, Sweden, Denmark, Finland) Anglo-Saxon (Great Britain), German (Germany, Austria) și Latin (Spain, Greece, Portugal, Italy).

Summing characteristics of the Scandinavian way refers to high and low universality and institutionalization. Specific for the Anglo-Saxon model, less supplier of social benefits and more „last resort compensatory” dues to the social prestation focusing on those „who deserves” them and encouraging people with high income to fill in the private schemes of insurance. As for the German model, there is a high level of taxes for balancing the salaries and incomes, together with the existence of some problems in financing the pension funds. The Latin model is rudimentary and stresses the solutions regarding civil society (church, family, charity), so the system is more selective than universal, leading to a high level of poverty and social exclusion.

Starting onto the seventh decade of the twentieth century marks the starting of a decline respective to pension systems. Oscillation of the population number stands as an explication for the high number of pensionaries. The greatest part of the expenses being financed through the contributions to the paid social insurances from the salaries, the modification of the variable working market pays an important role over the stability of the pension system, participation of the working force being relatively constant in the European Union in the last decades at a rate of almost 67% - 68%, while the hirings has risen at an annual rate of only 0,5%.

² pay-as-you-go

The danger of unsustainability underlined the necessity of a „social intervention” at the community level, required mostly during the '90s, when the social problems deepened. The aging population forces the public pension systems to imminent future reforms.

As a result of the actual oldness of the public retirement schemes and since the second world war, the first generations took advantages of the so called „breakfast on the house” of the allocations relatively generous with little contribution. Nowadays, it is important to realise the overleap of the starting period and entering into the „relative maturity” stage, according to the non-validity of the public schemes.

Taking into consideration the demographic changes, a public system of pensions which overleapped the starting phase has no more than two ways to go in order to ensure the viability together with the implication of a high degree of reforming. The first solution is the consolidation of the financial resources through the rising of the contribution tax, rising of productivity and so of the salaries, implication of the working force, identification of some great transferrals of thr general budget. Secondly, the strategy of dimunuishing the expenses should apply through the prolonging of the minimal age for retirement and also lowering the rates of the services offered by the system.

The two ways of reforming follows the same objective, meaning a resonable dimension for the relative level of the allocatins/services reported to the contributions, facts that lead to insufficiency and lack of perennal perspective for any variable in the systemic combination, no matter the adaptability to the existential context.

Heterogenity of the social national policies respective to pension ensurances is also confirmed through the significant variations of the expenses with the public pensions on the PIB. The planned evolution of the public schemes expenses in some member countries of the Organization for Cooperation and Economical Development (OCED), without modifying the present parametres, has ,with only one exception, a unique sense, rising, according to the following table:

Planning the evolution of the expenses in the public pensions' schemes

(% of PIB)

- table no. 1 -

Year	2010	2020	2030	2040	2050
Country					
Germany	11,8	12,3	16,5	18,4	17,5
Canada	5,3	6,9	9,0	9,1	8,7
France	9,7	11,8	13,5	14,3	14,4
Italy	13,2	15,3	20,3	21,4	20,3
Japan	19,6	12,4	13,4	14,9	16,5
Holland	6,1	8,4	11,2	12,1	11,4
United Kingdom	5,2	5,1	5,5	5,0	4,1
USA	4,5	5,2	6,6	7,1	7,0

Source: Alain Jousten, Départ a la retraite: une perspective internationale, Problème économique, janvier 2004, p. 2.

As it can be seen, in Italy, the public pensions are going to cover soon over 15% of the internal annual product and in Japan, almost 20% soon. In 2004, according to Commertzbank³, a German bank, the paying obligations of some governments respective to pensions will be three times higher than the internal product of their country, unless the necessary is done.

The perspective over the state pensions is not as bad in all European countries. Great Britain, Holland, Scandinavia and Switzerland for example have already passed a great part of their responsibility from the first pillar (state) to the second (the employer)

³ Special report: *State pensions in Europe. The crumbling pillars of old age*, The Economist, September 2003, p. 71.

and in some cases to the third pillar (the future pensioner)

Although in ascension regarding the importance according to the Trait of Amsterdam in 1997, the European social policy seems to be on a second place respective to taking decisions, conferring freedom to the member states in implementing their own ways in pensions ensuring.

European principles and action directions for proper solutions in balancing and ensuring the financial support on long term respective to national systems of pensions

At the beginning, the European Union social policy was taken as complementary and subordinated to the economical objectives. Joining to the European Union with its oscilating influence of political into the social, will have to determine the converging of the pensions systems to a minimal common level and validity. Theoretically argumentation of the converging, as a joining principle, results from the classical and neoclassical approachings regarding the free exchange and the theory of customing unions by Viner in 1950, who points out the advantages of regional joining in the case of comparable levels of development countries and structures which can generate, through restructuration, organic complementarities.

Analising the similarities and differences between the systems of pensions of the members countries of the European Union, led to the possibility of every state to keep its own system, the beneficiaries rights being enlarged in the Common Market.

Most of the member states offer pensions schemes based on work market. In the private field these usually represent PAYG systems, which, in some cases, are partially financed by the state budget (in Belgium, Germany, Greece, Spain, France, Italy, Luxembourg, Austrich și Portugal). Such schemes are usually concerning the earnings but they can offer to all the pensioners an identical pension (this system characterizes especially the countries with developed schemes from the second pillar such as Ireland and Holland). In three countries Belgium, Germany and Greece, pension system for

public pensioners is financed only by the state budget, while in Ireland the scheme for the public sector is entirely PAYG. The remaining countries are characterized by a pension regime partially PAYG and partially financed by the state budgets. The schemes in the second pillar are rarely obligatory in the private or public sector, while the individual volunteer plans are generally insignificant.

Coordination of the social security systems stands under the law at the European level, Through the Rule 1408/71 respective to coordinating the systems of social security for working persons, for independent workers and members of their families who travel in the European Community and Rule 574/72 respective to the Implementing procedures of the first rule. The principles instituted through the community papers refers to the payment of the social contribution in a single member state, equality between the travellers and the citizens of the respective state, maintaining the right of pension through the reglementation of the transfeer of the service done between the member states, together with summing up the ensurance periods which certifies the right of pension after a minimum stage of installments. European Commitee's objectives focus on the complementarity of the working force to the retirement policy, promoting the concept of active ageing and expanding the impact of such an abordation over the young generation.

In the moment of joining, Romania will have to fall under the provisions of the Union respective to transferring the benefits of pension, public or private: (a) interdiction respective to contributing simultaneous to two national systems for the same kind of pension; (b) giving the pension to the employees or their descendents in case they live in one of the European Union states; (c) rezidence out of the country which supplies the benefit leads to atributing a pro-rata kind of pension; (d) the amount of the pension is set according to the contribution period; (e) contribution to the pension system of the persons who are not resident of that country impose them the same regulations referring to a contribution period, but, unfulfilling the period can be

completed by a period of activity in another state, which is set by the supplying state of the pension benefits.

The European code of social security also sets the conditions of functioning for the pension systems in the member states such as: (a) the retirement age doesn't have to be more than 65 years (older age can be set in case the residents of this age is bigger than 10% of the residents' number under that age but over 15 years); (b) medium period of cotization of 30 years; (c) replacing through pension of at least 40% of the previous income during the active period; (d) possibility to work over the retirement age.

According the strategy in Lisbon⁴ the European Council adopted in 2000 some rules to lead to solving the differences and ensuring the support of pension systems (supplying pensions which lead to a decent standard of living for pensioners, promoting the solidarity between generations, possibility of access to the public or private systems of pensions and modernization of pension systems to supply the needs of the working class).

Estimations referring to financial sustainability for public systems of pensions target on raising the rate of working force, generally of the population of 55-65 years old, especially (from 38,5% until 2010), attracting the qualified working force from the developing countries, encouraging the women to work again, equalization of the retirement age between men and women to 65 years till 2020. Economical development, an important aspect in underlining this objective will lead to an employment rate of 70% of the population in 2010 and 83% in 2045; one year prolonging of the retirement age will determine the absorption of about 20% of the expenses in 2050 together with greater benefits for pensioners. Lowering the pressure onto the public system through the access to additional pensions, identification of other sources in sustaining these ones together with constituting the reserve funds to face the retirement of the baby-booms generations constitutes directions of action which answer to the insurance needs of the

financial support of the pension systems.

Sweden is the country which, through the coming back with 18% of the employing over 55 years, created a Swedish model regarding pensions insurance, capable to face the retirement wave. Flexibility of retirement age is another element of the Swedish scheme. So, a lower pension can be obtained starting with 61 years old and its amount rises together with retirement age and to the life hope of the workers. There is also a difference respective to the working time of the ageing people according to their work capacity, respective 25%, 50% or 75% of the normal working time. It is also added a serious control of the sickness indemnizations in the purpose of lowering the fraud and waste.

Romanian system of pensions, conclusions

Romania's joining to the European Union implies changing the internal legislation following a pack of communitare norms which reglements the improving of the working and life conditions, known as „acquis comunitar” completed with a serie of principles, directiveness lines, commune objectives, elements which formes the so called „soft acquis”⁵. Romania engaged itself to integrate the internal legislation regarding social policy to the norms and standards in february 2000, when it started joining negotiations, position document respective to chapter 13 of the acquis comunitar, meaning „The Social Policy and working force” handed officially to the European Comitee in May 2001, negotiations taking part at the end of the same year.

Fullfilling this wish marks as imperative the solutioning of the existing problems within the Romanian system of pensions, identified by the European Comitee in the

⁴ www.eu.int.org , *Adequate and sustainable pensions*, Lisabona, 2000.

⁵ Studiul nr.10, Măsurile care trebuie întreprinse pentru asigurarea compatibilității între sistemele de asigurări sociale din Uniunea Europeană și România, p. 4, www.cpisc.ro/files/dosare/studiul10.pdf.

periodically report in 1997, respective to the „progresses” made which refers to the following aspects⁶: lower rate of collecting the contributions⁷ (which determine the financial crisis of the system exclusively based on pillar I) supplying a low rate of PIB for such expenses⁸, differences regarding the pensions in the system. These aspects question the capacity of the actual pension system to implement the European rules and to face the coordination of the social ensurances systems of the Union.

The statute of the pension system is presented with the same coordination in the report in 1999. Law 19/2000 respective to the public system of pensions and other social ensurance rights allows the partial transfeer of the rights and benefits gathered in the states in which Romania has signed agreements in this respect but the need of strengthening the administrative capacity is underlined in managing the system. Coordinating the pension system with the ones in other countries implies developing some appropriate administrative structures and proper training of staff, the report in 2001 underlining the need of getting on the negotiations for mutual agreements respective to the benefits export. Administration’s role in any type of reform is essential, administrative performance constituing one of the key elements for the succes of the reform in the pension system. The absence of an European model for the option of the reform in the pension system makes organizing and functioning of the administration of pension funds to belong to each state, having the task of ensuring a functional coordination between the specialized administrations in the member states.

Developing a proper institutionalized background and some functional

⁶ Preda Marian ş.c., Sistemul de asigurări de pensii în România în perioada de tranziție: probleme majore și soluții, Institutul European din România, 2004, p. 9.

⁷ In the year 2001 - 77%.

⁸ In România expences public represent approximated 7,1%–7,2% of GDP.

administrative actings comes as a need for Romanian institutions, the institutional aquis represented by norms, acts, metodoloies being very important for a successfull joining. The designed institution to intermediate contracts respective to beneficiies transfer is The Ministry of Social Solidarity and Family. After the joining, the rules of coordination will be functional stated by Rule 1408/71, aspect which implies special rules respective to pension prestation services and their payment to any person who worked somehow on the teritory of many member states.

Opposite to the situation in the member countries of the European Union, in Romania there is a high level of contribution for financing the pension funds, imposed to the companies, fact that leads to the not-payment risk, while the relatively low level of the employees diminishes the posibility that a part of this to be transferred to pension funds based on capital affluence.

Modernization in the pension system constitutes a priority for Romania (and not only) as an applicant to the joining into the European Union, where most of the states pleads for the need of reforming the national systems of pensions and designing a structure which has to ensure long term financial sustainability.

Guaranteeing safe and durable pensions is conditioned by⁹: ensuring a decent level of life which to ellude poverty and social marginalization, identifying alternative sources for financing and stabilization of the expenses regarding pensions to prevent the financial pressure generated by eldering population, the capacity to adapt the pension systems to society's changes coming from flexibilization of work, growing the number of women on the working market etc.

The influence of Mondial Bank and of the models in pension systems it promotes and the need of assuming European requirements, impose a working method which substitutes the exclusive legislating at national level of the pension ensurances on the basis of subsidiarity principle. The liberal model of the pension system with three pillars

⁹ Comunicarea Comisiei Europene, *Dezvoltarea strategiilor* naționale pentru COM (2001) 362 final.

is to be found especially in the Central and Eastern Europe countries. In the proces of „systemic convergence” respective to pension ensurance it is necesar taking into consideration of the level of deficits known by the state social ensurances, of the managing and financing way of the tranzition from a redistributive system to a multipillar one, settling of the collecting contributions apparatus structure and ensuring transparency through plainness and stability of the law system.

Among the internal problems to be solved there are those concerning some private institutions focused on social policies respective to pensions and encuraging the transfeer of a part of responsibility for a decent income towards the individual and the community he lives in (non-governmental organizations, churches). The simple adoption of the European standards doesn’t lead to a successfull reform.

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SOCIAL HEALTH INSURANCE REFORM'S IN VIEW OF ROMANIAN'S INTEGRATION IN THE EUROPEAN UNION

**Lecturer Ph.D. Magdalena RĂDULESCU, Lecturer Ph.D. Daniela PÎRVU,
University of Piteşti**

The sub-financing of the system of health insurance, having complex and diversified causes, but a common root has determined the authorities to propose a reform in health. A solution to solve the problems of the social health system of insurance is represented by the complementary volunteer insurance or the health supplementary can cover individual risks in special situations and/or together with the services covered by the social health insurances. At the same time, the state authorities have identified the reform of the hospital sector as a priority.

Health care represents in Romania, as all over the world, not only a problem of medical assistance, but also an economical-social problem of great importance for the entire mankind, concentrating important financial resources.

Social health insurance systems are among the most complex in Europe, making them complicated to describe and difficult to evaluate. Actual funding, allocating and delivery arrangements in place in western Europe social health insurance systems

countries have undergone considerable change during the past decade and additional reforms continue to be under serious consideration for the near future. Despite a long and distinguished tradition, social health insurance systems arrangements in Western Europe have come under increased pressure over the past ten years. Confronted by intensified clinical, financial and social expectations, policymakers in these countries have begun to re-examine the efficiency, quality and responsiveness to patients of their health systems. Further, there has been growing interest in measuring health system performance in terms of outcomes, particularly regarding its contribution to overall health gain in the population.

In the countries of European Union, once with rising in health expenses (generated by many factors such as: the aging of population, accentuation of risk factors and new diseases, raising in costs for medical services so on so), the question of performing new reforms within the health system has become a task. Such health system takes into consideration, in the first place, the improving in quality for the medical services and ensuring enhanced financial resources in order to cover expenses in the health area. Thus, in Germany authorities have introduced a private unit of health insurances and in France the income limit for which due at health insurance is to be paid has been eliminated.

Romania used to spend for health between 3-4% of GDP. This was one of the lowest shares of GDP devoted to health among Central and Eastern Europe Countries – even if, according to the World Bank, consistent with the development level of the country. While most European states spend around 9-10% of GDP for health and even the other Central and Eastern Europe Countries spend over 6% of GDP, global health expenditure in Romania reaches only 4% of GDP. It is conceivable that the concern for social rights at the European level will translate in pressure to increase public expenditure on health. The health status of the Romanian population also looked worse than in neighbouring countries. In this context, policy makers considered the level of

spending insufficient, and the social insurance was introduced to mitigate this situation.

In our country, the sub-financing of the system of health insurance, having complex and diversified causes, but a common root – the weak development of national economy – has determined the authorities to propose a reform in health, starting with an improvement in the management of expenses for health and with enhancing financial resources. There are two major institutional design problems affecting the Romanian health system. The first concerns the non-competitive nature of the health funds, which are regional monopolies, further restricted by national regulation. This results in a lack of incentives for regional funds behaving like selective purchasers. The second unresolved matter is the division of labour between the system of health funds and the government. The lack of competition between health funds creates an institutional set-up where there is no incentive for the health fund to take on these powerful interest groups and enforce hard budget constraints upon hospitals. The dominant strategy is an alliance of the purchaser with the provider to pass the costs to the budget. The autonomy of hospital managers is limited, what precludes even the restructuring measures intended by the public-spirited managers.

Despite the efforts done by the executive in order to ensure all necessary financial resources for a good functioning, in normal limits, of the social and health insurance system, the problem of financing, securing and the distribution of medicines and medical materials has been aggravating. Nowadays, because the amplification of financial blockings and because of the hospitals' raising in debts to medicines suppliers, some medical units have come to temporarily stop their activity and this had disastrous results for the present and future patients.

Compensating of price for the medicines used by patients with small incomes and by pensioners has become a problem more and more difficult to be solved. The situation has become critical for patients suffering with diabet who wait for days in front of drug stores in order to receive compensated prescriptions.

Not paying in due time to economical agents of health insurance contributions has also become a health financing problem added to the dysfunctional actual system.

The priority measures that should be taken for a reform in social and health insurance within the Romanian medical system refer to the following aspects:

- to guarantee the access without discrimination to medical basic care, no matter the income. The right of population to freely choose health care should be emphasized and this option should not be imposed by the state;
- stimulating privatization for the infrastructure of medical units except the facilities which, because of the high level of needed investments, could not be sustained by private operators or by local authorities, excepting as well those which have strategic importance for the health of the population;
- the entire activity in the sanitary area should be based on both contracts between the insured and the houses of insurance and also between the latter and the suppliers. The frame contract of supplying sanitary services within the social system of insurance will be negotiated with all the representative organizations of such service suppliers at local level. Action should be taken against discrimination and inequalities and equal rules should be established for free competition in sanitary area. The sanitary system will be based on the principle of free competition between suppliers for the existent funds and the state should respect the neutrality for all suppliers of medical care. It is necessary to introduce means of payment to reflect the individual activity of each supplier of medical services within the system;
- improving the financing of sanitary system by allocating with priority resources gained as a result of economical development, by reallocating budgets within the system as well as by eliminating those expenses outside the sanitary system. The sources taken into consideration for supplementing expenses for health in accordance with the real needs of population are: paying from the budget for the

expenses of the medical-social units and also for work accidents, expanding the basis of taxes (by reimplementing taxes for health insurance for all those who make profits and by stopping to allow to certain economical agents exemptions from health insurance contributions), creating new jobs, obligativity for the people working abroad to contribute to the health fund, stopping work on the black market, introducing private health insurance, involving local communities in financing medical actions, enhancing finance from state budget;

- paying in full all the budgetary debts to suppliers in order to be able to introduce the principle of respecting of contracts. The entire cost of the essential medicines for health care will be covered from the social insurance fund, each patient paying only a fix minimal contribution for each prescription. Transparency should be introduced in using funds for compensated and free medicines in ambulatory, by allocating a proper amount for such expenses, for each doctor, following the principle "money follows the patient";

- diminishing excessive birocracy, which makes the access of population to free and compensated medicines slower and the activity of medical services and pharmaceutical suppliers, as well as decision, based decentralization. For this purpose, legal mechanisms will be created so that, together with a proper financing of sanitary hospital units, the local authorities can make decisions for the health care of the population in the area. Thus, the state will diminish its influences upon the sanitary system concentrating on the major public health problems and on protecting and respecting the patients' rights;

- establishing a set of basing medical services to serve all those who pay taxation within the social health insurance system and the obligativity of medical units to presents to patients, at their releasing from hospital, an estimate with all the expenses both paid from the budget of the health insurance and the ones fully paid by the patient. This will allow a better control of the activity and of the financial

management from sanitary institutions and also a more transparent use of public money;

- introducing the European and the National Card of social health insurance. The European Card gives the right of medical care to the insured, necessary during his temporary residence in a state, member of European Union. In our country, health insurance houses are compelled to recognize as valid the cards issued in states, members of European Union.

A solution to solve the problems of the social health system of insurance is represented by the complementary volunteer insurance or the health supplementary can cover individual risks in special situations and/or together with the services covered by the social health insurances. Volunteer health insurance doesn't exclude the obligation to pay the taxation for the social health insurance.

According to law no. 212 from May 27th 2004 concerning private health insurances, an optional system is set up for paying medical services, additional to the obligatory system of health insurance, from with supplementary sets of services will be financed, besides the basic set of services, covered by social health insurances, in accordance with the laws in force.

Private health insurances can be:

- complementary private health insurances (they totally or partially cover payment of services, partially excluded from the basic set by the social health insurances, including co-payments, depending on each situation);
- supplementary private health insurances (totally or partially cover payment for services exceeding basic set from the high degree of comfort, rapid access to medical services for the waiting lists, special medical services abroad or other services);
- substitute private health insurances (totally or partially cover payment for any type of services).

In the private health insurance system, insured are considered to be those individuals who have a private insurance contract signed with an insurer, individually or by a third party. Employers, individuals or legal entities can sign private health insurance contracts for their employees, individually or in group, given as additional benefits to wages with the purposed of attracting them, making a selection or to stabilize the already hired personnel.

The necessity for an optional system of health insurance in Romania is imperative, taking into consideration both the strong financial pressures that the public social insurance system makes upon state budget, and also the diminished quality of the medical services offered by it. Nowadays, the member of persons taking benefits of private health besides wages, offer incentives to their employees in the form of private health insurance policies or the insurance companies offer attractive sets of included life insurances and private health insurance policies.

Thus, the client pays the premiums for the life insurance but the company assumes the responsibility to give back to the insured a certain amount, established in the contract, in the case of incapacity to work because of illness.

On a medium and long term, private health insurances have a great potential of development. Taking into consideration the signals coming from the market, they become more and more attractive for the great companies on the insurance market. Omniasig, Aviva, Interamerican, Allianz-Țiriac are only few from the companies activating on the market of health insurance.

The methodological norms for applying the law of private health insurance mention the fact that the access to the private health insurance has, as a condition, the quality of the social health insured. Thus, people who do not pay in due time their taxation to the state social insurance or who are not recorded to a family doctor will not be able to sign a contract for a private health insurance.

Because insurance companies are compelled to verify if the individual or the legal

entity pays the health insurance contributions and if it does not have debts to the National Fund of Social Health Insurance, it is considered that this provision determines the raising in costs in the case of signing a policy of private insurance.

The option of the Romanian government for the private insurance system totally modifies the structures of financing and functioning, imposing a new way of organizing the supply and the payment for medical services. The system of private insurance, characterized by a view based on individual insured is financed through individual contributions (sometimes for employers) and by giving medical services in a private system. In this system, patients and medical assistance suppliers sign individual contracts referring to the type, volume and the price of medical services. The set of services is limited being supported by the individuals or legal entities' taxations, depending on the risk. The private health insurance is offered by the insurance companies and it can be individually subscribed or for a group of individuals. If it is individually subscribed, then, the insurance company takes into consideration the characteristics of the individual: age, sex, state of health. If the health insurance is subscribed for a group of individuals, the insurance company takes into consideration those characteristics of the group, considering the risk, as well as the dimension of the group, its average age and other things.

Law no. 212 from May 27th 2004 concerning private health insurances regulates the set up, the authorizing and the functioning of private societies of health insurance as well as the suppliers and the beneficiaries of this system. Thus, according to article 4 of this law, there are considered to be eligible for the services offered by the private health system of insurance, all individuals, Romanian citizens, foreign or stateless citizens with the domicile or residence, according to each case, within Romanian territory, who, after having fulfilled the obligatory requirements of the social health insurance, sign contracts with private health insurance companies, further on named insurers and after paying the

insurance premium. The citizens of the states, members of European Union, as well as citizens of the states with which Romania signed agreements, conventions or international protocols of cooperation in the health area and medical sciences are eligible for the services offered by the private health insurance system and without the necessity to fulfill the obligatory requirements of the social health insurance, if those agreements, conventions or protocols signed between Romania and the respective country do not specify as such.

Through the contract of private health insurance, the insured is compelled to pay to the insurer certain private health insurance premium and the latter, in his turn is compelled that in the case of a risk assumed in contract he pays, in the name of the insured, the type of medical services, depending on the quantity and quality of the medical act also on the individual risk, or other services received from the suppliers of medical services, within the limits and terms established, as well as the additional expenses in the case of such services.

The monthly premiums for a private health insurance vary between 10 and 70 Euros depending on the state of health, age and sex of the person who wants to be insured. Private health insurance companies ask the petitioners to have a medical check before signing the policy. The private health insurance policies are attractive enough, taking into consideration that in private hospitals or clinics the cost of day can reach 100 Euros.

Ever since the first years of transition to a market economy the budget allocated to social health insurances, in our country, has been insufficient, based on not transparent criteria because of financial compulsion. In its present state, the system of social health insurances is characterized by deficiencies and the lack of transparency in the manner of spending the available resources, determining the budget of sanitary institutions to be established not depending on accomplished index that will allow raising amounts properly for the activity, but within the limitations of a small budget.

The non-competitive nature of the Romanian social health insurance funds is always going to create incentives problems. They can be however partly mitigated by:

- clarifying the ownership of hospitals, by transferring them to the local government, or better by establishing them as independent charities;
- creating the incentive for managers to allocate efficient all expenses, by funding capital and operational expenses according to the same mechanism;
- devising incentive plans for hospitals managers that reward good performance.

The sustainability of the Romanian healthcare system requires first of all adequate budget control mechanisms at the hospital level. The hospital profligacy sucks in resources destined for primary care and medicines consumption. The incentive misalignment that results in the current serious funding crisis has been analysed in the healthcare background section. A second type of concerns for the sustainability of the healthcare system springs from its ill-conceived institutional structure, as presented above.

The reform of sanitary system, initiated a years before the long waited integration of Romania in European Union, should determine, on a medium term, complex effects among which the possibility of insured to beneficiate of quality medical services similar to the ones in western European countries.

One of the most important changes included in the reform project is represented by a basic unit of medical services ensured by the social health insurance system and the rest of the medical services should be covered by the private system. Nowadays, the minimum set of services covers 97% but money is not enough because the real public system covers these expenses at the upper limit of the existent budget.

That is why here are attempts to create a mixture system made up in majority by the health private system. The disadvantage for the ones interested in the new optional system is that they also have to pay the taxation of 6,5% to the social health insurance,

the companies in the area being able to sign health insurance contracts only with the persons who fully paid social insurances offered by the state.

A modality to enhance the interest for the health complementary system would be to reduce social taxations both for the employee and the employers. The reduction does not necessarily mean a drop, but an option of the employee who can pay the difference to a private operator or to the National House of Health Insurance (for example a reduction from 6,5% to 6%).

Legislative regulations within the area of health insurances have not succeeded to answer all the problems. However, many specialists are concerned about health being presented as an economic factor the grounds that this may had to basing principles such as equity, ethical issues and health as a human right being underemphasized. They support positioning health as a driver of economic growth by showing the benefits to public finances and the economy of pro-actively promoting health and preventing illness.

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THE BANKING DISTRICT IN ROMANIA

Grigore LUPULESCU, “Carpatica Bank”, Romania

We can talk about a truly banking sector in Romania after 1990 (without neglecting the years before 1948).

After 1990 the banks had to face instability financial factors from outside the borders, in a time of general instability generated by the transition process. Transition for the Romanian banks started by changing the law and their statut. Now the banks have the freedom of choosing the partners - Romanian or foreigners, but they had to face competition – other financial institution (mutual funds) and other banks (Romanian and foreigners). The National Bank started a direct refinance of the banks to change the prudential rules, but the financial situation of the traditional big companies got worst.

In the year of 1990 the romanian banking area was dominated of banks with the register capital from the public area, but at the end of 2004, 30 banks (the existing banks was 32) had a private register capital.

Characteristic to our market is the fact that we have a small number of banks comparing to other countries, but the rate of concentration is high.

The first five banks had almost 2/3 of the banking market and BCR only has a third of it.

In the matter of the origin of the capital, the dynamic was interesting: in 1999 one third of the foreign capital was French, in 2002 the lider was the Austrian capital (40,4%), position kept at the end of 2005 when Erste Bank purchase BCR.

From 1990 till now some banks went into bankruptcy (Bankoop, BIR, The Turco-Romanian Bank, Credit Bank, Bancorex who was undertake by BCR). All of this cost the Romanians around 3 bilion dollars, about 10% of the gross national product.

The banking area - an essential component of the national economy, reflects through its evolution the stage of the Romanian economy.

The “intermediary level” as a ratio between the deposits and nongovernmental loans in the gross national production, is small comparing to our neighbours and really small comparing to the advanced countries.

From this point of view, the banking sector has a huge potential in the years that comes, and because our economy improve, the intermediary level will increase.

On the Romanian financial market, the network infrastructure (agencies) has to develop, to enlarge.

Now statistics shows that for one million people there are 1,8 banks units. For one million people who already has a bank account the coverage is 3,3 banks units, and this is way down the European countries and other advanced countries in the world.

FEATURIES OF THE ROMANIAN BANKING DISTRICT

About the banking district operation mode from Romania, we must remark the fact that in our country the banking activity did its appearance in the half of XIX century. The National Bank Of Moldova was the first bank made on our territory to 12 March 1857, with center to Iasi and branch to Galati and Bucharest.

In 1880 The Romanian National Bank is taken birth by princely edict like private principals and with the state participation, which gave a new boom to the banking principals increase.

In 45 years of out made to order, the banking were excessive centralized, majority banking functions were complete.

The National Bank, have as much role of the central bank of broadcast, but as of the commercial bank, merely some areas be covered in some banks specialized (Romanian Bank of Extern Commerce- for operations of import of the states, Bank of Invest for financing long-term investments do state, Agricol Bank for support the area of agriculture and food industries, in what weather, House of Economy took over deposits of physical persons the one and of their credits exclusive for the purchase of house from the fund states).

The new politic regime sets up in december 1989 carried and stated strategic option set up the saving of the market in lost a banking system with the National Bank ans have the role and of "arbitrage" and of "speculation".

The setting-up of the market in Romania after 1989 solicits imperatively and the of a organization banking proper system. In this sense through law no. 33/ 1991- Looking the banking activity and law no 34 /1991 - Looking the statute of National Bank, they founded the creation in democratic of a Romania banking system on two ways:

- National Bank as the the central bank with attribution of broadcast, check and supervision, maintain the stability prices;
- The system Commercial banks, carry operate as banks of businesses, generically either specialized. In 1st december 1990 was born the Commercial Bank of Romania by taking over all commercial task from National Bank, being the nucleus systems commercial banks.

The normative which frame regulate the banking activity was modified and completed through banking law no. 58/ 1998 and the statute of National Bank confers it independence in report with others, were modified and completed through law no. 101/ 1998.

In Romania the former wealthy banks must survive all factors of financial international in a unsteadiness context of general unsteadiness generates of the transitional process. Meant for the Romanian banks the stale modification, legal operatic frame, freedom in choice domestic partners the external and competition from other financial institution (the funds of placement) and other Romanian banks, create after 1990 the foreign), reduce refinanace directly of to the central bank, the permanent change targets of BNR and the deterioration financial situations majority big customers.

The biggest problem which confronted the banking market was the financial system.

Financial systems consist in its quick reaction don't except to the economic variables (breed economically, reflation, unemployment etc.), just in elder to measure, to the politic variables (crises, declaration etc.) and psychological (comments, rumors). The absence oportune decisions the operative and authority of supervision, check and step in toward one disfunction which can appear in the operation financial systems can have, beside the irrational decisions, appeared on the fund absence from creditors and debtors financial institutions, effect among most destructive in economic social even the and in last politic instance.

Result, therefore, as for the financial systems must let us holds the all expense the involved parts:

- tenderers Of funds;
- Inquirer Of funds;
- Overseer;
- Financial manager.

From sin, conversely, than in very little measure directed to the organism with targets of settlement, supervision, check and interfere and no of to politicians, in last instance, directing to the direct subordination against Parlament organism.

These former actors financial phenomena comes back them and the responsibility, after case, but in different degree, creation of problem in the financial system AND, particularly, banking bankruptcies.

But for planting distrust populations in the financial Romanian system, and in the banking system, the responsibility must expanded in certain mode about politic forces.

Former step in submit financial Romanian systems was "Caritas", phenomena, this phenomenon developed disappeared below look but that protectress, against all factors of decision in state (politics and administrative), civil company and mass.

An another phenomenon whereat they have the Romanian petition a date with their attempt reentered in occidental were the creation mutual funds, knowed and below name of funds of investment.

Last "FNI", the phenomenon jolted, near definitive the confidence of populations in the public authority, near the mistrust in authorities, from sin, these from former contributed decisive the and to loss confidence populations in institution and economic mechanism fundamentally for the natural operation economies of the market (the financial institutions the and respectively, reposal).

Among another characteristic the important maul of banking market from Romania after 1989, I can else can enumerate without pretension of depletes them:

- Be of a big arrear;
- The contiguous process of reorganization economies through: close of a unprofitable enterprises, the of a bankruptcy enterprises;
- Big fluctuation exchangeable currency courses;
- breed massive concomitant imports with diminution exports;
- Breed the unemployments;
- Diminish Pib;
- Diminish the installments of save up in chief populations;
- Deafly capitalize the commercial banks;

- Excessive reflation of big in special in prime year in year out 1989;
- Deafly banking competition. BCR and Cec-ul (becomed the universal bank hardly in 2005) they were always favorit of to state, having monopoly on certain segment of the banking market;
 - Hard influence the politic factors about main "actors" from the banking market (BCR, CEC, Agricol Bank and BRD);
 - missing banking supervision of Central Bank;
 - Reduced degree of informatic services in the banking system. BNR can tax the term of achieves the banks;
 - Deafly personal banking quality. After 1989 came in the banking system wage earner without bareback has any quality worked in banks. BNR no heretofore interfered no after the implementation systems of they supervise CAMPL (begin of 2001 year), BNR undertook the firm measures concerning management commercial banks.

The difficulties transitions and they put the mark and on evolution banking systems from Romania, many from the banks made forward still more selected .After 1989 be obliged his ceasing the activity, saddle restructure, or his he is taked over through fusion of another banks.

Were closed a series of banking companies the big his maul the little maul: Bankcoop, Turkish-Romanian Bank, Credit Bank, Albina Bank, Romanian Bank of Scont, Investment and the Develop Bank etc.), and Romanian Bank Of Extern Commerce, due to grave problems wherewith they were, taked over through fusion of BCR.

The process of taking over banking Romanian systems in this period cost the Romanian state across 3 equivalent milliards USD, respectively 1010 from the domestic gross product.

Some specialists consider only that as the a part from these expenditures could

be avoided or at all events attenuate if the banks in question plough be former better driven again the authorities of supervision plough be exercise else rigorous this activity.

In this sense is of absent reflection near total BNR in the process of banking supervision till in the year 1999, when from the banking Romanian came out Bancorex through fusion with BCR follow her entrance in incapacity of the pay, - her bankruptcy be inevitable but that merging.

The year 1999 represents the of a beginning process of taking over and the consolidates the banking sector, ghost a period of stabilizes the performances.

With draw out from the system Bancorex - among the Romanian banks with banking specialists of exception, with a logistics of which BCR no currently he don't disposes, National Bank begins a process of banking supervision the next to maul what plough be musted the saddle does from 1990 here, but don't with a conviction a total, the evidence be the massive which former were in progress in chief in BCR and CEC (banks with state principal in the year 2005 (seen the fraud of 6.000 mld. Lions (ROL) in the folder BCR Novaci, fraud in 2002).

EVOLUTION OF BANKING DISTRICT IN ROMANIA

The banking system is the topmost segment of financial Romanian systems, his assets is 37,7 % from PIB to god-daughter years 2004 (annual report BNR).

To god-daughter years 2004, were operationally in Romania 39 of banks which structure is presented in the next table:

Concentration degree of the banking system (first 5 banks)

	1990	1995	2000	2004
BANKS	7	24	33	32
- state principals	5	7	4	2
- private	2	17	29	30
• autohton	2	9	8	7
• foreing	-	8	21	23
Foreing banks	5	7	8	7
Banking system	12	31	41	39

Source: Romanian National Bank

The classification of the banking systems after proprietary form, takes out in obvious growth ab a year to other weight private principals in total bank stock, thus:

Evolution banking systems after proprietary form

Year	Social Founds				Net assets		
		Total	State founds	Private founds	Total	State founds	Private founds
1998	100	52,1	47,9	100	71,0	29,0	
2000	100	38,4	61,6	100	46,1	53,9	
2002	100	32,3	67,7	100	42,4	57,6	

Source: Romanian National Bank

Therefore, to god-daughter years 2002, merely app. 133 from the social bank stock from the banking Romanian system the maul is the state prisoner Romanian, difference of 23 be extreme private, prevailingly foreigner. Romania, Economy House

and Bank of Export-import bonus among they, Romanian Commercial Bank the Romanian banking leader market and the he finished the process of taking over to god-daughter years 2005.

Must recognized the fact as the, on the way taking over, the foreign banks presence in Romania compete strong with the Romanian banks.

Provenance foreign principals in the banking Romanian system, depending on homesickness of origin is presented in the next table.

Participations foreign principals depending on homesickness of origin

	1999		2000		2001		2002	
	% foreing capital	% banking system capital	% foreing capital	% banking system capital	% foreing capital	% banking system capital	% foreing capital	% banking system capital
Austria	5,4	1,7	7,8	3,2	39,5	21,0	40,4	21,1
South Koreea	2,6	0,8	4,6	1,9	4,0	2,1	1,8	1,0
France	33,0	9,9	16,9	6,8	6,3	3,4	11,6	6,1
Greece	9,6	2,9	20,9	8,5	11,1	6,0	11,8	6,2
Italy	0,5	0,2	0,9	0,4	2,0	1,1	5,0	2,6
United Kindom	2,4	0,7	2,1	0,8	1,5	0,8	1,1	0,6
Monaco	1,7	0,5	2,7	1,1	1,0	0,5	1,3	0,7
Holland	2,9	0,9	7,8	3,1	15,1	8,0	5,9	3,1
Portugall	0,7	0,1	2,1	0,9	0,8	0,4	0,7	0,4
SUA	15,2	4,6	11,5	4,7	8,2	4,4	9,4	4,9
Turkey	12,9	3,9	15,8	6,4	7,5	4,0	3,8	2,0
Others BERD	13,4	3,8	6,9	2,6	3,0	1,5	7,2	3,6
TOTAL	100,0	30,0	100,0	40,4	100,0	53,2	100,0	52,3

Source: Romanian National Bank

Beside The Austria, France, important position in what look the foreign principal had to god-daughter years 2002, Greece (11,8), SUA (9,4), Holland (5,9), Italy (5) etc.

Remarked a significant decrease on last years Turkish principals (ab 12,9 in 1999 to 3,8 to god-daughter years 2002 September), as much pursuant to a sale were one to Romanian International Bank, but chiefly bankruptcies Turkish bank.

More and more else an assets has it European Bank of Reconstruction and which participants to the many maul banks were from. Romania (Transilvania Bank, Tiriac Bank etc.), With the possibility of increased these participants.

Although the Romanian banking system contains a relative little number of banks in Romania in inter-war period, but and with situation from another strong, the degree of concentration of banking systems is erect, in the sense as the first 5 banks having near 2/3 from the banking market, and an alone the bank the one 1/3 from the market, thus:

Concentration degree of the banking system (first 5 banks)

December 2001	Mld. LEI	Mil. EURO	Percent (%)	Percent BCR (%)
Assets	224.989,5	8.069,6	65,2	30,9
Credits	65.437,9	2.347,0	55,6	28,1
State titles	28.449,5	1.020,4	79,4	29,2
Warehouses	173.224,8	6.213,0	65,8	32,2
Own capital	31.603,9	1.133,5	65,2	36,4
September 2002	Mld. LEI	Mil. EURO	Percent (%)	Percent BCR (%)
Assets	272.870,2	8.393,9	65,2	31,9
Credits	86.160,0	2.650,4	55,0	28,7
State titles	29.782,0	916,1	77,2	26,5
Warehouses	204.812,9	6.300,4	65,6	34,6
Own capital	39.540,5	1.206,3	64,5	37,9

Source: Romanian National Bank

View Development Banking District

In Romania, reform the banking advanced the reform economies on the whole or, this fact confer the banks a true role locomotive in the economic development.

In general line, is caned appreciated as, currently, reform the banking systems he finished, conversely, in economy exist still many which component registres losses from the activity unfurled, generate the important arrear, the reorganization and of a taking over industrial one power sectors, but don't except difficult before reflation registered a decrease is placed across the well known level .

With all these difficulties, inherence of which transition, opening with the year 2000, diminish were stopped were took again the process of economic growth, the moderate early maul and the then more and more supported.

Elementary component national economies systems, the financial market from Romania reflects through his evolution the stage touches in the realization and the operation structures saving of the market.

Binded of developmental stage banking systems, the monetary represented first functional link of periods transitional and, currently, with all favorable evolutions determinate of the creation and the development capital market, maintains the important role in what looks the process of mediate financier.

The volume financial which resources can be actuating in the advantage at large economies and the of actors so-called market banking mediate, is a resultant a developmental economic degrees and capacity created and redistribute the value.

In Romania, the inherent difficulties periods transitional caused a permanent caned of came the populations and extreme economic agents, in these condition, the process of saves up he placed to one from most reduced levels in a row from The Central Europe and East Europe.

Banking warehouse at sight and to former term a reduced weight in the domestic gross product of Romania, inferior levels touches of another strong in transition and by a

long chalk below one of saving of the market developed:

Weight banking warehouses in PIB

	Romania	Poland	Czech Republic	Croatia	Slovakya
Banking warehouses in PIB	22,8	39,0	60,0	62,0	66,0

Near the general developmental which level cause the relative little gainings, in our opinion, an important cause weight reduced the banking warehouses in PIB constituted a fact as the a good part from resource physical persons the juridical which and through their nature temporary available by-path and the therefore takes part in category resources of credit the by-path attracted state in the likeness of certificates of treasury.

A positive fact, carry were underlined, visa tendency of breed the weight banking warehouses in the domestic gross product registred in the year 2002, which tendency is caned maintained and consolidated on measure development economies on the whole or.

From component attracted of the banking system, merely a part is worth in the frame of credits transactions the real economies and the from this angle comparative with another strong central and the east Europeanth the shifting that Romania has it of retrieves:

The banking system getting-in economy - % -

		Romania	Poland	Czech Republic
1	% Banking warehouses in PIB	22,8	39,0	60,0
2	% nonguvernamental credits in PIB	14,2	31,0	58,0
3	Placement warehouses in credits degree	62,2	79,5	96,7

From date presented, result as, as in Poland banking warehouse by-path placed in trust in proportion intimately 80, and in practical Czech Republic resources inveigled into the banks in the likeness of warehouses find in economy in the likeness of trusts, in Romania the degree of invest the banking warehouses in trust is much important, it

causes deprive to the real economy of a tender big of trust an incident to the erect level of installments minimum compulsory reserves, not in last row, of the attractiveness still erect placements on the market.

The monetary market assures the proper term must of liquidity of commercial banks.

Currently, the average daily volume of transactions realized on the monetary market is aggregated one 150 USD, and the average daily volume of warehouses is of one 1,8 mld. USD, significant digit if direct to as, on total banking system, warehouse and the economies in lions and currency of populations and economic former touched cca 7,3 mld. USD to the end years 2002.

To have a clear image about volumes of funds reticulated toward fructifies wide of the circuit real economies, consider useful the specification as the, to the level balance-sheets unit of commercial banks, placement represents one 39, by a long chalk across the level registers in another economy from The Central Europe and of Est. From this angle is appreciated fit authorities "the banks prefer the saddle is gambled to a fault between they".

Weight placements in all assets

	România	Polonia	Ungaria	Croația	Slovenia
Banking placements/assets	39	24	16	16	14

Near the credibility and the solidity of bank, which are primordial, the banks must let us offers the depositors and an attractive interest, with the specification as the, an interest drawn out from the market, how is said, must let us he comes on thought.

To be attractive, the interest must let us he exists positive, respectively with several point percentile across the level reflaction, so that, he who saves up the saddle is protects against erosion real value their economies pursuant to inflationary processes.

In conclusion, the intermediaries banking level in Romania, explicate through

weight banking warehouses and trusts nongovernmental in PIB, is still reduced in comparative with our neighboring the very reduced and if advert to us the strong countries developed, with saving of the market consolidate.

From this angle, the banking activity in our country has a potential giant of growth in next year, when, on measure consolidation economies, is of waited the saddle increased substantially banking intermediary.

On the financial Romanian market is many developmental place and the from angle of meshes of territorial operative units (branch and agents) ale banking companies.

Currently, in Romania exist just 1,8 banking companies to 1 million inhabitants and 3, to 1 million population bankable, by a long chalk below the average level from the countries developed from The Europe and from world.

CONCLUSION

Reform the banking advanced in Romania reform others economic sectors, the banks be in position drew after they real economy, to contributed each bank, likewise or else little, after still more selected power after interest and his strategy.

Although very slow, the process of reorganization and adapts the banking systems to requirement saving of were, finished broadly to god-daughter years 2005 with BCR private 61 percent.

The banking reorganization were a slow process very shy beginning in 1990, with a very slow evolution of he implements the mechanisms of operate his in saving of the market. The responsibility in this sense coming back outside BNR, who he musted it besides of 55 his years regulate the introduction instruments of discounts and credits specific (order of the pay, check, bill of change, slip to order), likewise of 77 his years enters CRB and CIP, prerequisite for mechanism the check and monitoring the risk the commercial banks.

To god-daughter years 1998, begin the years 1999, with appearance Capital

Basel According (Dir no. 12 From 2000 EH), BNR begins a process of banking supervision, bringing in this sense a series of concrete elementary of estimates the banks on the strength of systems of rating. In 2001 the system CAPL, that is.

- Declare principals (C)
- The active quality (A)
- Profitability (P).
- Cash (L),

from 2001 he completed it with the second component: "The quality" (C) and management (M).

In 2006 BNR and he proposed the introduction of the seventh indicator of banking rating sensitivities to the risk of the market, indicator concordantly with the settlements Basel II.

A special came back BNR along with inviter Romania of to UE in 1999 became member they, prepared the banking Romanian system for integration.

In this sense except in the year 2004 BNR:

1. Assisted in the process of treats for three one afferent chapter banking systems:
 - 1.1. Freely jobs circulation
 - 1.2. Freely principals circulation
 - 1.3. Economic and monetary Union.
2. The participation to monitoring achievement commitments assume through document of afferent negotiation banking systems
3. The participation to the elaboration sections to the banking banking sector from the frame p strategic afferent document processes of prepare the adhesion to UE
4. Preparation BNR for espousal of European System of Central Bank

The activity of management of projects PHARE of which takes BNR. With some

months ante integration in European Union january 2007. Romania is in category¹ emergent markets beside The Bulgaria, with a banking market in transition. Having in sight the efforts do chiefly choosed from 1999 here of to BNR concerning banking systems, the rules prudential adopted in complet agreement with one European, precise as future banking Romanian systems is in a united Europa, and the steps do currently give us his law expect as such.

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¹ *Raport Erste Bank.*

THE TAX CONTROL

Assistant Crina Maria PELECACI, Northern University of Baia Mare

Starting with the 1st of January 2004, the Code of Fiscal Procedure came into force by the governmental order nr. 92/2003. The Code adjusts the rights and obligations of the parts deriving from the financial juridic raports concerning tax management owed to the state and local budget as stipulated in the Fiscal Code. The Code reglementations are applicable to customs rights management as well as to the management of the debts resulted from contributions, fines and other sums that represent incomes for the general agreed budget, according to the law.

Chapter IX contains the regulations related to the solving of the contestataion formulated against fiscal administrative actions, as with beginning of applying these order reglementation, the government order nr.13/2001 concerning the solving of the contestations agains the measures disposed by control or imposing actions settled by the organs of the Public Finances Ministry.

Keywords: *the research, the control of documents, the stock-taking, the technical expertise and the laboratory analysis, the total control and the control by sampling, the*

confirmation of the findings by explanatory notes and finding notes, the analysis of the economic activity

1. The concept of fiscal control, of taxpayer and fiscal inspector

By fiscal control we understand the assembly of activities meant to insure the meeting of the obligations to declare and calculate correctly, and the payment in legal times of the contributions, taxes and other mandatory payments owed to the public budgets, local budgets and special funds budgets, generally called fiscal obligations.

According to the law, the following are subject to fiscal control: natural and legal persons, Romanian and foreign, that have fiscal obligations and who are called taxpayers.

Fiscal control is organized and functions at the level of General management of a district's public finances and of the Bucharest city, according to territorial components, and is carried out by the personnel with checking attributions who work at the Payment and Tax Office and its subsidiary units, who are called fiscal inspectors. The main object of the fiscal control activity is to obtain all the information necessary for checking the way taxpayers are fulfilling their fiscal obligations.

Fiscal control is about checking the declarations submitted by taxpayers, of the documents used for payment and tax setting, and other documents submitted by taxpayers with the aim of gaining some deductions, repayment or redemptions.

Taxpayers are obliged to sincerely declare, in legal time, their profit incomes, movables and houses in their property or gained by any other legal title, as well as other goods that generate titles of fiscal claims. When the law doesn't provide the obligation to submit an application of payment declaration, the taxpayers hold the responsibility for the right reckoning of the fiscal obligations, in the terms specified by the law. Also, the taxpayers are obligated to underline the gained profit and the payments made in their

performed activities, by drafting the reports or any other documents specified by the law.

In order to control the way of discharging the tax liabilities, fiscal inspectors have the right to ask the taxpayers for any information, explanation or rationalization related to the declarations or any other documents submitted by them.

The fiscal control is programmed, organized and run during the normal working time of the taxpayer and, as much as possible, without disturbing the activity he/she usually performs. In all cases, no matter if the taxpayer has been or has not been notified about the inspection visit, the fiscal inspector has the duty to show the taxpayer or the person that represents him/her, the IDs that attest the inspector's identity and official quality, and to announce, right from the start the objectives of the control.

In order to exert the fiscal control, the inspector has the right to enter any business area of the taxpayer or in other public opened area, without an earlier notification. The access is allowed during usual working hours, but outside the working program, the access is allowed only with an authorization signed by the fiscal unit's board, which explains the necessity of the control. In order to determine the payment obligations of the taxpayer, the fiscal inspector has the right to enter the house too, but only having the consent of the taxpayer or the property owner, depending on the case. Without permission, the inspector may enter the house only based on a judge decision, requested by the board for the fiscal unity, which has to motivate the necessity of a control inside the house. The taxpayer may ask for specialized or juridical assistance, all the way through the fiscal control.

Fiscal inspectors from the fiscal unities, but also the persons that do not have this quality any more, have the obligation of keeping the secret about the information related to taxpayers, that they acquired during the inspections. However, information regarding taxpayers may be transmitted only under the following circumstances:

- To other authorities with fiscal attributions, in order to fulfill some obligations which derive from the application of the fiscal laws;
- To labor and social protection authority, which makes payments for social insurances or other similar payments;
- To fiscal authorities of another country, based on a convention in order to avoid the double taxation;
- To competent judicial authorities, according to the law;
- To governmental officials, in order to use the information at drawing up statistics or in other analytical intentions, as long as it does not name the taxpayers;
- To another person only with the written consent of the taxpayer.

The person that receives the fiscal information, in the above mentioned conditions, is obligated to keep the fiscal secret about the received information. Disobedience to this obligation of keeping the fiscal secret is punished by the penal law.

During the fiscal control, the inspector is allowed to take or to make copies of any document or office record, as well as keeping any document or material element that may be used as a proof in determining the fiscal obligations of the taxpayer.

In order to develop the fiscal control at maximum conditions, the fiscal inspector may ask for the help, cooperation and assistance of the taxpayer or of the person representing him/her, which he/she is obliged to provide.

2. Procedures, techniques, and instruments of the fiscal control

The fiscal system represents the way of research and action, the procedures and the modalities of investigation, in order to prevent, note and eliminate the cases of circumvention from calculating, accounting and paying the taxes deserved by the state.

The fiscal apparatus, as part of the fiscal system, fulfills its functions of making admeasurements, setting, following and collecting taxes and levy, through fiscal control. The way the fiscal control is organized, the procedures, techniques and means applied differ from one system to another, from one stage of market economy to another, depending on the financial and economic policies.

The fiscal control, regardless of who made it, requires the submission of several activity rules and the enacting of some specific procedures, techniques and means or instruments of control, that are generally valid.

Fiscal control may be classified by several criteria, as follows:

1. From the point of view of the reason for performing it, the fiscal control may be:

- o Informative: it has an educating character, it informs the newly registered economic units about their rights, but above all, about their fiscal obligations;
- o Routine control: which has the role to maintain the connection with the taxpayers and to oversee their way of obeying the obligation to register themselves as tax and levy payers, and the way taxpayers obey their fiscal obligations.

2. From the point of view of the composition of taxes and levy, fiscal control may be:

- o General: when all taxes and levy owed by the taxpayer are comprised in the fiscal control. This kind of control is considered normal and it is realized at the office of the payer. Its target is to control all the aspects regarding compliance of the taxpayer with the fiscal laws and regulations, for a longer period of time, usually from the last fiscal control till up to date;
- o Partial: when the control refers only to specific taxes and levy.

This classification is conditioned by the competences and the experience level of the fiscal agent. General control applies to economies with incorporated fiscal systems,

while limited control may be found in countries with separate administrations for taxes and levy.

3. From the point of view of the operations submitted to the fiscal control, fiscal control may be:

- o Complete: when all operations, documents, or periods regarding accounting and tracing of a tax are controlled;
- o Selective: when only certain operations, documents, or periods regarding accounting and bookkeeping of a tax are controlled.

The choice of one of these methods depends on a series of factors: the amount of activity, the tasks of the fiscal inspector, the financial status of the company, the antecedents of the company, the seriousness of the taxpayer, etc. If the selective control reveals defalcation, fiscal inspection continues, resulting in a full control aiming to find the reality and to determine the real dimension of the taxpayer's obligations.

4. From the point of view of determining the reality of some operations that lead to obligations to the state, fiscal control may be:

- o Documentary: when the fiscal inspector examines the form and the content of the bookkeeping, in order to determine the truthfulness and legality of the operations, based on the documents submitted by the taxpayer. The main objective of the control is to compare the accounting records and the primary documents with the data taken from the declarations and deductions submitted by the taxpayer, in order to establish the correctness of the payments, as well as to oversee the conforming to the payment terms;
- o Factual: when the aim of the control is to attest the existence and the shrinking of the material and financial means, and the way those are reflected in the documents. This is to know the sincerity of the taxpayer when drawing up his/hers

bookkeeping and declarations, as well as to identify the cases of tax evasion.

The Economic guard, along with the fiscal apparatus, integrates and fulfills its distinct role within the fiscal system, taking into account its specific fiscal control duties, tasks and procedures. One must keep in mind that the activity of the Economic guard does not overlap the activity of the fiscal apparatus, the two institutions complementing one another, as long as they work in unison and have the same objective.

The specific procedures of the economic guard when it comes to a fiscal control are:

- **Operative and unexpected control** – which may be carried out in any place where operations are displayed and documents are drawn up, issues that give rise to financial obligations (a storehouse, public houses, outbuildings, customs houses, harbors, airports, markets, fairs, etc.). This procedure requires a mix of several forms of control (through surveys, factual and documentary) and cannot be integrated in a control program established in advance. Such a control is in fact a form of investigation and requires, first of all, a preparatory activity: observation, data and document collection, and choosing the optimal moment for carrying out the control;

- **The mutual and crossed control** – requires close and complex research when confronting the data and information given or collected by clients, purveyors, custom-house body, different institutions, natural persons, etc. with those from the declarations and bookkeeping of the taxpayers. The aim of such a control is to identify omissions, incongruence or malevolence, and as a result, to identify evasion from fulfilling the fiscal obligations. This kind of control consists of several investigation visits, to several economic units, that are related through contractual relations, and its aim is to control the data throughout the entire process that includes the production, the manufacture and the trade of the goods included in the contract;

- **Group control** – requires unexpected and simultaneous control at all

companies that have financial and commercial links between them (usually companies that share the same associates or shareholders, subsidiaries, dependent companies, holdings, etc.). The aim of this control is to establish the legality and reality of the operations carried on between the above mentioned businesses, the truthfulness of the bookkeeping records, in order to find out the cases of financial evasion. This procedure also requires the mixing of all forms of control (factual, documentary - secretarial, crossed, total and through surveys) also having knowledge of collateral domains (juridical, trade, etc.);

- **Diagnostic control** – is a thematic control, which presupposes the examination, the global investigation of a company in order to establish its financial correctness. This control is short timed and evaluates the seriousness of the taxpayer. Should this control reveal defalcation, it leads to a complete control, which is usually accomplished by the financial inspectorate to which it belongs. It is done likewise, bearing in mind the fact that the control of the Financial guard should not surpass 8 hours.

The reason for those two financial controlling institutions to exist is only given by their specific procedures. The necessity to include in the control the entire matter liable to tax, of all taxpayers, also justifies the functioning of those two institutions, especially in the actual phase, which may be described by a collection of wild and primitive assets, in which contraband and financial evasion are getting stronger every day. In the same time, the interference between the activities of those two institutions may be seen as necessary also for insuring a protection of the moral and professional profile of the control body. Repetitive or heteronymous control, as long as it is not noxious to the taxpayer, may prevent, stop, and disclose some tendencies towards corruption inside the system and may reveal the lack of preparation of the inspectors.

Instead, the activities of those two institutions must be accomplished in a unitary frame and in fact to complement one another. Taking into consideration the common

aim the two institutions follow, constant exchange of information is a must.

A first step towards real collaboration would be to put together a common data base (of the financial files sorted by categories of economic units), realized by the fiscal inspectorate, and which should cover all verifications made at one taxpayer, despite the body that completed the control. The financial clerk is given the task to correct the level of all taxes and levy, depending on the notes included in the investigation papers, to monitor and collect the taxes and levy owed to the state, having as such, the main role in insuring the exploitation of the notes concerning taxes and levy.

3. Means of performing and finishing the fiscal control

Fiscal control can be made upon declarations and other documents submitted by the taxpayer in order to gain some tax deduction, repayment, reimbursement or in order to gain something else, without making the inspector go to the taxpayer's company or house. In this case, the inspector may ask the taxpayer any information, reasoning or explanation regarding the declarations or documents submitted through a letter or during a meeting at the headquarters of the fiscal institution. The letter or the address of the meeting must always include the date till which the taxpayer must send the answer and the date at which the taxpayer must come to the fiscal institution, as well as the problems for which the inspector demands explanations or the problems that will be discussed at the meeting.

In case the taxpayer does not respond to the above mentioned demands, a control at the company is scheduled.

The fiscal control at the company or house of the taxpayers will proceed, primarily, based on the accounting records and evidence for taxpayers that, according to the law, must have such bookkeeping of the basic documents, or based on the factual findings regarding ownership of goods or developing a liable to tax activity. The fiscal

control at the company also extends on other elements that can directly or indirectly contribute to the assessment of real fiscal obligations of the inspected taxpayer.

In the case of natural person taxpayers, the fiscal inspector may perform a general control of the financial status regarding assessment of income, taking into account the concordance between the declared incomes, on one side, and patrimonial status and living standards of the taxpayer, on the other.

The necessary time for the fiscal control, be it at the business headquarters or the house of the taxpayer, is established by the fiscal clerk, in a differentiated approach, depending on the real objective of the control, the period submitted to control, the category the taxpayer is part of, the total rate of turnover, and the complexity of the developed activity.

Maximum length of a control activity is of 3 months, despite the period of activity or the place submitted to control (taxpayer’s company or house).

Fiscal control of the way financial obligations are fulfilled by a taxpayer during a period of time may be performed one time only. A new fiscal control that investigates the same period of time is not allowed, regardless of the authority that supervises the second control.

The conclusions of the financial control are recorded, as a mandatory task, by the fiscal clerk in the document named “Statement of control”, signed both by the fiscal clerk and the taxpayer. In case the taxpayer refuses to sign the statement, this fact is noted in the statement of control, fact that will be communicated to the taxpayer through a registered letter demanding receipt confirmation, in 5 days after the registration of the statement at the fiscal institution.

The statement of control includes the unfolding of the control, the deficiencies found, indicating the legal instructions that were infringed, as well as the actions taken throughout the process of control or the actions that are to be taken in the future to facilitate the remedy of the observed deficiencies.

Should the conclusions of the statement of control reveal some actions that fall under the incidence of the Penal code or other laws that include penal stipulations, the findings will be noted separately in a “Statement of findings”, which will include the legal instructions infringed and the persons involved, if known.

The statement of control, approved by the manager of the fiscal institution to which the inspector that made the control belongs, is an executory title and follows the specific juridical regime.

The instructions noted in the statement of control must be fulfilled by the taxpayer, in 7 days time starting from the announcement of the control’s conclusions; otherwise they will be fulfilled through means of enforcement, according to the law.

If the taxpayer considers that the instructions written in the statement of control are incorrect, he/she may submit a request of reappraisal of those instructions, in 5 days from the announcement of the control’s conclusion, at the General department of public finances, which is obliged to make a statement by a justified decision communicated to the taxpayer, in 30 days from the date of the registration of the request.

Against the decision emitted by the General department of public finances of the district or of the city of Bucharest, the taxpayer may call in question the Ministry of Public Finances, the latter being obliged to answer in 40 days time, by a justified letter, addressed to the taxpayer. The decision of the Ministry of Finances may be contested at the Court of Appeal from the territorial range in which the taxpayer is located.

During the process of solving the request of reappraisal, and depending on the case, of the contestation, the taxpayer is suspended from the obligation to fulfill the instructions specified in the statement of control, within 7 days from the notification, signed up, of the decisions emitted by the body to which the taxpayer submitted the contestation.

The fiscal inspector may start establishing officially the fiscal obligations of the taxpayers, in the following situations:

- If the taxpayer didn't submit the fiscal declaration in time;
- If the taxpayer didn't give the fiscal clerk the solicited information, justifications and explanations, that are to help the latter to correctly establish the fiscal and non fiscal obligations;
- If the taxpayer refuses to let the inspector fulfill the fiscal control;
- If the taxpayer is abroad.

If the fiscal inspector, after controlling the declarations submitted by the taxpayer, decides that establishing the fiscal obligations was not made according to the law, he/she may start another examination of the documents. The taxpayer has the task to prove in the abovementioned situation that the fiscal obligations established by the fiscal inspector are not real.

The quantum of fiscal obligations established for the above mentioned situations are to be communicated in writing, along with the way of their establishment, and the taxpayer is forced to pay his dues within 7 days from the date he/she received the communication.

The stipulations regarding fiscal control also apply to the control run by other bodies than, according to the law, have fiscal control attributions, as well as to the control run by the fiscal inspectors, based on the attributions stipulated by the law upon other obligations of natural or legal persons, Romanian or foreign.

4. Opinions and conclusions

The tax dodger phenomenon is an inherent coordinate of the market economy. This is why, the most efficient attitude against this phenomenon is to realize a good management in order to identify it, anticipate it, control it and put it to good use, in order to insure the projected incomes.

The tax dodger phenomenon must be evaluated in its whole complexity, taking into account, along with its negative connotation, its impact upon the multiplication of the sums collected by the state, as a result of identifying the cases of fiscal evasion. The multiplication factor of the fiscal evasion may be taken into the account of meeting the budgetary deficit, with the necessary precautions.

In addition, a deep analysis of the internal mechanisms of the evasions phenomenon is required, an analysis which would permit deceleration of some instruments and means of controlling the phenomenon.

Concerning the fiscal and financial control, it has to identify the instruments and the indicators which could insure the functionality of the economic system in legal parameters, mostly under the impact of possibility of control, rather than under the simple control. The orientation of the control must be targeted towards control through exception and less towards the permanent and excessive control.

From this point of view, the control strategies should be elaborated in a more flexible manner, in order to describe the cases of fiscal evasion not as a result of an exhaustive control, but as a result of intimation of some difficulties, specific to the management of public incomes.

For as long as anyone can remember, tax payment was imposed to the citizen by law, the latter considering it, from human related reasoning, as a confiscation of his/her incomes in favor of some unrealistic and unrelated to him/her objectives. This may be the explanation why some taxpayers try to evade from paying taxes and levy, as a reaction to the state's "attempt" against their freedom of using their full income.

It is thus created a state-taxpayer "conflict" and the stake is fiscal evasion.

Thinking from the taxpayer's point of view, his/her arguments seem to be right, especially when payments are excessive and it becomes an impediment against individual prosperity. Without taking into consideration the general interests of the state, it would be wise to take them into account only when the battle against fiscal evasion is

held in case of a reasonable financial system, situated at a minimum level of normal and efficient functioning, and also, in case this battle looks forward to equity regarding taxation.

Unfortunately, none of these positions (that of the citizen and that of the state) allows us to draw up an objective analysis of the fiscal evasion phenomenon. The human being cannot be placed outside its social context; this is why, the research of the dodging phenomenon must look without taking sides, for the interest of both the taxpayer and the state.

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HOW COULD ROMANIA AVOID THE THREAT OF PAYMENT DEFAULT IN 1999 AND AT WHAT PRICE? LESSONS FOR THE FUTURE¹

Associate Prof. PhD. Ilie ŞIMON, Academy of Economic Studies, Bucureşti

1. Short economic background

Since 1991, the Romanian economy has gone through two recoveries and two contractions.

The economic contraction at the onset of the transformation process was very severe, real GDP having been in 1992 down by 8.8 percent as compared to 1991.

The first economic recovery covered the period 1993-1996, when real GDP grew at an average annual rate of 4.1 percent.

Throughout the second economic contraction (1997-1999), real GDP declined at an average annual rate of 4.1 percent.

The second economic recovery has started in 2000, with real GDP growing by 2.1 percent, and continued in the following years at a rate of 4-5 percent, reaching maximum of 8 percent in 2004 and than slowing down to 5 percent in 2005.

¹ Main data are from Ministry of Finance, National Bank of Romania, International Monetary Fund

1.1 First recovery

Referring to the first recovery, Romanian real GDP grew in 1995 at an impressive rate of 7.2 percent. It went on growing in 1996 too, although at a lower rate of 4 percent. At the same time, inflation – as measured by the GDP deflator – accelerated from 32.5 percent in 1995 to 45.2 percent in 1996.

Regarding the export of goods and services, they increased from USD 7195 million in 1994 to USD 9404 million in 1995 to reach USD 9648 million in 1996. However, the current account deficit worsened from USD 428 million (1.4 percent of GDP) in 1994 to USD 1774 million (5 percent of GDP) in 1995 and USD 2571 million (7.3 percent of GDP) in 1996.

According to the IMF report “Romania – Recent Economic Developments” (SM/97/ 94), the monetary policy accommodated the increased deficits in the general government and state enterprise sectors and became highly expansionary from mid-1996.

Credit growth, side by side with sharp increases in real wages and the budget deficit, drove the economic recovery through 1996.

Output and export growth were led by traditional, energy-intensive industries, so that the IMF staff concluded that the economic recovery through 1996 was unsustainable.

The quasi-fiscal operations of the central bank significantly contributed to this outcome.

Having nearly depleted its reserves in 1995, NBR took advantage of credit ratings received on the basis of the extension of the Stand-By Arrangement in December 1995 and borrowed USD 1.5 billion at relatively short maturities from international capital markets in 1996. Romania went to the capital market for 7 credits: 2 were credits in euro and 5 were bond issues in euro and in yen. The maturity for a good part of these credits was 36 months that means payment concentration in 1999.

The replenishment of reserves allowed NBR to intervene in the foreign exchange market to slow the depreciation of the ROL.

Concerning inflation, measured as consumer price index it surged in the second half of 1996, reaching a monthly rate in excess of 10 percent by December. Underlying inflation was significantly higher as price controls and exchange rate manipulation almost halved energy prices in real terms and caused a serious overvaluation of the ROL.

By end-1996, the premium in the parallel foreign exchange market reached 30-40 percent.

The current account deficit surged in the last quarter of 1996 alone to about USD 1 billion, mainly on account of energy imports.

At the onset of 1997 Romania was on the verge of a financial crisis that required corrective action.

1.2 The economic program

The program of the government, supported by a stand-by agreement with the IMF, aimed at macroeconomic stabilization and acceleration of structural reforms. Without entering into details of the Program, I would only emphasize the two key components of it:

- The liberalization of the foreign exchange market;
- The increase of energy prices towards their border parities.

In the first place, the use of the exchange rate prior to 1997 as an overt means to subsidize energy-intensive enterprises had caused a persistent overvaluation of the ROL and the imposition of restrictions on the foreign exchange market.

The liberalization of the foreign exchange market in 1997 was accompanied by a severe downward correction of the ROL.

The exchange rate – annual average – depreciated from ROL 3083 per USD in

1996 to ROL 7168 per USD in 1997.

In the second place, domestic prices of energy were increased, having as target their border parities – as defined by the international prices of competitive imports at the market-determined exchange rate.

Consequently, in 1997 average domestic prices of electricity, heating and natural gas were 3.17 times their average levels in 1996.

We can try to explain the effects of the 1997 economic program:

On the one hand the exchange rate depreciation that accompanied the liberalization of the foreign exchange market was a positive shock on aggregate demand, stimulating the exports and discouraging imports. On the other hand the increase of energy prices towards their border parities was a negative shock on short-run aggregate supply, diminishing the gross domestic product (GDP).

We can say that the demand shock impacted positively on real GDP, while the supply shock impacted negatively on real GDP. However, both shocks entailed a higher general level of prices.

On the positive side the exchange rate depreciation stimulated exports and discouraged imports.

Thus, the exports of goods of services went up from USD 9648 million in 1996 to USD 9955 million in 1997 (an increase of 3.2 percent).

At the same time, import of goods and services went down from USD 12503 million in 1996 to USD 12349 million in 1997 (a decline of 1.2 percent), net exports having a positive contribution to GDP.

However, overall real GDP dropped in 1997 by 6.1 percent. What happened? One explanation is that the negative supply shock induced by the increase of energy prices apparently was stronger than the positive demand shock due to the depreciation of the exchange rate.

It is worth mentioning that other government actions were also at play in 1997 determining the contraction of GDP. Here are some of them:

-Tight macroeconomic policies (the reduction in the budget deficit and the control of the monetary expansion) induced a strong negative shock on aggregate demand.

-The cut of subsidies, previously granted to the energy-intensive enterprises and the agricultural sector, was another negative shock on the supply side of the economy.

In spite of these measures inflation in 1997 was significant at 147.3%, measured on the basis of the GDP deflator. The tight macroeconomic policies were unsuccessful in containing inflation because of the negative shocks on the supply side of the economy.

2. Worsening economic situation in 1988

In a few words, in 1988 the economic situation in Romania was characterised by contraction, inflation, an external deficit of about 7 percent of GDP and an overvalued currency (ROL). On top of these developments Romania had to pay, on the account of foreign debt, 2.2 billion USD out of 2.3 billion USD foreign reserves.

All in all, against this evolution of the economy, we will try to respond to the following questions related to the further economic developments in Romania in 1998:

What was the impact of the Russian crisis on the ROL exchange rate against the USD?

How did exchange rate movements relate to other economic variables – interest rates, prices, the GDP rate, Romanian exports and imports?

How did ROL overvaluation against the USD relate to the loss of foreign exchange reserves?

2.1 Market sentiment towards Romania

Market sentiment toward Romania worsened after the Russian crisis in August 1998. Moreover, creditors focused their concerns on the external deficit of Romania, together with the peak of external debt service scheduled for 1999. Consequently the

major rating agencies downgraded Romanian sovereign ratings.

The first rating for Romania after 1989 was done in 1996 before launching a Eurobond issue. According to the Annual report of the NBR for 1996, Romania was rated similar with other countries from the region (BB⁻). This rating was not conducive to investments but the payments from the part of the issuer were quite probable.

During 1997 the above mentioned grade was maintained, but starting with 1998 the level has degraded, reaching in 1999 the level B and even B⁻, which means high level of risk. Below this grade is the grade CCC⁺, which means high probability of default.

At end-1998, the spreads between the Romanian external debt in a very thin secondary market and comparable US treasuries bonds were about 13 percentage points.

2.2 Major macroeconomic indicators

What happened with the major macroeconomic indicators?

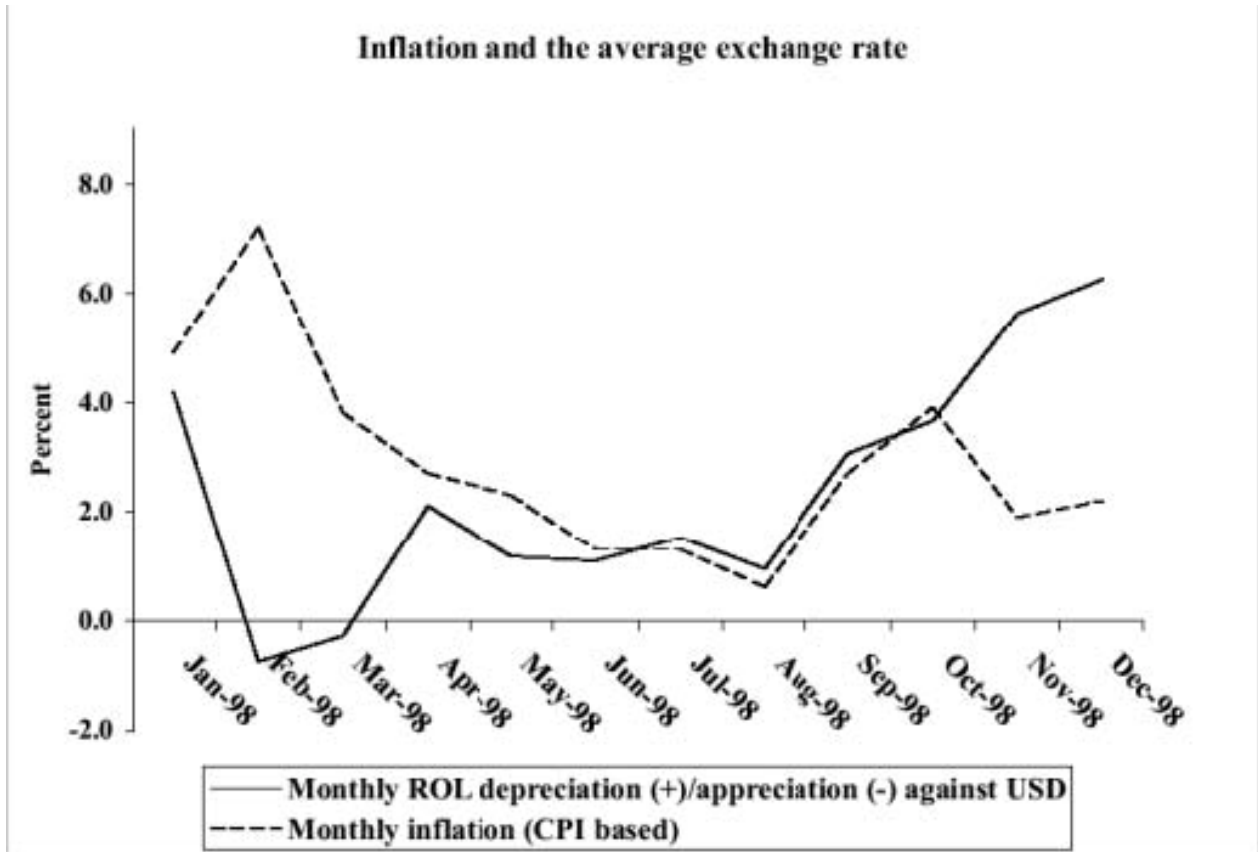
Two outstanding events significantly impacted upon the exchange rate in 1998:

- -The Russian crisis in August caused a serious turmoil on international financial markets and changed the market sentiment towards emerging economies, including Romania;
- -Official foreign exchange reserves of Romania declined from USD 3 billion at the end of 1997 to USD 2.3 billion at the end of 1998.

Inflation and the exchange rate in 1998

Inflation was in 1998 much lower than in 1997, but persisted at a relatively high level, consumer prices having been in December 1998 by about 41 percent higher than in December 1997.

The chart hereafter shows that the inflation rate was well above the percentage change in the exchange rate throughout the first half of 1998.



Because of the fact that the change in the exchange rate was well below inflation, the ROL turned significantly overvalued against the USD by mid-1998. However, inflation took its toll in the end and the accelerated depreciation towards the end of 1998, as well as in early-1999, corrected ROL overvaluation.

But now was the turn of the overvaluation to take its toll, through the net exports. Exports of goods and services dropped from USD 9955 million in 1997 to USD 9519 million in 1998, while imports of goods and services increased from USD 12349 million in 1997 to USD 12798 million in 1998.

The practice shows that the economies with strong export-led recoveries of real

GDP tend to see their currency appreciating. By contrast, domestically driven recoveries of real GDP tend to increase the demand for imports, so that the domestic currency depreciates.

On the other hand, countries experiencing deep contractions of real GDP often find that their exchange rate is weakening. Traders in the foreign exchange markets may take GDP contractions as signs of general economic weakness and “mark down” the value of the currency.

Following the contraction of 6.1 percent in 1997, real GDP further declined in 1998 (by 4.8 percent).

Note that imports increased despite the contraction of the domestic economy, which points to the severity of ROL overvaluation.

The prolonged economic contraction appears to have played its role in worsening the market sentiment towards Romania and putting downward pressures on the ROL.

2.3 Central bank interventions

To put it simple there are two polar options of exchange rate regimes:

-In the regime of flexible or floating exchange rates, the rates at which currencies exchange for one another are determined by demand and supply.

-In the regime of fixed exchange rate, the central bank intervenes in the foreign exchange market to offset the rate changes that fluctuations in demand and supply would otherwise cause.

But in Romania there is a regime of managed floating. This means that the exchange rate is essentially determined by demand and supply, but the central bank may occasionally intervene to smooth market fluctuations. Thus the exchange rate is the price in ROL of foreign currencies, USD for example (ROL per USD), so that an increase of the exchange rate means ROL depreciation and USD appreciation.

Recall that the decline of interest rates by mid-year and the relatively high inflation put downward pressures on the exchange rate in 1998.

Despite these pressures, the ROL was grossly overvalued against the USD by mid-year because of National Bank of Romania (NBR) interventions.

As indicated by the decline of official reserves, NBR was a net seller of foreign exchange on the market. NBR interventions increased the supply of foreign exchange, which contributed to ROL overvaluation.

But can central banks defend an overvalued exchange rate indefinitely?

The answer, based on practice, is obviously no. The foreign exchange reserves will, other factors equal, be exhausted in the end.

The same thing happened in the Romanian case, when market participants understood towards the end of 1998 that the exchange rate was unsustainable. Consequently expectations of downward correction of the ROL firmly consolidated, and it made no sense to the central bank to go on fighting against such strong expectations.

3. The threat of payment default in 1999

On top of the worsening economic situation, the external debt service (amortization plus interest) was scheduled to reach a historical high in 1999.

The service of the medium and long-term external public debt amounted in 1997 to USD 1581 million and in 1998 to USD 1520 million. It was programmed to surge to USD 2160 million in 1999.

At the same time the gross foreign exchange reserves (including gold) of the central bank amounted at the end of 1998 to only USD 2299 million.

Against the background of the widening current account deficit and the historical peak of the external debt service, the level of reserves was not at all encouraging to financial markets.

The strong market sentiment at the end of 1998 and early in 1999 was that

Romania would default on its external obligations.

We will try to respond to the following questions:

How could Romania avoid the threat of payment default in 1999 and at what price?

What were the impacts of the 1999 fiscal and budget adjustment on interest rates, the exchange rate and the deficit of the external current account?

How did real GDP and inflation respond to the adjustment?

3.1 Fiscal and budget adjustment in 1999

In 1999 a new finance minister was nominated, and a close cooperation with NBR has developed to ensure that Romania will be capable to pay its obligations.

In this context, the government, supported by the IMF, embarked upon a drastic fiscal and budget adjustment in order to reduce the current account deficit, consisting of:

- Tax increases – notably social security contributions, excises and property taxes;
- Elimination or suspension of previously granted tax facilities and exemptions;
- Expenditure cuts – notably wages in the public sector and capital expenditures.

Tax increases was the main component of fiscal adjustment.

The fiscal and budget adjustment was accompanied by structural measures aimed at curbing the operating deficits of state enterprises and banks. Also the speed of privatization was pushed at maximum, 1999 being an outstanding year.

3.1.1 Budget revenues in Romania

Romanian budget revenues amounted in 1999 to 31.9 percent of GDP, as compared to 29.7 percent of GDP in 1998. Note that the budget revenues increased significantly, reaching almost 1/3 of the GDP; this was a huge effort.

However, the most important increase from 8.9 percent to 10.7 percent was registered at social security, and we consider this measure as a big mistake; social security is a part of labour cost and its increase was conducive to underground works. In

other wards this means a significant taxation in labour.

What taxes should have been increased more in 1999?

In our opinion the answer is excises taxes. This is because the bulk of these taxes are supported by consumers and in 1999 it was a need to restrain consumption in order to repay the debt. Moreover, according to the EU Acquis Romania has to have a minimum level of excises, and this minimum was significantly higher. Note that excises taxes increased from 2.3 to 3 percent and the property taxes from 2.1 to 2.7 percent.

The adjustment in 1999: budget revenues

(Percentage of GDP)

	1998	1999
Budget revenues	29.7	31.9
Current	29.7	31.8
Tax	27.8	30.1
Profit tax	3.0	3.1
Income tax	4.0	3.2
Social security	8.9	10.7
VAT	6.0	6.0
Custom duties	1.5	1.4
Excises	2.3	3.0
Other	2.1	2.7
Non-tax	1.9	1.7
Capital	0.0	0.1
Grants	0.0	0.0

3.1.2 Budget expenditures in Romania

Romanian budget expenditures amounted in 1999 to 34.7 percent of GDP, as

compared to 35.1 percent of GDP in 1998.

The adjustment in 1999: budget expenditures

(Percentage of GDP)

	1998	1999
Budget expenditures	35.1	34.7
Current	30.9	31.7
Goods and services	11.4	11.5
Wages and salaries	5.0	4.9
Material expenditures	6.4	6.6
Interest	4.7	5.2
Subsidies and transfers	14.8	15.0
Subsidies	1.7	1.6
Transfers	13.1	13.4
Capital	3.6	2.8
Lending minus repayments	0.6	0.1

3.2 Deficit financing in Romania

The budget deficit shrank from 5.4 percent of GDP in 1998 to 2.8 percent of GDP in 1999.

Domestic borrowing contributed the most to the financing of Romanian budget deficit both in 1998 and 1999.

Privatization revenues and bank asset recoveries represent special means of deficit financing in Romania.

The bank asset recoveries refer to bad bank loans, which, in the context of banking reform, were transferred to the public debt.

The adjustment in 1999: budget deficit financing

(Percentage of GDP)

	1998	1999
Financing	5.4	2.8
Domestic borrowing	3.9	1.6
External borrowing	0.0	0.4
Privatization revenues	1.8	0.9
Bank asset recoveries	0.0	0.0
Discrepancy	-0.3	-0.2

3.3 Real GDP and inflation in 1999

The fiscal and budget adjustment in 1999 played its part in entailing a decline of 1.2 percent in real GDP.

However, inflation – measured on the basis of the GDP deflator – dropped from 54.1 percent in 1998 to 47.8 percent in 1999.

3.4 Interest rates in 1999

Interest rates on government borrowing stayed relatively high in 1999 because of the likelihood of payment default. They surged at 104 percent in May on account of the scheduled peak of external payments. Against the background of lower government borrowing, they subsequently declined to about 70 percent towards the end of the year.

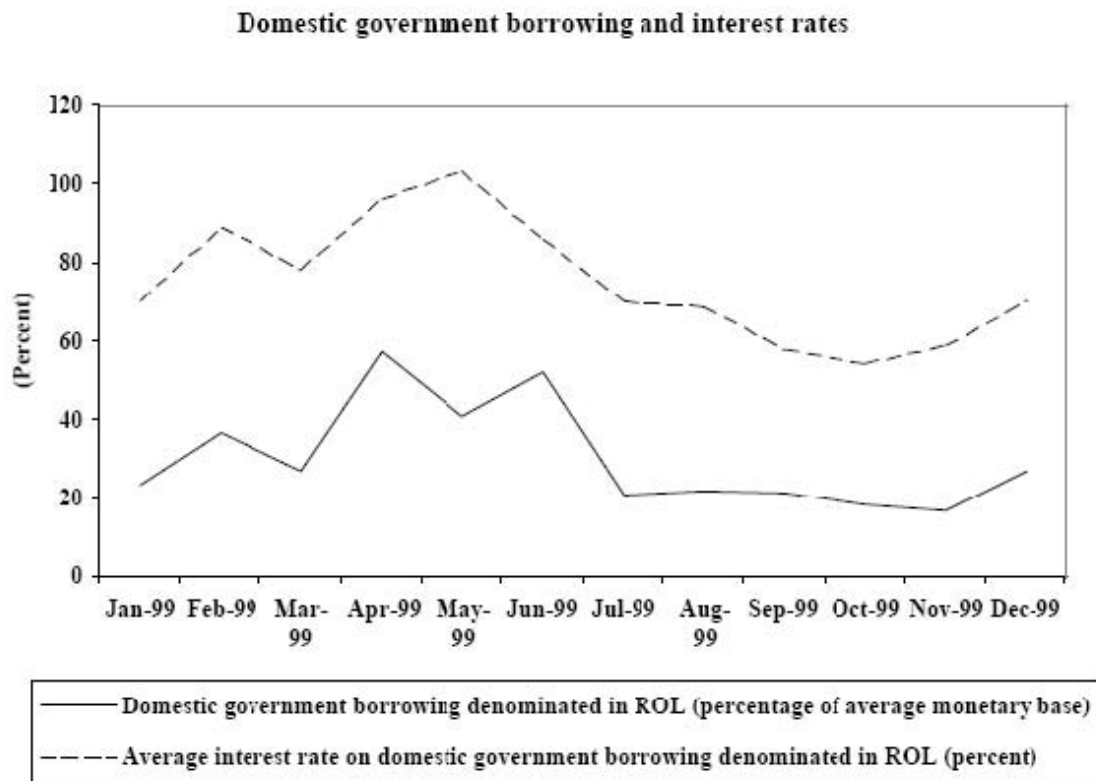
The pessimist market sentiment explains why investment spending did not positively react to the decline of interest rates. Consequently gross fixed capital formation was in 1999 down by 4.8 percent. However, lower interest rates played their role with a lag, gross fixed capital formation having picked up in 2000 by 5.5 percent.

The decline in the domestic borrowing by the government gradually lowered

interest rates.

Domestic government borrowing is measured in the chart hereafter on a gross basis (new borrowing plus roll-over).

Note that the monetary base adds up the currency in circulation and the reserves of commercial banks.



3.5 The exchange rate and the external current account in 1999

The ROL depreciated in 1999 by 72.8 percent against the USD, which was well above the inflation rate. This was a support for the exports of goods and services which were up by 3.5 percent (from USD 9519 million in 1998 to USD 9854 million in 1999). At the same time imports of goods and services were down by 9.8 percent (from USD 12798 million in 1998 to USD 11538 million in 1999). All these developments were favourable to a reduction of the deficit of the external current account to USD 1469

million (4.1 percent of GDP).

3.6 Foreign exchange reserves in 1999

Market expectations that the central bank would exhaust its foreign exchange reserves in 1999 did not materialize. Romania could meet its external obligations and, moreover, increase its reserves because of the improvement in the current account, which, in turn, was induced by the

Foreign exchange reserves of the central bank increased to USD 2493 million towards the end of 1999.

Eventually Romania avoided the threat of payment default but the price paid for this success was the GDP decline. However, had the situation of payment default occurred, the associated financial turmoil would have presumably caused a much larger drop of real GDP.

3.7 Changing the rating

A positive change in rating for Romania came only on September 2002, to the grade B and than in 2003 to BB, and it was only on September 2005 that Romania got the investment grade of BBB.

Romania came back to the capital market on October 2000 with a bond issue of 150 millions USD for 36 months at 11 percent, and than on November 2000 with a similar bond issue but at 11,5 percent. This was followed in 2001 by a 600 million bond issue at 10,625 percent and another one in 2002 for 700 million at 8, 5 percent

One can notice the diminishing of the risk premium for Romanian borrowings, and the hope is to be able to borrow in the future at 4-6 percent.

PRACTICAL ISSUES IN VALUING ROMANIAN FINANCIAL INVESTMENT COMPANIES

Lecturer PhD. Daniel MANAȚE, “Aurel Vlaicu” University, Arad,

This paper is dealing with practical valuation issues concerning Romanian Financial Investment Companies – the five SIF’s. The focus is on some of the most relevant approaches to the value estimation of SIF’s shares: the net asset value, the adjusted net asset value, the premium and discounts, the price per book value ratio, the Tobin’s “q”, the total shareholder return (RTA). We do not stress upon issues well debated in the financial local community, like PER, but we believe that the topics we discuss is able to add value to the investors and analysts attempts to estimate the intrinsic value of a complex financial instrument – SIF’s equity.

We must state from the very beginning that any attempt to estimate the value associated to the property rights over an issuer is subject to bias. All the relevant data and information are available at different levels to the public and the differences through professional knowledge of valuation and experience in capital markets among appraisals conduct to a **range of values** instead of a **single value consensus**.

The value assessment of both, closed-end companies and public companies is affected by subjectivity in the reasoning of the valuers. Romanian capital market presents the characteristics of a “**real emergent market**”, meaning: informational asymmetry, insufficient transparency, financing deficit and lack of liquidity, authorities interventions to “regulate” the free market. The importance of appraisals is recognized on any market, but in emergent ones their contribution to the development of investment process is even greater because the poor secondary market of different assets.

1. The Romanian Financial Investment Companies – the five SIF’s

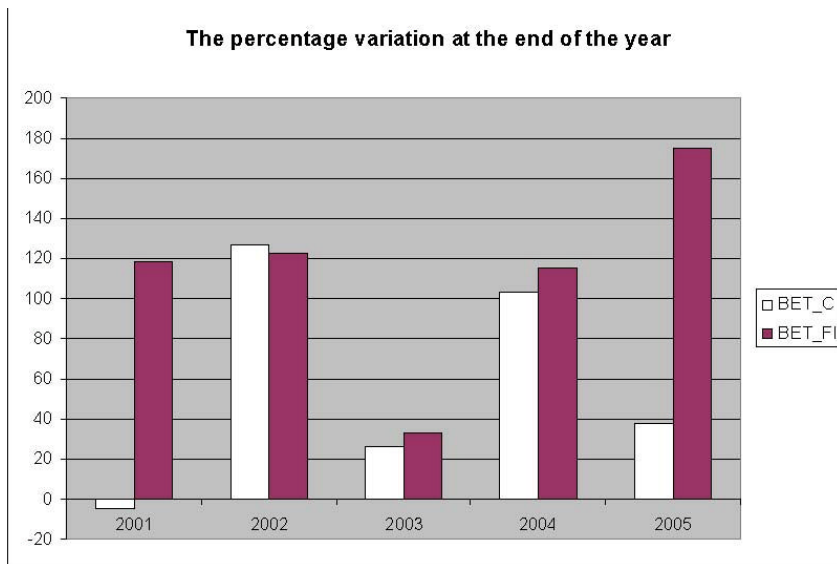
Romanian Financial Investment Companies (SIF) act as joint stock companies, being listed at Bucharest Stock Exchange (BVB), first tier under the tickers SIF1, SIF2, SIF3, SIF4 and SIF5. The number of shares outstanding is fixed and the share price is a function of the specific demand and offer.

There is an obvious correlation between share price and the image and reputation of a public company. In this respect, trust in the competence and honesty of the management is among the most important investors criteria. The competence is easy to be measured starting from the main objective of the public issuer: **maximizing shareholders value**. From SIF’s part, this can be done through two different approaches:

⇒ maximizing the share value, result depending on factors like the size and consistency of the profits and the net asset value, but also on the company reputation and the management of public relations, the actions of different groups of interests, and so on;

⇒ maximizing the dividend flow, result depending on the quality, type and structure of the portfolio of financial assets, in other words the investment

policy.



Graph 1 The percentage variation at the end of the year for BET_C and BET_FI

Graph 1 presents the percentage variation at the end of the year, between 2001 and 2005, for the five SIF's index – BET_FI versus the market index BET_C. With a single exception, the year 2002, investing in SIF's shares was far more productive than buying the market index, for example.

In terms of market capitalization, at the end of the year 2005, the market value of the five SIF's was 1,77 billion EUR versus 15,31 billion EUR, the whole market capitalization, respectively 11.6%.

Constantly, during the considered period, the value and volume of transactions with SIF's shares were a major part of the whole market. These short regards are meant to emphasize the real interest of local and abroad investors in these issuers, the subject of the paper.

2. Relevant approaches to the value estimation of SIF’s shares

2.1 Net asset value – the equity capital divided by the number of shares (1)

Economic investor’s decisions depend on the quality, consistency, accuracy and comparability of the financial reports of the funds. The key to estimate the value of a SIF is the value of its financial assets portfolio. The net asset value (NAV) is a first hint of the potential and hidden value of portfolio assets, representing crucial information either for “investors” or “speculators”, financial analysts, appraisals or brokers in the meaning of potential price per share in the hypothesis of willingly liquidation. Compared with the market value this indication supports the transaction decisions, either speculative or long term.

The maximum informational relevance of the NAV would be obtained only if **all portfolio assets are liquid**, or the possibility to be all sold very quickly at the market value once the selling decision was taken. Due to the emergent market characteristics emphasized in the introduction, we underline that a great part of the five SIF’s portfolio assets are partially illiquid and involve a great deal of time, due-diligence and negotiations to be sold at an appropriate value.

In Romania the value of equity capital is calculated through an administrative type of valuation¹, imposed by the Romanian National Securities Commission (CNVM) and does not reflect at all the attainable market value of the SIF’s portfolio assets. First at all, for the listed assets, the price considered is the average price of a three months historical period, procedure that does not capture the value at the valuation date of the instrument.

For the unlisted assets, like closely held companies, the considered value is an

¹ For details, please see “Regulamentul 15/2004” issued by CNVM, at www.cnvm.ro .

asset based value, with discounts regarding the level of control reached by SIF and this method is totally ignoring the potential, the perspectives and the risks associated with a particular company. So, there is a lot of place for a better approach.

2.2 Net adjusted value per share - NAV adjusted

The equity adjusted capital divided by the number of shares (2)

What we propose here is simply to perform an adjustment to the portfolio of each SIF by replacing the value comprised in the CNVM’s equity valuation with the market value at the valuation date. Due to the fact that each SIF has to report the full portfolio at the end of the month, this adjustment can only be done at the end of a month, based on the monthly report to the BVB.

Practically, each position, listed at the BVB is reconsidered based on the market value and not the average price in the last three months. The corrections, even if are done for the main positions of listed assets, could reveal great differences between the reported value and the attainable value, which, of course, could be a good support for investment decisions types like “buy” or “sell”.

We only need to highlight exposures like BRD (Roumanian Bank for Development – Societe Generale), TLV (Transilvania Bank) or SNP (PETROM – OMV) and one can understand the importance of the adjustments. Even for closely-held companies like BCR (Romanian Commercial Bank – Erste Bank), the acquisition price is a better achievable value signal than the accounting equity value.

2.3 Premiums and discounts on the net asset value (3)

The main characteristic of an investment trust like a Romanian SIF is that it can be traded with a premium or a discount versus the net asset value. The amount of such a difference depends on the market perception regarding the financial results, the trust and competence associated with the management, or other market general and specific

factors. The significance of the premiums/discounts is, somehow, the same as PER's for the common shares – the market image and “sentiment” over a marketable instrument, a barometer of investors opinion about the SIF's shares value.

$$\text{Discount / Premium} = \frac{\text{Share price} - \text{Net asset value / Share}}{\text{Net asset value / Share}} \quad (3)$$

If the share price is lower than the Net asset value/Share than it's selling at a discount, and, respectively, if the share price is higher than the Net asset value/Share it's selling at a premium. Accordingly to the Net adjusted value per share, the discount/premium can be expressed as a function of the adjusted value, with an increased relevance in this case.

$$\text{Discount / Premium} = \frac{\text{Share price} - \text{Net adjusted asset value / Share}}{\text{Net adjusted asset value / Share}} \quad (3.1)$$

The net asset value is a better indication for the value if the portfolio of the investment company contains more liquid assets. This could be more easily performed in a mature economy, with a strong and functional financial market.

For emergent markets, like Romania, the importance of the eventually adjustments is greater, because of the less liquid portfolio of SIF's than the portfolios of other international listed companies, like the family of investment trusts, in Great Britain, listed at the London Stock Exchange. Anyway, a less liquid portfolio is perceived by the rational investors as being a more risky one and the return expectations are higher.

2.4 Price per book value PBV (4)

Book value offers an indication regarding the hypothetical cash left to the

shareholders after the selling of all the company’s assets at the book value and the payment of all the debts. Book value reflects historical costs paid to constitute the firms assets while the market value of the company’s equity reflects, among others, the capability of the company’s assets to generate futures cash-flows and profits.

$$PBV = \frac{\text{Share price}}{\text{Book value per share}} \quad (4)$$

The discussion of the relevance of such a multiple for investors in SIF’s shares comprises the same aspects as those revealed at the points 2.1 and 2.2, regarding the capability to sell quickly the assets at their market value. Otherwise, PBV is totally irrelevant and could be misleading.

2.5 Tobin’s “q” (5)

Tobin’s “q” is a rate proposed by the economist James Tobin and is particularly useful in analyzing SIF’s share value and represents the market value of the invested capital (VIC) divided with the estimated replacement cost of the enterprise assets (ERC). Computing this rate for a SIF involves the study of the balance sheet and of the portfolio reported to BVB.

$$q = \frac{VIC}{ERC} \quad (5)$$

If portfolio’s assets are liquid, ERC can be approximated at the net asset value level, otherwise adjustments are needed. For a public company like SIF, the market value of the invested capital is the sum between the market capitalization (MC) and the market value of debt (MVD).

$$VIC = MC + MVD \quad (5.1)$$

2.6 Total Shareholder Return TSR (6)

As SIF's constantly distributed dividends and experienced a huge appreciation of the value of the equity, TSR represents, for sure, the most relevant ratio when analyzing a SIF. TSR shows both the growth due to the share price increase and the growth due to the dividend distributed.

$$TSR = \frac{P_1 - P_0}{P_0} \times 100 + \frac{D}{P_0} \times 100 = \frac{P_1 - P_0 + D}{P_0} \times 100 \quad (6)$$

Every investor, accordingly to the timing of his investment in SIF's shares and if he is entitled to dividends for the holding period, can very simply compute this ratio and compare the result with other alternatives. We illustrate this operation for 2005 in the Table 1 below:

Annualized returns of different investment alternatives (%)		
31.12.2004 - 31.12.2005		
1	Average annual bank interest*	7.6%
2	BET_C	38.22%
3	Mutual Fund Index as published by UNOPC	14,74%
4.1	TSR SIF1	201.2%
4.2	TSR SIF2	218.6%
4.3	TSR SIF3	108.2%
4.4	TSR SIF4	203.4%
4.5	TSR SIF5	202.9%

**estimated as an arithmetic average of passive banking interests published by top 10 Romanian banks*

Table 1

3. Conclusions

Net asset value has an increased relevance in SIF's versus the NAV of an operational or commercial company. Anyway, the adjusted NAV is even more significant and helps the investors to reduce the bias linked to administrative values.

Discount and premiums of SIF's share prices over the net asset value per share are particularly significant for investors. The Tobin's "q" is useful if goes with the Price per Book Value because it helps to a better understanding of the sources of value.

The most relevant ratio is, with no doubt, the Total Shareholder Return. It allows investors to decompose the sources of growth and to compare the return of investment in SIF's shares with other investment alternatives.

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THE ROMANIAN ACCOUNTING REGULATION: WHAT EVOLUTION? WHAT PERSPECTIVES?

Professor PhD, Ramona NEAG,,“Petru Maior” University, Tîrgu-Mureş

For more than a decade and a half, the Romanian economy passes through a “still of transition” period, which denotes the fact that the envisaged reforms have not reached their aims yet. However, things are moving slowly. The accountancy should also have to keep in the line with the reforms required by the transition to the mechanisms of the market economy.

With the direct support of the normalizing authority called the Ministry of Finance, the accounting system from Romania, passed through more stages that I would call “evolutional stages”, which left their mark over the structure of the actual Romanian accountancy.

The first stage is represented by the period 1994-1999, when the influence of French rules and commercial usages were evident. The Fourth Directive of the European Economic Community (CEE) also left its mark on the construction of our accounting system, but, unfortunately these influences have not been totally interpreted in fact. The thing that has not been understood or probably had no intention to be understood is the fact that a modern accountancy is a system opened for information, interpretation, not a

system meant to bring information especially to the state from its position of normalizing institution and main beneficiary of the solutions regarding the Romanian accountancy.

The second stage, the period 2000-2005, must be analyzed starting from the events of the years 1998-2000. The evolution of the Romanian accounting system could not be out of some evolutions on European level. However it is remarkable the fact that the Romanian accountancy system has been improved after the years 1990 starting from the influences that constrained it and has not created the concrete and incentive conditions necessary to the development of some regulations of national accountancy where academics and practitioners in the field of accountancy could bring their contribution.

At European level the report of the European Commission from October 1998, indicates: “The delays in modernizing the rules of the European Union in order to be in accordance with the best accepted international practice create a handicap for the persons involved in the process of regulation and supervising for the maintenance of stability in the financial system.”

In the same period it was mentioned: “The Commission will take into consideration if certain options within the accounting instructions are no longer necessary or no longer in accordance with the necessities in this field. Moreover, the commission will reanalyze whether the quoted societies will be asked to prepare the financial situations in accordance with a conceptual accountancy frame more harmonized, such as the one of IASC”¹.

During the years 1990, the events that pointed the agenda of the European Commission showed clearly the fact that the orientation in the field of accountancy is influenced by important members of this profession in countries like Holland, Germany,

¹ FEE study – “Comparison of the EC Accounting Directives and IASs, a Contribution to International Accounting Developments”, April 1999

United Kingdom of Great Britain, France, but also by the disagreements between institutions like IASC and IOSCO, IOSCO and SEC, etc.

In this period of disquietude, harmony, disagreements, agreements, the Romanian normalizing institution, advised by the accountancy representatives from Scotland (!!!) thought opportunely to reconsider in the main, its point of view and to release new accountancy regulations. The release OMFP 403/1999 surprised the Romanian accountancy background. These regulations were very daring and among other things they anticipated the appearance of the international accounting rules and of the national accounting rules in volume 3. So, for the first time the notion of national accounting rules is made clear. Unfortunately, these regulations had a very short life, being revoked in 2001 by OMFP 94.

“Beginning with the year 2000, in the Romanian accounting system, an infusion of Anglo-Saxon concepts and practices took place, fact that must be analyzed and clarified... The thing that is certain is the fact that we are inscribed on an evolutionary line that has to deal with the following century accountancy”².

This very optimistic and suggestive appreciation that we have in the year 2000 is mainly proved by the evolution of the Romanian accountancy during the period 2000-2005. The elaboration of the regulations from 2001 and 2002 brought with them the obvious necessity for the preparatory elements of financial information to get ready continuously in order to face the new aims resulted from the reforms of the accounting system.

How could we appreciate the period 2000-2005 on European and international level?

² Neag Ramona – „Reforma contabilității românești între modelele francez și anglo-saxon” (*The Reform of the Romanian Accountancy between the French and Anglo-Saxon models*), Editura Economică, București 2000, page 224

An important point was represented by the appearance in 2001 of the new international accountancy normalizing institution, called IASB. On November 19th, 1999, the actual structure of IASB was adopted in Venice, the structure could be considered the G4³ extended to 7 or 8, with France, Germany and Japan.

The structure of the complex IASCF-IASB (foundation-council) is the same as in the USA (FAF-FASB). It is said that this similar structure encouraged enormously the close collaboration between FASB and IASB which was intensified from that point.

In October 2002, between IASB and FASB an agreement has been signed, known as the agreement from Norwalk (“Norwalk Agreement”). It established a common frame of work between the two institutions. This agreement has a simple purpose: the quality improvement of the US, GAAP and IFRS American rules, by the reduction of the difference between the two sets of rules. Practically, the importance of this agreement results from the fact that for the first time it is disclosed a program whose aim is represented by the elimination of differences between US GAAP and IFRS.

The European Commission sets in the limelight its will to create a unique European market, an aim whose achievement could be supported by the use of IFRS. “It is of course deplorable that in this field nothing has been done before, until today: Europe would have been at least at the level of USA in this field if it had developed European accounting rules beginning with the years ’70. In this moment it is clear that the enactment of IFRS and the encouragement of convergence is the way to keep in contact with the biggest capital market in the world, even if this will not be an easy experience”⁴.

In April 2004, in Washington, a meeting between the European commissioner for the interior market and the president of SEC took place. The discussion was centered on

³ G4 – group of work that was founded on the initiative of the national normalizing authorities of the 4 countries Australia, Canada, RU and USA

⁴ Peter Walton – “La convergence IASB – FASB et ses implications” – Revue française de Comptabilité, Numero special IAS/IFRS, September 2005

the problem of eliminating the obligations of reconciling, requested to the non-American trading societies rated on the American capital market. It has been considered that in the year 2009 at latest, this thing should be finished.

On the 8th of July, 2005, the president of IASB, Sir David Tweedie, in front of the Accounting Regulatory Committee of the European Commission, observed the support of the European Commission, of the European Parliament of the EU member states in developing a unique complex of international strict, coherent, applicable, usable accounting rules on the international capital markets. “Your choice in the direction of an international approach for the accounting rules is a model for the others”⁵.

Sir David Tweedie used to speak about the need of achieving the elaboration of some really global rules with all the advantages they would bring, but he also pointed out the fact that an accountancy convergence would necessarily involve the USA, which means almost half of the capitalization of the international financial markets.

The immediate aims of IASB and FASB are represented by the creation of a project that would allow SEC to take into consideration the cancellation of the obligations of reconciling at the end of the year 2007, beginning of the year 2008. “We must make sure that the accounting problems would not represent an obstacle for the cancellation of the obligations of reconciling with the USA and that they would set Europe in a more difficult position when SEC will bring into discussion the subject of equivalence. The support of the European Commission and SEC encourage me to be optimistic: we will be able to reach our purpose regarding the convergence and the reconcilability”⁶.

The aspects related to the convergence US GAAP with IFRS is not meant to determine us to notice the final enactment of US GAAP on an international level. At

⁵ David Tweedie – „Le programme de IASB” - Revue française de Comptabilité, Numero special IAS/IFRS, Septembrie 2005

⁶ idem

least this is the suggestion of the ones involved in this special process internationally developed today.

It is appreciated that the reward of this fact, in case of being successful will determine the cancellation of the existing barriers regarding the investments among the two economic world areas, Europe and the USA.

For us, simple spectators of these convulsions, opinions and works, it is important to know these aspects and to take into account these evolutions in the development of the Romanian accounting system. We also have to observe the fact that the beneficiaries of "this show" will be firstly the societies which appeal to financing on the international capital market. The fact that the new accounting regulations called OMFP 1752/2005 do not refer to IRFS, perhaps is not accidental. Although reading attentively these regulations, determines people to wonder: Why regulations harmonized with the European Directives and no word about IFRS?

All the actual regulations are influenced by the spirit of the international rules and then the question is asked again: Why regulations harmonized with the European Directives?

An important representative of the Ministry of Finance has not answered this question although he would have been entitled to do that. Probably the political influence is not ignorable at all, now close to the moment of adherence. Nevertheless, whether on the international level CE cooperates with IASB, with SEC, etc., why do we fear to admit things as they really are? After 5 years of talking about international accounting rules everywhere, about the necessity of knowing the spirit of these rules, we pretend today that those 5 years did not exist. But, however, the study and the knowledge of IRFS for an accountant still is a necessity that ensures a standard which we must not throw up.

A famous professor of the Academy of Economics from Bucharest, during a meeting that took place in Sinaia this year in May observed: "I believe that in the future, we will return to the point which should have represented the initial start, meaning the

elaboration of national accounting rules.” I think this point of view must be taken into consideration. For the unquoted societies, the efforts of implementing the IFRS would be much too expensive on the one hand and on the other hand they would not be necessary and appropriate in relation with the presentation of some relevant and credible financial situations.

“National accounting rules” – what a special resonance! But who could elaborate them? Who are the “actors” of such an approach? Which are the costs involved? Are we ready for that? These are a few questions that we should answer.

An important professional in the field of accountancy, member of IASB used to say: “All the institutions should progress in order to keep up achieving the aim expected by the society from themselves⁷.”

Such an evolution circumscribed to the Romanian accounting system must also contain the Ministry of Finance. This authority of accounting normalization and regulation must decline a part of its prerogatives in this field to other “actors”. Their intransigency related to the act of regulation is special but it does not allow any comments. But for how long? I consider that the evolution does not forgive anyone. If the future confirms the theory of “national accounting rules” who will they work with? Working in such a field is not easy at all, it must be motivating and based on much professional experience and not only on that.

All the struggles in the field of accountancy at international level do not have a direct impact on the Romanian accountancy; we are only “spectators” which will applaud as soon as the show ends! But we could be some attentive spectators, eager to keep in mind and to take advantage of the ones who provide the show and keep the audience on suspense until the end.

⁷ Gilbert Gelard – „De l’IASC a l’IASB un temoignage sur l’evolution structurelle de la normalization comptable international” - Revue francaise de Comptabilite, Numero special IAS/IFRS, September 2005

Such an approach supposes from this profession a permanent connection to the course of events, a total professional connection in order to keep up with the evolution of accountancy on international level.

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ON THE PARAMETERS OF FINANCIAL MANAGEMENT WITHIN INSURANCE COMPANIES

**Professor PhD. Lazăr CISTELECAN, Phd Candidat Daniel ŞTEFAN,
„Petru Maior” University, Tîrgu-Mureş
PhD Decebal Manole BOGDAN**

Insurance industry is developing due to the need of protection of the modern man against the risks whom is the subject to. Careful enterprises of the development of economy have established commercial entities that take over(assume)the risks from the bearer in exchange for an insurance premium. The aim is to set up a rewarding business. A question arises, which of the parameters of the financial management influences the aim of the insurance company (profit for the shareholders, protection for the insured, taxes and socio-economic balance for the state administration in case of calamity).

1. Introduction

Insurance company is an economic entity founded to manage the risk communities and to generate profit. Actually, it's an economic manager that uses the

drawn mutual funds, indemnifies the equivalent of the risks purchased by the insured persons, in case that damages and body injuries occur, and invest the created technical reserves by financial instruments with a view to maximize the profit.

The background of the financial management in insurance have an aim, an area of operation and a frame work. The main parameters of the financial management are in fact the followings: capital; subscribed and paid-up insurance premiums; commitments of indemnification and insured amounts; technical reserve; assets; technical and financial results and not at least, solvency margin. Surveying the parameters of the financial management isn't accidentally but having a logically and naturally succession.

We consider that the management of the insurance company performs in connection with the financial management. Management decisions are taken regarding the vectors of influence: shareholders, insured persons, state administration, socio-economic factors and employees. Shareholders want to increase their fortune on dividends basis, the increase of the firm(company)'s market value, but more directly the increase of the profit. The stockholders have a responsibility regarding the insured persons to whom they've promised the compensations of the losses from the transferred risks.

2.The capital and the asset of the insurance companies

2.1 The capital. Structure and formation

Regarding the concept of capital, some researchers consider it's an economic category with an historical nature. The first shapes of the way that capital acts, took the shape of the commercial capital that contributed to the developing of the merchandises trade and then in the shape of the usurious capital reflected by “money trade” interest bearers. The capital may be physical or currency, fixed or working, social or stockholders' equity and it's defined as a “ stock of valuables or assets which entered the

economic circuit, may generate revenues for their owners”. The economic process of insurance requires the presence of some formation levers of capital called sources. By sources it’s understand the reserve of means susceptible to be used on a certain occasion. Following some analysis, we can distinguish the two features that make sense to capital, the movement and the value. From the setting up point of view, the stockholders’ equity named also nominal capital stands for the valuable expression of the amount, of the individual contributions of the holders of the company. In its structure we find called up share capital and the long term borrowed capital. The insurance companies usually don’t appeal to long term borrowed capital. The stockholders’ equity consists of called up share capital, additional paid-in-capital, revaluation reserve, profit and loss account brought forward, current profit and loss account, subsidies, reserves. The has been defined as “ the accrued personal welfare” too that the entrepreneurs find it in the manufacturing process. The capital have to yield a normal yearly profit, consisting of a certain amount of money or goods. The financial capital is synonymous with the net assets/stockholders’ equity, being defined in the terms of the nominal currency measure. The physical capital is regarded as the operating capacity in the terms of the manufacturing capacity.

2.2. The structure of the capital in an insurance company

The capitalization of the insurance company takes place by the contributions in money and in kind that the shareholders have committed to put it to the commercial company’s disposal. The structure of the capital stands actually for the division of the capital in shareholders capital and borrowed capital or the proportion in that the shareholders capital is divided into common shares or preferred stocks.

The stockholders’ equity of an insurance company represents the total of capitals, owned by the shareholders, that are entered the liabilities and consists of: called up share capital, additional paid-in-capital, the, retained earnings, revaluation reserve, subsidies,

profit and loss account brought forward and other assimilated items. We think that there are no differences of interpretation between the modern outlook of the capital and the classic one (Marxist). In the classic outlook “ the working capital that enters the manufacturing process conveys to the product its entirely value and so it should be continuously replaced , in kind, through the selling of the product; if it comes out that the manufacturing process will proceed without stoppage. The fixed capital that enters the manufacturing process conveys to the product only a part of its value (tear off by depreciation) and continue to operate in the manufacturing process despite the tear off. The Marxist theory analysis the capital through the way in that it takes part to the added value, organized in permanent capital and variable capital. The permanent capital is defined as “ that part of the capital that turns into means of production, namely in raw materials, auxiliary materials and means of labor, it never changes the scope of the value in the manufacturing process. The variable capital represents “ the part of the capital turned into labor force, it changes its value in the manufacturing process. It reproduces its own equivalent and more than that a surplus, plus the value that in its turn may vary, to be bigger or lower”.

In the case of the insurance companies, it can be obviously noticed the variable capital. The permanent capital doesn't create a new value (added value), being a requirement of the added value formation. The resources of the capital's formation are multiple. The intern financing set up by the use of the resources from the inside of the company (self financing, yielding of assets and resources generated by the operating process). Outside financing relies on drawn resources by capital formation and increase, short, medium or long term loans,, dividend and interest. We can talk about real and financial capital. Insurance companies being economic entities whose field of activity is to render financial services, the basic analysis of the stockholders' equity is made after the financial capital with a significant weight in the real capital. The currency capital is a form of the capital advanced for the formation of the insurance fund. Moreover, over-

structural it's an asset with a particular nature, the currency, that allows taking some risks. By assuming the protection against some risks, by the insurance policies, generates financial flows, the currency expression of the real flows

The legislation requires a minimum stockholders' equity for an insurance company, but this doesn't represent the most important parameters of the financial management. Its part is to initiate the business and to enable to the company to operate for at least a beginning period of time until the covering of the potential and effective expenses of the insurance premium's mark up percentage.

The called up share capital is relevant in the moment in which the management of the insurance company incurs financial losses. The financial losses are covered from stockholders' equity. Practical the capital is a factor of equilibrium of the economic activity, being preserved after the beginning of the activity.

2. The revenues of the insurance premiums

The revenues are increases of economic flows in the shape of assets entries, increases of the assets' value or decreases of the debts that turns into an increase of stockholders' equity (other than the one resulted from the shareholders' contributions). The economic activity from the insurance companies whose aim it's yielding a more profit relies on the mobilization of some revenues that comes out of the selling of insurance products, financial investments and the rational usage of the insurance funds for indemnifications, regarding only the payment of the proper amounts.

The main elements that make up the revenues of the company are the amounts or the values collected or that are to be collected from: carrying out the contract obligations regarding the insured; advantages that the company accepted to receive; carrying out some legal or contract duties regarding the third parties; extraordinary revenues.

According to the law, the accountancy of the revenues is kept on categories of

revenues, that are classified thus:

a) operating revenues comprising : subscribed gross premiums to optional and compulsory third party liability (TPL); reinsurance premiums; compensations recovered from the back civil actions and paid by embezzlement; rendered services; dues; rents; releases of technical reserves; tangible fixed assets production; standing for the cost of the works and expenses performed for the firm itself, that are untried as tangible and intangible fixed assets, operating subsidies, standing for financings that the company enjoys, granted by the state or by other companies. Other operating revenues are the revenues of the recoveries related to the common insurances, revenues from the reactivated debts and other unethical revenues.

b) Revenues from investments consist of interests and fructifications of the capital and technical reserves, valuable bonds, in investments; bank interests, in the placements of the currency supply, in bank deposits and at sight. This category comprises all the revenues resulted from the investment of the fund and the reserves in economic activities approved by the law in order not to affect their financial stability. According to the law the investments can be made only to some banks approved by the National Bank of Romania and ISA.

c) extraordinary revenues comprising of that revenues that aren't linked to the current normal activity of the insurance company. In the cases in which the persons blamed for the damage incurred to the insured are third parties that haven't taken out a valid third party liability, the regress action is started.

d) Revenues from provisions and the adjustment to the inflation, comprising the revenues from the provisions for charges and liabilities, provisions for the depreciation of the tangible fixed assets and for other assets items, revenues from the negative goodwill, revenues from the provisions regarding investments. Depending on the moment of establishing and entering them the accountancy can be outlined the following categories of revenues: predictable (entered in the moment of the selling of the insurance

policies); committed (their collection is done in the majority of the cases after the conclusion of the contracts); established in the moment of their collection (are entered in the accountancy in correspondence to the cash accounts); reckoned (don't suppose any collection resulting, only book keeping, from provisions cancellation).

The revenues of the insurance companies comes mostly , from the subscribed insurance premiums and in little of investments or stockholders' equity operations. As a parameter of the financial management, the gross subscribed insurance premiums are relevant if there rely on secure insurance contracts and collected on the agreed terms. This parameter is analyzed in connection to the cancelled insurance premiums. There is an isolated and sequential practice to subscribe premiums and to cancel them after due to the fact that the insured doesn't pay the premiums when they fall due. Drawing up some contracts when it's known from the beginning the fact that it's realized by the nonpayment of the premiums, it's a method of deceiving the vigilance of the public regarding the real volume of the turnover. Comparing the indemnifications paid or to be paid of the insurance premiums will reveal to us the efficiency of the activity.

3. The structure and the way of the expenses' assessment

The expenses represent the consumptions of labor and material determined by the operation of the insurance company. They comprise the values paid or to be paid for: damage and performing; staff expenses; purchasing expenses regarding the insurance contracts; carrying out some legal or contracts duties; consumptions, the works carried out and the services rendered and other expenses.

The expenses of the insurance companies represent actually decreases of “economic outcomes” taking the shape of outlets or decreases of the assets value, or increases of the debts, that materialize in decreases of the stockholders' equity(other than the distributions to the shareholders).

To ascertain the result of the financial year within the expenses are comprised the expenses regarding the technical reserves; depreciations and the established provisions; book value of the conceded, destroyed, lack at the stock taking assets; the expenses with investments and other expenses. In the financial accounting entering the expenses relies on grouping them according to the nature of the operating, financial, extraordinary activity and to the nature of the resources employed, personal, depreciation, indemnifications and paid insured amounts. In the cost accounting, the expenses are grouped by their detonation and function on insurance lines and on categories of insured. According to the legal regulations, the expenses' accounting is kept separately for the life insurance activity and for the common insurance activity, on kinds of expenses, by their nature and destination.

4. Classification of the expenses by their nature

- a) “the operating expenses comprise the expenses regarding; a) damage and performing; b) technical reserves; c) employees and agents; d) reinsurance commissions; e) consumptions of consumables, fuel, spare parts, inventories; f) expenses with the works and services carried out by the third parties (maintenance, repairs), dues, rents, studies and researches, expenses with other work and services carried out by the third parties (agents, protocol expenses, advertising, transportation of goods and personnel, temporarily transfers, postage and telecommunication fees, bank fees and others); f) losses of debts, fines, penalties, donations and granted subsidies, expenses regarding the yielded assets and other capital expenses.
- b) the expenses with the investments and other expenses consist of : a) losses of debts related to the participating interests; b) expenses related to the yielded investments; c) financial expenses regarding the depreciation of the debentures redeemed premium; d) expenses related to the differences of exchange rate; e) expenses with

- the interest f) related to the discounts granted; g) other similar expenses.
- c) extraordinary expenses represent that expenses that aren't related to the normal, current activity of the company (expenses due to the calamities and other extraordinary events);
 - d) expenses with the depreciation and the provisions comprise: a) depreciation of the tangible fixed assets and work in progress of the investments' nature; b) depreciation of the tangible fixed assets of the nature of other assets; c) depreciation of the debentures redeemed premium; d) provisions for charges and liabilities; e) provisions for the amortization of the tangible fixed assets; f) provisions for the amortization of other asset items; g) provisions regarding the investments; h) the expenses for the adjusting to the inflation.
 - e) (5)the expenses with the income tax reckoned according to the law.

4.1 Expenses on destinations

The main destination of the expenses represents the financial cover of the commitments towards the insured or the victims by the payment of the value of the damage incurred by them. Although the damage stand for a parameter that influences directly the financial value of the company it can't be quantified but assessed. The real ascertaining occurs post factum. Optimizing such a parameter involves prevention and control measures of the embezzlement and of the poor management of the company.

5. Reserves

Not to affect the stability and the solvency of the company, it is created for each line of insurances special fund called technical reserves. This fix amounts are created while operating at a level at least equal to the total amount of the indemnifications paid previously financial year. Technical reserves should have in any moment a sufficient value to allow the company to advance, in a predictable manner, commitments that

result from the insurance contracts. Technical reserves are entire distinctly , according to the given destination having posts created in the chart of accounts. The general principal of these kind of reserve is that it's established from the moment of the conclusion of the insurance contract and are maintained over the validity period of time. It's obviously that there are established bigger reserves at the life insurances than at the common one's. The cause is represented, along the increase of the life insurance premiums collected, and applying of the prudential norms.

5.1. Premiums reserves are reckoned separately for each insurance contract. They are exceptionally situations in which the reserve is reckoned on statistical methods and especially on proportionally and lump methods. Their average will have approximately the same value as in the individual reckonings. For establishing the value of the premiums reserves (R_p) are used information's from the insurance contracts , established with the help of the relation: $R_p = (Z_r : P_b) \times P_{sn}$, where , Z_r - number of days corresponding to the unexpired period of the contract; P_b - period of the contract, expressed in number of days; P_{sn} - net underwritten premiums for the mentioned contract.

Reserve creates a balance of the results comparing the collected premiums with the uncollected insurance premiums and it's balanced periodically at the date of the collection of the falling due insurance premiums installments.

5.2. Damage reserve. This kind of reserve is created and realized monthly on the assessments for the approvals of damage received by the insurer so that it will be sufficient to cover the indemnifications for the damage. It's established separately for each insured case. This reserve should take into consideration also the damages occurred at the end of financial year, but undeclared. The main purpose of the reserve regards the the expenses for the settlements of the damages, no matter of their insurance. In the case

in which the indemnifications take the form of annuities, the value of the reserves is established employing actuary reckonings.

5.3. Reserve for unapproved damages is created and adjusted at the end of the financial year based on statistic and actuary reckonings for un-occurred and unapproved damages. The reckoning is based on using any reliable, real information, about the occurrence of the damage on methods personally to each insurer. The reserve is released at the same time with the approval of the damages by the insured persons or the persons that suffered the losses, depending on the case. Actually it's transferred to the damage reserve.

5.4. The reserve for unexpired risks is reckoned on the assessment of the damages the can show up after the end of the financial year only in the case it comes out that the assessed damages exceed the value of the premiums reserves. Mathematical relation is: $R_m = D_{est} - R_p$, where D_{est} - assessed damages, that can occur in the next period of time and R_p - premiums reserve.

5.5. Equalization reserve. To establish a medium term balance In the years with favorably technical results, technical reserves are to be set up that will serve as covering sources for the damages that occur in the years in which the results won't be favorable, actually it's a dispersion of favorable results of the current financial year in the following years. The set up may take place only if the damage rate related to all classes of operated insurances it's below 50%. The reckoning of the reserves is done according to the relation: $R_d = (D_{prn} + D_{rnd}) / (P_{ms} - D_{rp})$, where R_d - damage rate, D_{prn} -net reinsurance premiums paid, D_{rnd} - variation of net damage rate, P_{ms} – net underwritten premiums, D_{rp} - variation of the premiums reserve. Equalization reserve can not exceed 3.5% of the volume of the net underwritten premiums related to the year in which the reckoning is done: $R_e \leq P_{ns} \times 3\%$

5.6. Calamity reserve is established by applying minimum 5% on the amount of the gross underwritten premiums related to the insurance contracts that cover the catastrophic risks. There value can't exceed 10% of the accumulation of the liabilities assumed by the insurance contracts that cover catastrophic risks. The main destination of the reserve are the indemnifications for the damages that will occur as a result of the occurrence of catastrophic risks. Although the interwar legislation stated the means of investing the technical reserves, the legislation issued after 1990, haven't specified a prudential way of investing the established reserves. Only in the year 1996 the prudential norms regarding the liquidities keeping and the invested placements of the companies operating in the insurance field. The companies operating in the insurance field, have the legally duty to take the following measures:

- a) cash at hand and at bank(current accounts, bank deposits, and other deposit instruments) are to be kept in at least two commercial banks, but no less of 50% in a single commercial bank;
- b) invested placements in a single investment fund can't exceed 20% of the total amounts invested in such kind of funds;

Accounting ensures the book keeping of the technical reserves established by the company according to the legal regulations. Insurance companies are complied by the law to establish and maintain the categories of the technical reserves stipulated for the law. The other categories of technical reserves, namely reserve for the participation in results and returns regarding the common insurances, damage reserve regarding the life insurances and other technical reserves regarding the common insurances are established and are book-kept according to the legal regulations.

The amounts transferred to the technical reserves, established and maintained according to the legal procedures, stand for liabilities of the insurer and are deducted of

its revenues with a view to establishing the profit. In the cases in which the insurance contract earmarks premiums collection and foreign currency indemnifications, the related technical reserves can be established and maintained in foreign currency. Foreign currency technical reserves are entire in accounting using the national legal tender LEI, at the exchange rate in force at the date on which the operations are made. The technical reserves are stock-taken and assessed at the end of each period of time. The assessment methods of the technical reserves employed by the company (prorata temporis, statistical a.s.o.), should be the same over the financial year, as from one to another. In explanatory cases and according to the terms stipulated for the legal regulations, the company may change the methods of assessment, registering them in the notes to the account, disclosing the influences to the financial position, as to the financial performances. The reserves have a decisive part in ascertaining the credit rating and the solvency of the insurance company. Their administration is done by: setting up, updating, investing, releasing have an important part in the stability of the insurance company. There are insurance companies that have unfavorable results due to the fluctuation of the technical reserves. A large insurance company that takes out under one year hired insurance contract will have a bigger negative result than in the situation of taking out the same contracts but with full payment of the premiums.

Although the technical reserves are checked by the ISA following some algorithms it can' be determined a standard of risk to ensure the perfect administration of the technical reserves.

6. The insurance companies assets and the solvency margin

The assets of the insurance companies comprise fixed assets, current assets investments-fixed assets. There are insurance companies that operate on the classical system with fixed territorial structures (premises, cars, furniture and other (equipments) that

are comprised in the category of tangible and intangible fixed assets. Modern management prefers a mobile structural organization without owned premises. The spaces where they operate are mostly hired, and the means of transportation are leased. The system has an increased economic efficiency because it doesn't immobilize financial resources by purchasing assets. Order no.6/2001 released by the ISA settles the categories of assets allowed to stand for technical reserves, the rules of dispersion of the investments as the liquidity coefficient too.

The categories of the assets allowed to stand for the insurer as technical reserves are: government bonds issued by the public administration authorities, land and buildings, bank deposits. Bank deposits will be opened only if the commercial banks have a called up share capital more than 10.000.000. Euros. In the case in which the deposits are opened at the subsidiaries of some foreign banks, their called up share capital should be of minimum 4.000.000. Euros. The liquidity coefficient is given by the ratio between the liquid assets and the current liabilities of the insurer towards the insured. The liquid assets are: government bonds that are traded employing the services of commercial bank authorized by the NBR and if they have a called up share capital of at least 10.000.000. Euros and bank deposits whose amount doesn't exceed 25% in a sole bank and 20% in a bank belonging to the same financial group as the insurers or to the significant person of the insurer's stockholders.. the amounts invested will be of maximum 50% of the called up share capital of the nominated bank. The doubtless current liabilities of the insurer comprise damage reserve and the unapproved damage reserve. To have a satisfying liquidity coefficient the weight of the current liabilities in the liquid assets should not exceed 50%.

Solvency margin correlates with the assets, being the result of the ratio between contract liabilities and the value of the net assets. Solvency margin stands for the surplus of all company's assets over the demand of solvency.

According to the norms released by the ISA become effective in 12.31.2004, the degree of the solvency of a company is established as a ratio between net asset and the

minimum solvency margin, ratio that, in the case in which it's under one or equal to one, shows that the company is insolvent or on the edge of insolvency. To prevent the state of insolvency, the company's executives should be supervised constantly the assessment of the assumed risks, the assets that should be free of charges, the established technical reserves, the damage rate for each class of insurances, the concluded re-insurance contracts and the last but not the least the investments policy and to send to ISA any recorded change of the solvency margin under the limit of 1.5.

In the case of the insurance companies that are authorized to take out common insurances, the net asset recorded in the year 2004 by the 38 companies had been of 9.365.651.945 thousand lei (236.130.700 EURO), in nominal growth of 14.33% given the situation of the year 2003, that means a real growth of 4.60%. From the analysis of the displayed data, result that on 12.31.2004, two companies had a under one solvency degree, namely: OMNIASIG-ASIRAG, whose degree of solvency was 0.69, and PETROAS, whose degree of solvency was 0.72.

A number of 22 insurance companies authorized to take out life insurances possessed a totalized net asset of 1.997.131.748 thousand lei (50.352.514 EURO), a 61.19% nominal growth more than of the situation given in the 2003 and applying the inflation rate, results a real growth of 47.47%.

Looking over the situation on insurance market in the year 2003-2004, we noticed that the solvency margin isn't the only indicator that discloses the value of the company on the market. The lack of poise is displayed in the picture no. 1 and it's given by the disproportion between the net asset of the company and its liabilities given the low number of the concluded insurance contracts. The paradox of the situation is illustrated by the OMNIASIG ADDENDA company that has a called up share capital of 15.000.000 lei, a total asset of 7.042.073 lei and gross underwritten premiums of 1.604.877 lei (the last in the rankings). The large insurance companies, that possess a great portfolio both value and numeric it's harmonized in a solvency margin from 1.58 to 3.36.

The aspect needs to be pointed out because it can be noticed the extremely huge differences between the value of the assets, of the liabilities and the market share that the company possessed. In the picture displayed above it can be easily noticed the ratio between the solvency margin and the assets of the insurance company. Important insurance companies have a unitary solvency margin while the insignificant insurance companies have an exponentially solvency margin. This concludes that the indicator displaying the solvency doesn't express the reality only if it's analyzed in a larger context..

The authority that rules over the insurance field has settled beginning on December 27 2001, the norms regarding the minimum limit of the solvency margin both for the common insurances and for life insurances. From mathematically point of view the solvency margin is given by the differences between the assets of the insurer and its liabilities defined by the norms issued by the ISA.

$$Ms = X/Y$$

Where,

Ms- the solvency degree

X- stands for the net asset or the insurer' solvency margin

Y – stands for the minimum solvency margin

$$X= C-D$$

The assets that are taken in the consideration to the determination of the solvency margin “ C ” are: total assets “A”, according to the balance sheet of that the assets not taken into consideration are deducted “B” (intangible fixed assets, unquoted shares, part of the technical reserve regarding the insurance contracts yield in reinsurance, pledged or mortgaged assets). The total of the liabilities “D” that are taken in the consideration to the determination of the solvency margin result by summing up: net technical reserves, provisions for charges and liabilities, deposits received from the reinsures, debts, except

from the loans from the issuances of debentures, half of the value representing subordinated debts.

The reckoning of the minimum solvency margin takes into consideration the ratio between the gross underwritten premiums of that the cancelled premiums are deducted and the average of the indemnifications paid and of the damage reserves of the last 3 years.

7. Financial results - parameter of reflecting the quality of the financial management.

The difference from the revenues and expenses as we mention represents a gross result of the economic activity, called profit. Particular to the insurance companies is the deduction of the technical reserves from the gross profit before taxing it.

Result management is different from those of other economic entities due to the fact that the price of the insurance product sold isn't known in the moment of the transaction, bearing the item called risk. It can be made a comparative analysis of the insured's financial results towards the results of the insurer. Due to the adherence nature of the insurance contract, the insurer selects a range of commercial risks out of the multitude of the possible risks so that the economic activity should generate profit. A second filter is the level of the insurance premium that it's settled with a 5-15% included profit margin. An insurance with a high risk will have a greater insurance premium. A third filter is the progressive confinement of the indemnification: to the extent of the damage, real value, insured amount, value of the novelty, a.s.o. and the application of the deductible franchise per event or by applying the *malus* penalty. The above mentioned parameters represent only a part of the parameters that influence the direct results.

8. Conclusions

The financial management of the insurance companies involves streamlining, operation and the surveillance of the activities so that the interconnection of this

parameters should be performed. The process of the financial management implies some restrictive requirements:

- a) the setting up of the called up share capital and maintaining it within the minimum limits set by the legal laws;
- b) assuming some commitments regarding the approved portfolio structure and in close relation to the financial capacity to cover the potential damages;
- c) the set up and the management of the technical reserves in connection to the risks' structure, the evolution of insurance premiums collection, indemnifications paid and the reinsurance policy;
- d) performing the investments (of capital, reserves and other available money flows) in terms of safety and efficiency;
- e) the accurate proportioning of the expenses and there effect in terms of necessity and opportunity;
- f) fair tracking and reflecting of the financial results;
- g) the compliance and the applying of the management decisions.

BANKRUPTCY IN THE BANKING SECTOR. MAJOR IMPLICATIONS FOR TRANSITION COUNTRIES

Lecturer Alina Mihaela DIMA, Academy of Economic Studies, Bucharest

All transition countries have experienced banking crisis or severe banking distress during the transition process. Key factors contributing to banking crisis in these countries have been the large amounts of bad debt inherited from the previous socialist regimes, and the lack of familiarity of enterprises and banks with the functioning of market economies. Therefore, the resolution of banking crises in these countries can also be viewed as a challenge of banking sector development in the transition context. While some transition countries have progressed more than others in developing and strengthening their banking systems, many have not completed the transition process. To this extent, new banking crisis remain a risk. A pertinent question for policy makers therefore is how to resolve such crisis in a way that would minimize the costs to the economy and the risks of such crisis recurring in the future.

Reforming the banking sector- challenges and opportunities for transition countries

The institutional capacity of banks in transition economies improves faster when a new or parallel private banking system is allowed to emerge than it does when the government tries simply to reform existing state-owned banks. Banking reform should stress decentralized institution-building and penalties for weak banks. In reforming the financial sector in transition economies, one important debate is about whether governments should try to reform existing state-owned banks - the rehabilitation approach - or whether a new private banking system should be allowed to emerge - a new entry approach. Or should there be a mix of the two approaches, in which the activities of state banks are restricted while a parallel private banking system develops? A country comparison of banks' institutional development in 25 transition economies suggests that progress can be faster under the new entry approach, especially relative to initial conditions. Progress under the rehabilitation approach appears to be inhibited by poor incentives. In most countries, even those with a good banking infrastructure and a large segment of good banks, a two-track process has evolved, with large and growing differences between weak and strong banks. Whatever the banking reform approach taken, weak banks have moved very little beyond central planning.

Regression estimates suggest that in transition economies three things are associated with slow progress of weak banks: overconcentration, preferential treatment by governments, and limited entry for new banks. The direction of causality is often unclear. Policies and structural conditions can affect bank quality, but whenever a banking system has a certain quality, particular policies may also arise or structures exist.

The role of banks will remain limited in many transition economies because of weak legal infrastructures, much uncertainty and inside information, and problems

associated with highly leveraged financial intermediaries - including fraud, political interference, and implicit guarantees. In the short run, self-finance and intermediation among enterprises and through nonbank financial institutions may prevail. Current issues in banking policy range from the need to construct basic institutions and incentive structures in transition economies - to the challenges posed by the increasingly complex interactions involved in contemporary banking. Dissatisfaction with the diminishing effectiveness of postwar banking regulation led to substantial deregulation. Before adjusting to deregulation, bankers seemed vulnerable to a contagious euphoria, often manifested in overlending to property developers. Given the historic recurrence of carbon-copy banking failures, clearly private learning will not end all bank failure. And the disappointing performance of both regulated and unregulated financial sectors leaves a vacuum that theoreticians have been trying to fill. Theoreticians note that banking increasingly displays network characteristics that, on the one hand, may call for corrective action but that, on the other, make policy intervention ineffective or counterproductive. For one thing, networks are susceptible to externalities, redundancy (ensuring that flows cannot be obstructed by blocking just one path), and a tendency to adapt to disturbances in a complex manner. Regulation is justified, but the complexity of the network makes successful interventions hard to design. Supervision has an important role, among the basic regulatory measures needed. But the blurring of boundaries between banking and the rest of the financial network has placed an upper bound on the effectiveness of supervision.

An overview on the Romanian banking sector

The financial problems of banks over the years have affected the whole banking sector and have shaken public confidence in banks. In many cases, people have lost money deposited or invested. On the other hand, bankers, say that no bank in the world,

no matter how solid could withstand a mass panic of depositors rushing to withdraw their money. However, nobody rushes to withdraw their money if everything is all right, and the panics which led banks to insolvency were not foundation. In Romania, problems occurred because national bank did not supervise banking practices properly. In addition, the legislation on bankruptcy delayed central bank from initiating bankruptcy procedures.

In the light of the financial system's crucial role in a functioning market economy, the banking market represents a key area in Romania's ongoing transition process. The country's upcoming EU membership in 2007 has set the tone for the banking sector's future development.

Unlike other transition countries in Central and Eastern Europe, Romania commenced fairly late with the reform of its banking system- a process that has been anything but smooth. The side effects of the transition to a market-oriented banking system (e.g. unstable macroeconomic environment, inefficient regulatory and supervisory norms, lax accounting standards, inadequate definition of property rights, soft budget constraints in the banking and enterprise sector, poor qualification of banks' lending decisions) led in the 1990's to a severely undercapitalized sector, an extensive bad debt problem and a lack of market discipline on the part of banks (moral hazard). This produced a banking crisis that dragged on for years, accompanied by the collapse of numerous banks, an investment fund sector crisis and a related crisis in the credit co-operative sector in 2000.

Cleaning up the banking sector was a costly and time-consuming process. Non-prudential practices by several banks came to light as the NBR adopted a more decisive attitude with regard to supervising banks, enacting stricter legal requirements and taking a more restrictive approach to monetary policy in the late 1990s. Romania's two largest state-owned banks, Bancorex and Banca Agricola, were prime examples of the problem of non-performing loans. In the view of the "too big to fail" problem

authorities made several attempts to bail out and restructure these banks, with total fiscal costs reaching some USD 3bn (Bancorex: USD 2.4 bn, Banca Agricola: USD 653 mn) or 8.3% of average 1991-2002 GDP. The authorities' efforts to rescue Bancorex eventually failed, but Banca Agricola was successfully restructured and privatized. Further restructuring measures, the closure of insolvent banks (e.g Banca Albina, Bankcoop), numerous successes in bank privatization (e.g. BRD, Banc Post) and the stepped-up presence of foreign banks enabled Romania's banking market to leave the heritage of centrally-planned economy behind; supported by economic stability that has been firmly in place since 2000, the sector embarked on a steady growth path. Indeed, significant structural changes in recent years give rise to expectations of an accelerated consolidation of the sector.

The root causes for the difficulties faced by these banks were the following: improper activities performed in previous years by managers, Board members and auditors, conducting of risky policies to attract an ever-growing volume of resources by offering high interest rates (most notably on household deposits) and investing them largely in credits to companies in poor financial and economic conditions, or practising connected lending. Therefore, banks could not recover credits and collect interest, entailing the steady deterioration of profitability, liquidity, and solvency ratios. The above mentioned problems were associated, with the dismal performance of the real sector, the main beneficiary of credits extended by majority domestic capital banks.

Recent contribution to banking development

Similar to other transition countries Romania's banking system saw the number of commercial banks mushroom in the early phase of the transition process, with a nine-fold increase from only five in 1989 to 45 banks nine years, later, as result of the liberalization of market entry and lax licensing requirements. After weathering the financial and banking crisis in the late 1990s and subsequently initiating the process of

bank restructuring, the sector began to consolidate, with the number of banks failing gradually to 38 at year-end 2003. One year later the Romanian banking system comprised 39 banks (including seven foreign bank branches). This increase by one bank in comparison with 2003 resulted from the market entry of the two specialized banks. Porsche Bank Romania (vehicle financing) and Raiffeisen Banca pentru Locuinte (real estate financing), and the merger of two small-scale banks, marking a reversal of the downward trend in the total number of banks that had been ongoing since 1999. The same holds true for the number of banks branches and bank employees, both of which initially decreased sharply as a result of restructuring measures taken in the years 1999 and 2000. However, banks' recent expansionary business strategy given the fierce competition for market share and their higher risk appetite which has generated increased lending activity, appear to be reflected in an expanding branch network and rising staff numbers. With the number of banks' branches reaching 2,921 per year – end 2003, i.e 7,500 inhabitants per branch (EU-15:2,060), however, Romania's banking market is still highly unsaturated, indicating significant catch-up potential.

Despite progress in catching up in recent years, Romania's banking market can still be considered underdeveloped, not only in comparison with the EU-15, but also its CEE peers. With only some 40% of the population aged 15 or older having some kind of business relationship with a bank card, as of year-end 2004 market penetration of banking services was still low.

This underdevelopment is also reflected in the banking sector's main efficiency indicators. Positive developments notwithstanding, there is still considerable room for further progress. At 38.3% in 2004, financial intermediation (the banking sector's total assets to GDP) remains low. Declining financial intermediation over many years was indeed a sign that the banking sector's development was lagging considerably behind macroeconomic expansion. Overcoming the banking crisis, successes in bank

restructuring and privatization and the buoyant domestic demand-driven revival in lending all supported the banking market's impressive recovery in recent years. Nevertheless, in terms of financial intermediation, Romania considerably trails its Central and Eastern European peers (e.g. Poland: 65.5% Hungary: 82.4%, Slovak Republic: 87.7%, Czech Republic: 96.1%, Croatia: 108.9%), not to mention the euro area (206%).

Likewise, by international comparison the ratio of private sector loans to GDP is relatively low in Romania, totaling a mere 17.5% as of end 2004 (e.g. Poland 30%, Czech Republic 33%, Hungary 42%, Croatia 62%, Euro area 102%). This low level can be attributed primarily to restructuring effects, as well as to the very cautious approach of banks to lending in the first years after the banking crisis.

Consolidation measures taken (e.g. closure of insolvent banks, portfolio clean-up via the transfer of bad loans from the banks' balance sheets to the Bank Asset Recovery Agency –AVAB), combined with an improved regulatory framework and better risk management on the part of banks, resulted in an impressive decline in the share of non-performing loans in the total loan portfolio from 58.5 % in 1998 to 2.8% in 2002. The introduction of stricter loan classification and provisioning requirements at the beginning of 2003, however, touched off a renewed increase in the ratio of non-performing loans in total lending to some 8.1% as of year-end 2004. To raise the efficiency of credit checks and further reduce the share of nonperforming loans, the National Bank of Romania (NBR) established a Credit Risk Bureau (CRB) in 2000, which delivers information on potential borrowers' credit and repayment track record. After four years of operation the NBR issued a new regulation on the CRB's organization and functioning, which entered into force on 1 September 2004. Since then, in order to further increase efficiency, credit information on non-resident legal entities must also be reported to the NBR. Furthermore, reporting has been extended to loans below the previously required RON 20,000 threshold. Considering the current

rapid pace of credit growth, this is an important step toward preventing deterioration in loan portfolio quality.

Lessons from other banking crisis to be applied in other transition economies

Comparing the banking crises experienced in Estonia, Latvia, and Lithuania by causes, effects, and policy responses we may find interesting conclusions.

The starting point for the three banking systems was the same: They inherited the monobank system of the former Soviet Union, with specialized state banks serving specific branches of the economy. They quickly established a central bank at the core of their banking system. They were weak in bank management and lacked staffs with modern banking skills, and no system had an appropriate legal, regulatory, or supervisory framework governing the banks. In some instances fraud and corruption prevailed, encouraged by the relatively permissive regulatory and supervisory environment for banks that existed in the Baltics. All had to decide what to do with the remnants of the Soviet banking system at the same time that they encouraged the growth of the new private banking sector.

Estonia and Lithuania reconstituted the specialized Soviet banks as national state banks and began to privatize them. In some instances the state retains an ownership stake. In Lithuania the state may increase its ownership share as part of a rescue effort for some former state banks. Latvia, by contrast, reconstituted the savings bank, then privatized branches of the remaining banks. The residual branches were merged into one bank, rehabilitated, and then subject to formal privatization. The savings bank is now being privatized. In fact, in the spring of 1995, Latvia experienced the largest banking crisis in the former Soviet Union to date, involving the loss of about 40 percent of the banking system's assets and liabilities.

In the early stages the three private banking systems were similar and grew rapidly. All three have had liberal policies toward licensing new commercial banks, believing that more banks would generate the competition needed to drive down deposit and lending rates, and provide the capital needed to support the emerging private sector. Many new private banks were established by enterprises that wanted access to cheaper funding than was available from other banks. Little thought was given at first to the implications of this policy for banking safety and supervision.

The main lessons to be learnt by other countries could be summarized as follows:

- Banking systems are exposed to stress in several major ways. Enterprises -the main borrowers - become subject to hard budget constraints (are cut off from government funds) and are privatized. Inflation declines so enterprises can't rely on rapidly increasing revenues to service bank debts. Economic reform tends to produce banking systems that are mainly privately owned -making them vulnerable to withdrawals, as the public does not assume that failing banks will be bailed out.
- The government must protect against this vulnerability by establishing a proper legal framework for banking, developing effective bank supervision and regulation, and implementing solid accounting, disclosure, and auditing standards. It must also develop effective ways to handle problem banks and to close insolvent banks promptly.
- For banks in the state sector to be a source of strength to the banking system, they must have strong effective management and be relatively free from political influence.
- "Outlier" banks - those expanding assets very quickly or offering particularly high deposit rates -should be subject to intense supervision.
- Four things must be done to prevent fraud, incompetent management, and excessive

risk-taking: carefully screen those who want to get into banking; subject all banks to thorough, frequent onsite examinations and assign the best examiners to the largest banks; require annual audits of all banks by reputable auditing firms required to report significant irregularities to authorities; and act decisively when fraud or bank difficulties are detected or suspected.

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CRIMINALISTIC ASPECTS OF TAX CRIMES

**Associate Prof. PhD. Andrei PETROIA, Assistant LoredanaDenis VOSTRICOV,
Academy of Economic Studies, Moldova**

According to the legislation, the infringements at different taxes payments and customs offences refer to *the tax crimes and misconducts*. In Moldova, the criminal legal regulations concerning the responsibility for tax crimes are contained only in the Criminal Code (item 244 from CC RM).

The analysis of the situation developed in the society as a whole, as well as, in particular, in the sphere of economy, makes now evidence that, according to their social and economic consequences, their interrelation with other economic crimes, the tax offences and crimes represent a real and constantly increasing menace for the economic safety of the state.

The tax crimes refer to a category of acts, which are very difficult for detecting and investigating. In many countries, the special order of investigation and judicial disposal of legal proceeding about tax offences is stipulated; at that, in each country, the process on such affairs differs by its features.

Such methods of tax evasion, as management of financial and economic activity without registration, licenses or statements at the tax authorities, concealment of

financial and economic transactions with use of cash settlements and "third" organizations' accounts, with registration of artificial debt receivables, bills and clearings, dummy or fictitious firms, as well as fictitious export of production get increasing sizes.

A special attention is given to the struggle against falsification, forging of documents important for the purposes of taxation (the fabrication of signatures and records in documents of accounts and tax returns, of certificates and other documents).

Some of forms of evasion are: non-presentation of the information on incomes to tax offices, concealment of real earnings by entering false or vitiated data into the documents, use of forged documents. There are presented to the tax authorities the balances, which indicate the absence of financial and economic activity; however, operative information and tax checks show its presence. Non-presentation to the tax offices of the information on incomes refers to a category of criminal misconducts, for committing of which it can be appointed either the fine, or short-term deprivation of liberty. As a rule, the actions expressing as concealment or distortion of the information on incomes by means of trickeries, frauds or fabrications refer to the forms of tax evasion constituting crimes.

In Anglo-Saxon legal system countries, the criminal liability comes both for physical, and for legal persons (corporations). In continental legal system countries, the criminal liability of legal persons is not supposed. However, the management responsibility is provided.

The activity without state registration and registration at tax authorities is widespread everywhere. Its manifestation is characteristic both for separate dealers in the markets, and for the large businessmen manipulating million capitals. In the last case, there are frequently put forward the forged documents, fictitious seals and forms. Often, the lost passports, other persons' addresses and names are used.

The tax service functionaries and workers' criminal actions contribute to the growth of tax criminality. They include:

- Non-collection, wrong calculation and not entering of taxes by officials, which are obliged to collect, calculate and enter taxes.
- Infringement of tax secret, that is use or disclosure (without a special sanction) of data, which became known for the official during an investigation or judicial, administrative process regarding tax affairs, or in connection with someone's application or information submission to the financial bodies. The subject of such a crime can be only officials or persons equal to them.
- Extortion, blackmail on the part of tax authorities, and also collusive agreement with other persons with the purpose of detriment of the state.

Customs offences cover various kinds of evasion from payment of customs duties for the imported and exported goods, as well as the imports and exports without legal registration of the goods, for production and distribution of which the state monopoly is established. The legislation of some countries qualifies such particular deeds as kinds of smuggling (England, Italy), because, in most cases, the actions regarding the customs duties evasion are connected to the concealment of specific goods.

The responsibility for such offences is established by the criminal legislation of Moldova. According to the item 249 of CC RM "Customs payments evasion", the large size customs payments evasion is recognized as a crime.

A number of non-tax (but connected to tax) crimes refer to the crimes encroaching on state's financial interests in taxation sphere: illegal business (item 241, CC RM), intentional insolvency (item 252, CC RM), fictitious insolvency (item 253, CC RM) and some others.

The researches of the criminalistic features of the tax crimes allow, in some extent, formulating their definition for the crimes in the taxation sphere, showing

their essence and contents taking into account the correlation links of their constituting elements.

Into the criminalistic feature of the tax crimes there are included the data on its following elements:

- object and subject of the criminal encroachment;
- subject of the crimes;
- methods of crime committing;
- place, time and conditions of crime committing;
- circumstances contributing to crime committing.

Thus, *the criminalistic characteristic of tax crimes* represents a set of objective data on the mechanism of criminal deed, of criminally significant and interconnected features (data) contributing to the revelation and investigation of the crimes, on the features and sources of the formed information important for the solving of problems regarding the conviction of criminals and their bringing to the legal account.

Completeness of an estimation of elements of the criminalistic characteristic enables to cover those features of criminal deed and the personality of the criminal, which are most significant for its disclosure, investigations and warnings.

The structural analysis of tax criminality confirms also an urgency of the further researches of the criminalistic characteristic as in the majority tax, and other economic crimes connected to them, which are committed by the competent professional and criminal levels persons.

It is necessary to understand the method of tax evasion as a set of actions on behalf of the legal person, as well as of the officials that are directed on intentional non-payment of taxes stipulated by the legislation. It can include both simple non-compliance with the regulations of the tax legislation, and committing of any actions closely related with infringement of the tax laws, as well as the actions, which are not qualified now as infringement of the tax laws, but entailed non-payment of necessary

taxes in the budget. According to this definition, the method of tax evasion can contain a deed, which is not accompanied with infringement of the tax laws, but involves the actual tax evasion. The same tax offence (the fact of committing of infringements of the tax laws fixed during the tax check) can comprise one or several methods of evasion. The methods of tax evasion are expedient for grouping according to the types of taxes, objects of taxation and their constituting categories.

Having come to understanding that for all organizations where the facts of tax evasion are discovered, there are typical the "double" accounting and cash settlements ("the black cash", in opinion of experts, in current Moldavian economy constitutes up to 40 % of all financial and economic transactions), "a maintenance in a shadow" with use of barter in joint cooperation, the breach of cash discipline (at the businessman – an inadequate record-keeping of incomes and costs), the creation of artificial costs by forging of documents in view of taxable income reduction – the methods of tax evasion for the criminalistic characteristic have to be linked with the purpose of guilty persons' actions and the essence of the tax crime.

The analysis of the criminalistic characteristic shows that at the committing tax crimes the main purpose, as a rule, can be the reduction of the payable taxes size or the complete refusal of carrying out of the obligations concerning the tax payment with the succeeding attribute of hidden means to the personal or other property. The motives for tax criminals have mainly mercenary character, though there can be the careerist aspirations, care of labor collective, "honor of firm" and other motives. The social danger of the given category of crimes amplifies in cases, when tax evasion methods have latent character (the documents are destroyed or the account is not at all kept), at the conclusion of the veiled agreements for joint cooperation as an additional method of tax evasion, etc.

Thus, actually, the study and use of researches results of the tax and other economic crimes criminalistic characteristic taking into consideration the stance of tax

criminality in the country with regard to tax obligations, the imperfection of the current legislation can have the applied significance for the methodology on combating economic crimes as a whole.

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THE IMPACT OF INTERNATIONAL INVESTMENT FLOWS VOLATILITY UPON HOST COUNTRIES ECONOMIC GROWTH

Assistant Simona Laura CĂTANĂ “Petru Maior” University, Tîrgu-Mureş

Foreign investments are considered to be essential in generating economic growth due mainly to the completion of national capital, creation and development of connections between foreign investors and local firms, generating growth of private sector competitiveness, improvement of local skills and assuring technology transfer. The forms in which foreign investments may enter in a national economy can be multifarious as well as the effects they generate. While some specialists are pointing out the positive effects of international investments, some of them criticize their negative impacts on host economies. One of these negative impacts is considered to be the volatility of international investment flows.

In order to diminish the negative impact of international investment flows volatility, countries may include in international agreements assurance schemes or decisional factors from host economy must generate, in the first place, through regulatory measures, economical and political stability that will assure foreign investors the background needed to feel safe to invest in that economy, and secondly these measure will reduce the negative impact of volatility on host economy.

The essential role of foreign direct investments in assuring economic growth is already well established. But one cannot diminish the fact that foreign direct investments can generate negative effects upon host countries economies. While some specialists are pointing out the positive effects of foreign direct investments, some of them criticize their crowding out effect upon national investments and the limitation of national space regarding regulatory standards.

Another negative effect of foreign direct investments derives from their volatility degree. A study realized in 2001 by Robert Lensink and Oliver Morrissey entitled "Flows, volatility and growth"¹ has shown that FDI have positive effect upon economic growth, while their volatility has a negative impact. They believe that there are many reasons why the FDI inflows volatility generates negative impact upon growth.

A first reason derives from the fact that the concept of volatility itself indicates uncertainty and negative impact upon growth.

Specialty literature shows that foreign direct investments have positive impact upon economic growth through cost reduction related to research and development activities and innovation stimulation.

Transnational corporations are probably the highest technological advanced firms worldwide. They do not only import efficient foreign technology through foreign direct investments but also generate its transfer in host economy. It is well known the fact that technological changes play a major and central role in economic growth and transnational corporation's foreign direct investments represents one of the main channels to transfer advanced technology into developing countries. The technology emission can be realized through *imitation, competition, firms' linkages* and *local personnel qualification*.

By *imitation* of advanced technology or foreign firm's managerial practices, local

¹ Robert Lensink and Oliver Morrissey, paper presented at The Development Economics Study Group

firms can become more productive. In foreign direct investments absence the procurement of necessary information needed in adoption of new technology implies costs far too high for local firms. Through *competition*, generated by entrance of foreign firms on local markets, national firms are encouraged but also are liable for becoming more efficient by innovation of technological base. Moreover, by *linkage development and transactions with local firms*, foreign investors can accomplish new technology transfer, can provide technical assistance if these linkages become stronger. The *preparation phase* appears in the situation in which the use of new technology requires personnel higher qualification. The entrance of foreign can be an incentive for local firms to invest in its personnel qualification. A study realized by Aitken and Harrison in 1999 entitled² Do domestic firms benefits from direct foreign investments? reveals that the authors consider that can appear positive effects of propagation, or there are no effects or they are negative. We consider that there are no effects of propagation in case local firms` personnel are not qualified to assimilate new technology, and negative effects appear when local firms cannot face foreign firm`s competition and will be eliminate from the market.

So, if the foreign direct investments entrance flows are uncertain, than the costs of research and development activities are uncertain, which will affect in a negative way the innovation incentives.

A second reason would be the fact that foreign direct investments flows volatility reflects economical and political uncertainties and constitute their support through imbalances generated in host country economy. Lensink, Morrissey, Guillaumont and Chavet³ in a study realized in 1999, indicated that economic uncertainty is an important

Conference, University of Nottingham, Nottingham, 5-7 April 2001.

² Aitken and Harrison, Do domestic firms benefits from direct foreign investments?, American Economic Review, 89, 605-618, 1999.

³ Robert Lensink, Oliver Morrissey, Guillaumont and Chavet, Aid and performance: A Reassessment, CERDI< CNRS and University of Auvergne, 1999.

determinant, in a negative way, for both investments growth and productivity. By economic uncertainty they refer to some developing economies tendency to be vulnerable at shocks (such as financial crisis or terms of trade generated by capital flows volatility or natural elements such as earthquake or flooding) that generate income reduction and recurrent demand reduction or they constrain the ability of an economy to generate stable growth. While foreign direct investments tend to be less volatile than other flows, it is still possible that sudden changes in foreign direct investments entrance flows may have a destabilizing impact upon host country economy.

In this context we believe that the assurance system will play an important role in foreign direct investments flows volatility reduction (especially in case of those affected more stronger affected by economical and political uncertainties) in order to foreign investors, in substantiation of their investing decisions, will give a lower attention to economical and political uncertainties and will appreciate the opportunity of entering an economy mainly by economical determinants of that country. That's why we consider that the inclusion of assurance schemes in international investments agreements is essential in reduction of investment flows volatility.

Countries with high level of economic uncertainty have the tendency to generate slower rate of economic growth or more variable so, they can appear less attractive to foreign investors. It is a modality to explain volatility of foreign direct investment but, not all categories of foreign direct investments are equally influenced by economical and political uncertainties. In these situations also the role of assurance system is very important but, first of all, it is vital for host countries to assure a stable economic growth so they won't be affected by foreign direct investment flows volatility.

As regards the portfolio investments we will appreciate their volatility starting with the definition of these category or international investments. We consider that portfolio investments represents capitals transfers, usually on short term (but not necessary) with the single purpose of purchasing financial assets in order to obtain financial annuities

(dividends, interests, gain from arbitrations operations, etc.) characterized by volatility and strong speculative connotation. The portfolio investments flows are directly linked to the development of stock exchanges as the investors are interested in the possibility of realizing investments in financial instruments that can assure higher financial gains than other financial markets. So, the portfolio investors are firstly interested in obtaining high financial earns due to their investments or ventures done, and they will invest mainly in developed countries rather than in developing one.

In this order, the volatility of portfolio investments is a second nature of these types of investments as shown before. In order to compare the volatility of these two types of international investments we will take into account the following elements:

1. interests and motivations – portfolio investors are interested mainly in developed countries financial markets because those assure higher profits, while direct investments are realized with the purpose of establishing, proceeding and consolidating productive assets in host countries; even though both of them pursue the financial gains, the lasting interest in management and linkages with local firms, specific to foreign direct investments, make them less volatile than the portfolio one;
2. types – portfolio investors are, usually, financial institutions, pension funds, assurance societies or investments funds while foreign direct investments are firms engaged in merchandises and services productions;
3. time implication horizon – portfolio investments time implication horizon is, due to their speculative character, more reduced than in case of foreign direct investments who, due to their specific and palpable means of achievement, implies a long lasting relationship of foreign investor in host economy (making them less volatile than the portfolio ones);
4. factors that influence them – usually, foreign direct investments are located taking into account several specific criteria: *location* that assure the lowest or

lower production costs, *regulatory standards* more permissible, higher *economic growth rate*, *larger markets*, etc.; moreover, we must realize a more profound and nuanced analysis referring to different categories of foreign direct investments and factors that determine foreign direct investments (for example, efficiency or asset seeking foreign investors are less interested by the potential or the actual rate growth, such as those direct investments made in order to rationalize production or establish an export oriented production; in their case, they may be more interested in the cost, qualification and aptitudes of employers, material and telecommunication infrastructure, geographical location, distance to target markets, the existence of free trade agreements between host country and target market that can facilitate trade and market accession, etc.); portfolio investors are located on those markets that assure a better or the best fructifying possibilities for invested capitals; for them currency regulations, the facility in repatriating companies capitals that operate on local markets, tax systems are extremely important while foreign direct investors do not find them extremely important.

We can conclude that foreign direct investments are less volatile than portfolio investments. If we take into account the fact that foreign direct investments generate more positive effects and implications far more important on host economy than portfolio investments it is obvious why, at international level, different organisms having international vocation (such as World Bank or OECD) are trying to establish a demarcation line between these two forms of international investments and why, at national level, countries and governments are regarding foreign direct investments more favorable than portfolio investments.

Another conclusion that arises is that of necessity of assuring systems which can, as we shown before, reduce the volatility of international investments flows. In order to be

used the assuring schemes must be a part of international agreements related to international investments. But, at international level, even though there are many regional and bilateral agreements, very few of them have references related to assurance because they are being negotiated and countries yet do not find them very important. The accent is on economic determinants considered by foreign investors the most important factor that influences the magnitude and evolution of foreign direct investments and financial market development for portfolio investments.

Another conclusion that can be pointed out is that the volatility of international investments flows is influenced by national regulatory standards in which the governments play a major role, firstly in assuring macroeconomic stability, through economical and political measures, that can make foreign investors feel safe and secondly by establishing measures that can reduce the negative impact of their volatility.

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MARKETING METHODS APPLIED TO THE STUDY OF ROMANIAN INSURANCE MARKET

**Lecturer Loredana RĂHĂU, “Dimitrie Cantemir” University, Tîrgu-Mureş
Claudiu MĂRGINEAN, BRD Groupe Societe Generale, Cluj-Napoca**

In Romania, the insurance market is in full swing both quantitatively and qualitatively and competition has been increasing. The study of insurance market involves the analysis of both insurance demand and supply, the market organization according target customers, as well as evaluation of market size, which can be performed through application of market methods. We consider that pertinent information about the insurance market can be successfully obtained through surveys that employ the questionnaire as a basic research instrument.

The interest for the profound study of the insurance market in Romania was the foundation in the elaboration of this material, which we consider a beginning in a series of many more works that we would like to communicate.

We started from the idea that on a competitive market each company from the

insurance area has to offer what is requested. But for this you have to know the needs, the desires of the potentials and of the currently insured people, it is necessary the analysis of the factors that start and affect the insurance demand. We consider that these objectives can be achieved by applying different methods, techniques, instruments and recognized procedures of marketing.

1. The defining elements of the insurance market

The risk's protection is considered by more and more specialists a service that is sold and bought on a specific market, called *the insurance and reinsurance market*. It is a part of *the financial services market*.

Because the economic theory defines **the market** as being "the sphere of manifestation and confrontation between the offer and demand, of their achievement trough the purchasing/ selling papers"¹, we consider that to study the insurance market it is opportune and necessary the presentation of some defining elements for it, like the insurance offer and request.

The insurance request is based on the manifested needs of physical and judicial persons that face different insurable risks. They wish to insure themselves and have the financial possibility of supporting the insurance's cost.

If, generally, the request for a usual product is influenced by the income of the consumers, by the price of that particularly product, by its quality, by the price of some replaceable products, we appreciate that the size, structure and evolution of the insurance request are influenced, mainly, by these **factors**:

- **objectives**: demographics (size of population, sex, age, families structure, ethnic characteristics, the geographic movements of the population etc.); socials; economics (the acquisition power of potential insured people, the level of insurance premium²);

¹ V. Balaure (coord.), V. Adăscăliței, Carmen Bălan, Șt. Bboc, I. Cătoi, V. Olteanu, N. Al. Pop, N. Teodorescu - *Marketing*, ediția a 2-a, editura Uranus, București, 2002, pag. 83

² D. Badea, Luminița Ionescu, Asigurările de persoane și reflectarea lor în *contabilitate*, editura

legislative (legislative conditions, facilities offered on a legal and financial plan) etc.

- **subjective**, like the need of insurance and the degree of realizing this, the convictions of potential insured people considering the utility of the insurance etc.

We appreciate that in our country the main bearers of the insurance demand are: economy agents, public institutions, organizations without work purpose and the population.

If the service offer expresses “the production” of services inside the market³, then we can consider **the insurance offer** like being “the production” of insurance products destined to be commercialized on the market. This offer is promoted in our country by specialized companies (of insurance and insurance-reinsurance), licensed to work in these areas, which need to have the ability to face the obligations of payment to their clients.

On the international market of insurances, the insurance offer may be promoted by other operators, like: reinsurance companies, captive companies of insurances and/or reinsurances, mutual organizations of insurance, Lloyd’s organizations, insurances and reinsurances pool’s.

2. The dimensions of the insurances market and pointers used in her analysis from the marketing perspective

Ph. Kotler shows that the market is “the ensemble of the buyers and the sellers who are interested or could be interested in the trade of a good or a service”⁴.

This term is used in different contexts, such as:

- the needs market (the shoe market, the sport market, the insurance market etc);
- the demographic market (the teenagers market, the elders market etc);

Economică, Bucureşti, 2001, pag. 17

³ Iuliana Cetină, V. Olteanu - *Marketingul serviciilor*, coediție Marketer-Expert, Bucureşti, 1994, pag.51

- the geographic market (Romania’s market, Germany’s market, Europe’s market, London’s market etc.);

- the product’s market (the cosmetics market, the flowers market, the medical insurance market etc.).

If we make direct reference to the insurance market, the specialists delimitate and suggest the usage of some terms like⁵:

- ***the effective market of insurances***, that reflects “the needs of the present consumers of the insurance company”⁶ and ***the potential insurance market***, which reflects “the possible size of the insurances market”⁷. It includes the group of consumers which characterize themselves through a level of interest big enough for an offer given by the insurances⁸.

- ***the market of the insurance companies***, that represents the proportion in which the products of a certain insurance company have penetrated the consumption and ***the market of the insurance product***, which considers the penetration degree in consumption of a certain type of insurance.

- ***the intern market of insurances***, regarding the offer and demand of insurances manifested on the Romanian territory, for example, and ***the international market of insurances***, that is the offer and demand of insurances that go beyond a country’s territory;

- ***the market of sellers and the market of buyers of insurances***;

- ***the target market***, meaning the segment to which the seller of insurances orientates his entire mix of marketing etc.

In order to be able to evolve an efficient activity, an insurance company must know the market in which she operates.

⁴ Loredana Răhău, *Marketing*, editura Dimitrie Cantemir, Tîrgu Mureş, 2003, pag. 57

⁵ Eva Cristina Petrescu, *Marketing în asigurări*, editura Uranus, Bucureşti, 2005, pag. 84-86

⁶ Virgil Balaure (coord.), *op. cit.*, pag. 95

⁷ *Ibidem*, pag. 95-96

For the **analysis of the insurances market** you can use a series of **pointers**, among which the most important are: the volume of the insurance premium received from the insured people, the degree of penetration of the insurances in the economy, the insurance's density, the volume of the paid damages, the damage's installment, the number of concluded contracts on the market in the period of reference, the number of active policies, the number and the size of the insurance companies on the market, the number of employees in the insurance area, the market quotation of the insurance companies, the installment of the increase of the market etc.

Each of these pointers we consider very useful, with major significance, but we will stop over those which are used by the marketing man when he studies the market. Now the studied market is the insurance market, and the pointers advised to be followed are:

- **the volume of the gross premium received from the insured people**, that present the real size of the insurance market in a certain moment;

- **the penetration degree of the insurances in the economy**, that presents the contribution of the insurances domain at the gross domestic product (GDP) creation;

- **the insurance contracts number signed in the reference period**, that shows the size of the satisfied demand on the market;

- **the number of the insurance companies**, which is important for the insurance offer;

- **the market's quota of the insurance companies**, that show the market position of different insurance companies and that allows us to observe if the market is concentrated or not;

- **the installment of the market's development**, that indicates the rhythm of development of the insurances market and if the market is in a slow development,

⁸ Ph. Kotler, *Managementul marketingului*, editura Teora, Bucureşti, 1998, pag. 323

stagnation or decrease⁹.

For example, to measure the capacity of an insurance company in a certain period of time you can use different pointers, like: the sales volume of the insurance company, the market quota, the relative market quota, etc. More clearly:

- **the sales volume of the insurance company** can be expressed through the *insurance premium volume received from the insured people* and through *the number of insurance contracts signed in the reference period*. The sales volume of the insurance company is the pointer that can be used to measure the size of the effective market and to predict, with a certain probability, the size of the potential market;

- **the market quota** is the percentual expression of the sales of an insurance company toward the total sales registered on the market that it is effective present.

Because not all the modification of the market quota are significant for a company's development (a price reduction can lead to an increase of the market quota, but only temporary), **Ph. Kotler** introduced the analysis of the market's quota variations according to 4 components: the customers penetration installment, the customers faithfulness installment, the customers selection (the selection coefficient) and the price selection (the price adjustment coefficient)¹⁰. Such as:

- R_{pX} is the customer penetration installment for the X Company and it is the percentual report between the number of customers of the X Company and the total number of customers on the market;

- R_{fX} is the customers faithfulness installment for the X company and it can be obtained by dividing the report between the purchase papers made in the X company and

$$RCP = \frac{V_T(t+1) - V_T(t)}{V_T(t)} \times 100$$

⁹ Rata (ritmul) de creştere a pieţei (RCP) se calculează cu formula:

unde: $V_T(t+1)$ reprezintă vânzări totale existente pe piaţă la momentul "t+1";

$V_T(t)$ sunt vânzări totale de pe piaţă la momentul "t".

¹⁰ Ph. Kotler, *op. cit.*, pag. 951

the number of customers for the X company at the report between the total number of purchased papers on the market and the total numbers of customers on the market;

- C_{sX} is the selectivity coefficient for the X Company and represents the report between the medium volume of purchases made by the customers of the X Company and the medium volume of purchases on the market;

- C_{apX} is the coefficient of the prices adjustment for the X Company and it is obtain from the report between the price practiced by the X Company and the medium price on the market.

Kotler's formula becomes:

$$C_{PX(\%)} = R_{pX} \times R_{fX} \times C_{sX} \times C_{apX}$$

3. Appreciations contracted by studying the insurance market from Romania

The insurance market in Romania is in development. **The insurance demand** on the Romanian market does not have a uniform character concerning the requested type of insurances, not even concerning the geographical distribution. It is focused on the geographical areas with a lifted economic performance and on the population with over the medium incomes.

The potential demand of insurances is lifted because of the lifted number of people, properties, unsatisfied needs of the physic and judicial persons.

The effective demand is pretty low. It can be explained both through reasons of economic order (the low incomes of the population, the absence of the financial support), and through the absence of an education in these area of the potential insured people.

The interest relative low towards the contractation of insurance can be a consequence of not understanding the role and necessity of the insurances, of the existence of a long period in which the population was accustomed with a "free"

guarantee of the damage by the state. Now, the role of the insurance companies is to create a new conception, the companies having an informative role, but also educative.

If by 2000 the insurance offer was considered as “limited and less adapted at the market needs, less flexible, not existing a developed system of the financial services (credits, mortgages)” because of “the deficitary infra-structure, of the heavy and uncomfortable payment system, because of the lack of comfortable payment instruments for the customers”¹¹.

Now the situation changed. The offer on the insurance market is characterized by a diversifying tendency of the insurance products palette, an important number of new products appearing on the market adjusted to the specific needs of the Romanian market. The companies that bring great novelties on the market are those with foreign capital.

We can also say that the Romanian market of insurances is a competitive market. The number of insurance companies grew from 4 in 1991, to 73 companies in 1999, but most of them were under-capitalized, and the security degree was pointed by their financial capacity.

The *nr. 32/2000 Law concerning the insurance companies and the insurances supervision* tried to correct this under-capitalization phenomenon by the fact that it provides a minimum social capital both for general insurances and for life insurances. So, by the end of the year 2004, there were registered at CSA 44 insurance companies, from which worked 42. All though there are a great number of insurance companies, most of the activity on the market is carried on by a limited number of firms: the first 10 companies on the market accomplished over 80% of the insurance premium.

Even if the interest to contract an insurance stays pretty low, we can observe from the evolution of receivements from gross premium that the Romania’s insurance market

¹¹ Violeta Ciurel, *Asigurări și reasigurări: abordări teoretice și practici internaționale*, editura All Beck, București, 2000, pag. 16

is in development (to be seen in Table 1).

The fact that the insurance market is a market in development can be also proved through the favorable evolution of the penetration degree of insurances in economy.

The penetration degree of insurances in economy in Romania has know a slow development (see Table 2), but constant, arriving in 2004 at 1,36%, regarding 1,28% in 2003. All though in development regarding the past years, the insurances penetration degree in Romania still stays at a low level comparing to the values registrated in states from the European Union.

Table 1. The evolution of gross premium received from direct insurances contracts in 1997-2004

Year	The volum of the gross premium received (bil. lei)	Nominal increase refering to the past year (%)	Real increase (%)	The inflation instalement (%)
1997	1.304.1	137.05	-	151,4
1998	2.414.8	85.18	31,71	40,6
1999	4.273.9	76.99	14,33	54,8
2000	6.738,9	57,67	12,06	40,7
2001	10.012,4	48,58	14,03	30,3
2002	16.459,7	64,39	39,55	17,8
2003	24.225,1	47,18	28,99	14,1
2004	32.163,9	32,77	21,47	9,3

Source: Annual reports of OSAAR, ASAAR, CSA for 1998 - 2004

Today the insurance market from Romania can be characterized so: a market with a competition in development, a market in development both quantitatively and qualitatively, with a demand focused in the areas with an economic activity above medium.

A positive tendency on this market is to diversify the offer, by introducing some new products, adjusted to the needs of the customers- an important role in this sense being owned by the companies with a foreign capital, whose penetration on the market determined the increase of the qualitative level of services and the offer of some products similar to those from the international market.

The development of the insurances market in Romania depends mostly on the development of the standard of living, the acquisition power, but it also depends on the way that the potential insured people are informed and educated.

An important contribution in this sense is hold by the traditional ways of information: news-papers (the most important news-papers having special pages dedicated to the insurances), and modern ways (the internet – the CSA webpage: www.csa-isc.ro , the sites of the insurance companies, the site: www.lasig.ro), that provides a greater transparency of the market.

Table 2. The insurance penetration degree in 1997-2004

Year	Gross received premium (bil. lei)	PIB (mii mld. lei)	Penetration degree (%)
1997	1.304.1	252,9	0,53
1998	2.414.8	373,8	0,70
1999	4.273.9	545,7	0,79
2000	6.738,9	803,8	0,85

2001	10.012,4	1.154,1	0,87
2002	16.459,7	1.512,3	1,09
2003	24.225,1	1.890,8	1,28
2004	32.163,9	2.387,9	1,36

Source: Annual reports of OSAAR, ASAAR, CSA for 1998 - 2004

In conclusion, it can be said that the insurance market from Romania has had a positive evolution: the portofolio of the insurance companies has diversified, the incomes from the insurances premium have risen, the territorial area in which the insurance companies develop their activity has been extended, the degree of security of the market has grown.

The size, the structure and the evolution of the insurances market depend on the interest of potential insured people on the insurance, the interest of the insurance companies regarding the promotion of different forms of insurance, and also on the environment's conditions in which these develop their activity.

The evolution of the insurance market in Romania is tied to the changes that take place in the economy, political and social environment. In this context a really important role is given to the state, which through its social and economic politics can influence the evolution of the insurance area.

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NET LIQUIDATION ASSET

Lecturer PhD. Ioan BIRCEA, “Petru Maior” University, Tîrgu-Mureş

This value is determined when the company is thought to cease its activity. The basis for asset valuating according to the evaluation standards is liquidation value. The liquidation value concept must be interpreted according to the way the company cease its activity i.e. through progressive or immediate liquidation. In the first case the asset value will be estimated at their market value and in the second one at their liquidation value. Net liquidation value can be obtained by the following mathematic – economic formula.

$$NLV = NAV + RD1 - RD2 - LC - A$$

NLV = net liquidation asset/value NAV = net asset value RD1 = positive adjusted differences after revaluation (adjustments) RD2 = negative differences after revaluation A = appreciation/capital gains tax

In case of activity termination, the value of the companies is estimated based on the net liquidation value of the assets. In this case the basis for asset valuation is the

liquidation value, a value which is also recommended in the evaluation standards in the case of company liquidation.

Net liquidation asset value is an interest especially for the company’s shareholders and associates, the company’s manager, banks or other credit institutions, suppliers, other creditors, liquidators, and so on, in case of forced liquidation or if it happens that the company is at a loss a longer period of time and following the provisions it did not result any recovery of the company (loss, insolvability so on). If it happens that the net liquidation asset has a higher value than the estimated value on a profitability base it is recommended the association, the merger, or even the liquidation of the company.

The concept of liquidation value must be viewed taking into consideration the solution for the activity termination, namely **progressive liquidation** or **immediate liquidation**.

In the case of progressive liquidation, the liquidation value is equal to the market value, due to the conditions and timeframe allocated to this process. This type of liquidation type is known also as arranged liquidation because it is done within a reasonable timeframe (the debts do not become eligible immediately so they don’t have to be paid immediately) in order to get the best price for the assets, which are sold in order to pay the debts of the company and to distribute the remaining value of the assets between the shareholders or associates. Net liquidation asset value is obtained by diminishing the valued assets in market conditions (sometimes this values are lower than the booking value) with the booking value of the debts.

Liquidation net asset = Market value of the assets – Booking value of the due debts

In the case of immediate liquidation, the liquidation value is considered to be a special form of the market value, because of the special conditions of selling the assets, the timeframe allocated for selling, inappropriate market exposure and publicity, compared with the necessary time and promotional measures for obtaining the best price

on the market. In this case the owner is forced to sell.

The Standard IVS 2, Different Valuation basis besides market value, defines the liquidation value as the amount of money that can be obtained reasonably from selling an asset within a timeframe too short to fulfill all the conditions for market value definition. The standard also says that the price associated with a forced selling is not the market price. This price is a reality and it is difficult to predict because of the nature and coverage of the subjective and conjectural which have to be stated.

In the case of liquidation the assets can be sold piece by piece, partially by piece or as a whole, and this phenomenon must be taken into consideration by the valuator in the valuing report.

Net Liquidation Asset (NLA) = Valuated assets based on the liquidation value (TA) – Balance Sheet Debts (BD)– Other debts from the liquidation balance sheet (OD) – Liquidation Costs (LC)

Where:

- Other debts from the liquidation balance sheet will be posted into the books;
- Liquidation costs, comprise generally activity support costs during the liquidation period, personal lay-off costs, penalties for anticipated loan return or leasing contracts breach, liquidators fees, advertising, asset conservation costs, selling commissions.

The documentation for establishing the liquidation net asset comprises of inventory lists, accounting balance sheet, liquidation starting balance sheet, liquidation final balance sheet. Based on the balance sheet and the inventory for the liquidation the liquidation starting balance is done. The inventory value is usually estimated by an expert valuator, which has to conduct the evaluation process according to the accounting regulations for inventories. Assets utility for the company is in this case not important, only the market price is interesting. We can adjust this price with some corrections due

especially to the limited timeframe for selling, limited advertising and the known condition of the company for the buyers. The corrections level are appreciated by a valuator and are between 0% and 50%. Among the most important accounting operations in the balance sheet for starting the liquidation are as follows:

- a) *Elimination from the balance sheet assets of the assets considered without economical value* in the case of liquidation (foundation costs, considering that liquidation is a process developed after dissolving the company, and its purpose is erasing the company from commercial register, development costs in the case of inexistent buyer for the results of the research, goodwill when it is decided to sell the assets separately);
- b) *Reactivation of cost posted in advance*, costs relate to future periods because the present period is considered the last one of the company;
- c) *Transfer to revenues*, of the subsidies received and not posted as results, of provisions for depreciation and for risks and spending existent at the moment of liquidation;
- d) *Transfer to liabilities* of the revenue posted in advance, considering that the current period is the last one of the company;

Specific operations for liquidation are usually done by liquidators. The valuator's presence in the liquidation team is necessary considering that the value is after all an opinion, raised by an individual based on its own judgment. This opinion is as more credible as the valuator is more qualified in this area.

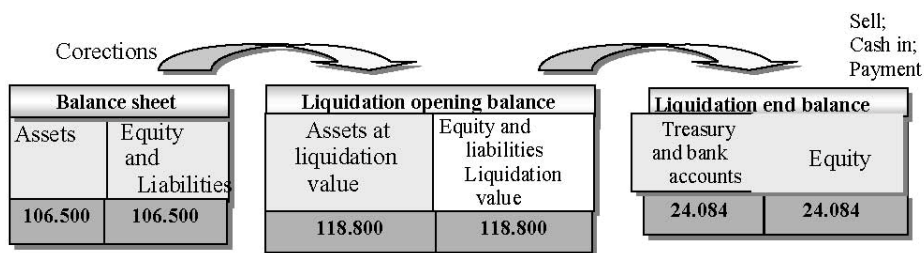


Fig. 1.- Necessary steps for liquidation end balance

As a demonstration we will present the calculation steps and the method for liquidation end balance realization for company "X". In column 1, the data presented is the data from the last balance sheet of the company. Liquidation value, estimated by the expert valuator, of the Company's assets and liabilities are shown in column 3, considering the market value and the corrections applied by the expert valuator. These values can be confirmed by the market or denied by the market when major differences are encountered.

Balance Sheet Object	Balance Sheet Value	Market Value (V_p)	Liquidation Value (V_l)	Correction applied absolute value Δ_{V_p/V_l}	Correction applied relative value $\Delta_{I_{V_p/V_l}^{\Delta}}$
Land	20.000	35.000	30.000	-5.000	-14,2857
Constructions	30.000	45.000	40.000	-5.000	-11,1111
Technological Equipment etc.	10.000	11.000	8.000	-3.000	-27,2727
Furniture etc.	5000	4000	3000	-1.000	-25
Stocks	12.000	11.500	11.000	-500	-4,34783

Equity

As far as raw materials are concerned, the extra value is the result of the inventory conducted by the expert valuator. A part of the goods in inventory, valuing 1000 m.u. are damaged and this is the reason the valuator has eliminated them. Liquidation costs, paid by bank transfer are in total of 200 m.u., and the liquidator's fee is in total of 500 m.u.

The liquidation end balance will reflect the amounts that will be divided by the shareholders or associates after selling, cashing in and payments.

ASSET	Row No.	m.u.				
		Account. balance	Corection	Liquidat. Opening balance	Selling Cashing in Payment	Liquidat. End Balance
A		1	2	3	4	5
A. FIXED ASSETS						
I) Intangible Assets	1	1.500	-700	800		
Foundation and development cost	*	500	-500	0		
Goodwill	*	0	0	0		
Other intangible assets	*	1000	-200	800		
<i>Capitalization + provisions for depreciation of intangible assets.</i>	*	2000	0	0		
II) Fixed Assets	2	65.000	16.000	81.000	84.800	
Land	*	20000	10000	30000		
Constructions	*	30000	10000	40000		
<i>Capitalization +provisions for depreciation of constructions</i>	*	5000	0	0		
Technological equipment, Devices and measuring, control and regulation installations Transportation vehicles	*	10000	-2000	8000		
<i>Capitalization +provisions for depreciation of equipment</i>	*	5000	0	0		
Furniture, computing equipment, protection equipment and other fixed assets	*	5000	-2000	3000		
<i>Capitalization +provisions for depreciation of furniture</i>	*	2000	0	0		
III) FINANCIAL ASSETS	3	2.000	1000	3.000		
Provision for depreciation of fin.		0	0	0		
FIXED ASSETS -TOTAL	4	68.500	16.300	84.800		
B. CURRENT ASETS						
I) INVENTORIES	5	12.000	-1000	11.000	11.000	

Raw materials inventories		5000	1.000	6000		
Production in progress		0	0	0		
Products		4000	-1.000	3000		
Inventories at third parties		0	0	0		
Animals		0	0	0		
Goods		3000	-1.000	2000		
Packing materials		0	0	0		
II) RECEIVABLES	6	12.000	-1.000	11.000	11.000	
Suppliers-debtors		0	0	0		
Clients and other accounts		10000	-1.000	9000		
Other receivables		2000	0	2000		
III) SHORT TERM FINANCIAL	7	0	0	0		
IV) TREASURY AND BANK ACCOUNTS	8	12.000	0	12.000		
Bank Accounts in Lei		5000	0	5000		24.084
Bank accounts in different currencies		4000	0	4000		
Treasury in lei		3000	0	3000		
Treasury if currencies		0	0	0		
Letter of credit in lei		0	0			
Letter of credit in foreign currency		0	0			
Advances from the treasury			0			
Other values		0	0			
CURRENT ASSETS –TOTAL	9	36.000	-2.000	34.000		
C. DIFFERED SPENDINGS (ct 471)	10	2.000	-2.000	0		
GRAND TOTAL- ASSETS		106.500	12.300	118.800		
D. LIABILITIES DUE IN LESS THEN A YEAR	11	72.000	2.716	74.716	74.716	
Short term bank loans		20000	0	20000		
Interest to be paid		0	0	0		
Suppliers		20000	0	20000		
Clients – creditors		0	0	0		
Profit taxes		0	2016	2016		
Value Added Tax		0	0	0		
Other liabilities to the state and public institutions		2000		2000		

Personnel liabilities		5000		5000		
Groups and other accounts with associates		20000	700	20700		
Other creditors		5000		5000		
Other liabilities due in less than a year		0				
E. LIABILITIES DUE IN MORE THAN A YEAR	14	20000		20000	20000	
Loans from obligations issuing		20000		20000		
Long and medium term bank loans		0				
Long and medium term bank loans overdue		0	0	0		
Interest to be paid		0				
Other loans and financial liabilities		0				
Fixed assets suppliers		0				
Other liabilities due in more than a year						
F. PROVISIONS FOR RISKS AND SPENDING	15	2000	-2000	0		
H. DIFFERED INCOME row (17 +18), from which:	16	1000	-1000	0		
Acc.131	17	0	0	0		
acc.472	18	1000	-1000	0		
I EQUITY AND RESERVES						
I) EQUITY(ROWD20 to 22),from which	19	13.500	0	13.500		
Equity subscribed and undelivered	20	0	0	0		
Equity subscribed and delivered	21	13.500	0	13.500		13.500
Administration patrimony	22	0	0	0		
II) EQUITY BONUSSES(ct:104)	23	0	0	0		
III) REEVALUATION RESERVES Balance Credit	24	0	0	0		
(acc.105) Balance Debit	25	0	0	0		
IV) RESERVES (ct 106)	26		0			
III) DEFERRED RESULT Balance Credit	27	0	0	0		
(acc.117) Balance Debit	28		0			

IV) PERIOD RESULT	29	0	0	0		0
Balance Credit						
(acc.121)	30	2.000	0	2.000		2.000
Balance Debit						
Liquidation Result			12.584	12.584		12.584
Profit distribution (acc. 129)	31	0	0	0		0
TOTAL EQUITY		11.500	12.584	24.084		
Public equity (ct.1016)	33	0	0	0		
TOTAL EQUITY (rws.32+33)	34	11500	<u>12584</u>	24.084		24.084
GRAND TOTAL - Equity and liabilities		106500	12300	118800		

Note: The Company is not registered as a VAT payer.

In order to estimate the net result of the liquidation we prepared the Profit and Loss statement:

121 Profit and Loss	
The amount of the assets not capitalized	68.000
Revenues from assets and stocks selling	95.800
Stocks value	12.000
	3.000
	2.500
	1.000
Revenues from provisions	700
Activation of differed costs for founding, development	2.016
	86.216
	98.800
The discount given for receivables and interest cashed in	12.584
Liquidation costs	
Profit taxes	

The amount to be distributed between the associates is reflected through the bank account position.

5121 Bank accounts	
Bank account balance	12.000
	92.800
From assets and inventory selling	14.000
	2.016
	700
	0
Financial investments and receivables	118.800
	24.084

Liabilities to be paid	92.000
Additional taxes for liquidation	2.016
Liquidator's fee and other costs	700
VAT to be paid	0

As we already presented above, the formula for calculating the net liquidation asset is, $NLA = TA - BD - OD - LC$, replacing the values presented in the accounting balance sheet and the liquidation balance sheet the result is:

$$NLA = 118.800 - 92.000 - 2016 - 700 = 24.084 \text{ u.m.}$$

The Company issued one thousand shares and based on the NLA the value of each share will be:

$$V_{\text{share}} = \frac{NLA}{NA} = \frac{24.084}{1000} = 2.408 \text{ lei/share}$$

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THE INVOLVEMENT OF BANKS IN THE DEVELOPMENT OF ACCIDENTS INSURANCE

Claudiu MĂRGINEAN, BRD Groupe Societe Generale, Cluj-Napoca
Lecturer Loredana RĂHĂU, “Dimitrie Cantemir” University, Tîrgu-Mureş

According to “Direcției Generale de Reglementări din cadrul Comisiei de Supraveghere a Asigurărilor” banks sold a quarter of the insurances made in 2005. Bankassurance will develop greatly in the years to come due to the increase of sales of life insurances and the development of groups who offer integrated *financial services*. *In the European Union this activity is unevenly developed. In countries as France, Spain and Italy 60-70% of insurance sales are made through banks. At the opposite side is Great Britain where only 15% of insurance is sold through banks. In Romania in the following 5 years the trend bank assurance will be the same as in Italy and Spain.*

1.The insurance market leaders are determined by banks

The financial institutions involved in banking have a substantial amount of resources which permit the entering on the insurance market under various forms. Still there are some obstacles concerning this entrance on the insurance market such as

insufficient capital and restrictions due to regulations. In long term all these obstacles can be overcome , especially by large institutions.

The deposit institutions can use a variety of methods of entrance on the market function of their size , position and strategically objectives. The institution can use its own capacities or can create or buy industry specific facilities. This can be done by using the current subscription and insurance coverage solution experience specific to insurance companies.

Another method is the creation of mixed societies known as « bank-insurance » through which small and medium size deposit institutions can diversify their activities encouraging the expansion on the market. Large deposit institutions can purchase some insurance companies; in this case the demands concerning capital represent the greatest predicament, provided that regulation restrictions are eliminated.

Modern economy is based greatly on credit as a source of funds for supporting economic growth. The need for credit is big and the banks have a significant role in satisfying the client demands. Credit plays an important role in the economic relations between individuals and corporations. Credit offers the consumers both as physical or juridical entities the possibility to invest in real and financial assets as well as finance their current immediate consumption on the base of future cash flow. The utilisation of credit followed in general the flow of general economic activity. Long term credit is usually used to purchase land and equipment and the short term credit is usually used to finance commercial activities and the purchase of general consumer products for the population. But for all these credits the banks take some guarantees which in turn must be insured (either insurance for the purchased goods , life and accidents insurance of the person who takes out the credit or insurance for the risk of failure to repay the credit).

The credit for consumer goods has quickly spread in Romania over the past years and more and more stores have begun selling goods by instalment credit. This now affects the insurance market as well.

The development of consumption credit is presented in Table 1.

Year	Value –billions USD	% of PIB
2000	0,15	0,5
2001	0,22	0,6
2002	0,50	1,1
2003	1,71	3
2004*	2	3,3

Source: Business Magazin, 2 nov 2004, page 36.

Considering a credit for a TV set, the bank takes some safety measures by closing a policy for financial risk of not paying the credit, without the knowledge of the person who buys the credit. So when the instalment credit is not paid regularly, the bank invokes the assurance company to retrieve the prejudice. The assurance companies have to be as discreet as possible when closing the confidential contracts. So the banks close conventions with assurance companies, on a national level, assuring the financial risk of not paying the credit.

This way the risk is being transferred from the banking system into the insurance one. The Board for Insurance Supervising has settled more strict rules for credit insurances and warranties through the Order 3106 from April 27 2004 which refers to applying the rules regarding the restriction of subscribing the consumption and mortgage credits. Through this the net holding back for consumption credit will not be more than 5.000 euro per debtor and the one for mortgage credit not more than 50.000 euro per debtor. The net holding back of the insurance company for the risks of these credits cannot be more than the net value of the assets in the past year multiplied by 12.

We are not always dealing with a risk transfer because not all the unpaid credits will be covered by the insurance company and there are some lacks in the process of taking proceedings against the debtor retrieving the credit, and the insurance companies often refuse compensations invoking error of procedure.

The outburst of credit for physical persons, and of the leasing, as well as the rising in the price of RCA policies are an impulse in growing incomes on the insurance market. In most of the cases the creditation is conditioned by life insurance and supplementary insurance for accidents and house insurance in the case of mortgage credit. The fact that the banks have put out on the real estate market more money has accelerated the mortgage credit and people now prefer buying a house and paying it in instalments credits than paying a rent.

So at 31.12.2002 real estate credit represented 2,93% in the total given credits in the banking system and by 31,13.2003 the percentage grew to 5.83% in the total credits given in the banking system. In case of a small company administrated by a person, in case of credit facilities for investment, the bank will analyse the seriousness of the client. Even if the credibility is very good and the rating established according to BNR standards is accepted in accordance with bank crediting regulations: mortgage guarantees , minimum permanent merchandise stock pledge , equipment pledge, transfer of debts (according to case), the bank can demand to the credit holder a life insurance with a additional accidents insurance, transferred in favour of the bank. The increase of the credit for both physical and juridical persons can therefore have a favorable influence on the accidents insurance market.

The spectacular movements that took place on the general insurance market in 2005 were : ASIBAN climbed from the 8'th to the 4 'th spot. ING remains on top of the life insurance market followed by AIG Life and ASIBAN who took ASIROM's place. The ones who gained the most places are the insurance companies who are in good relations with the banks or even owned by banks such as: ASIBAN (controlled by BRD-GSG, BCR, CEC and Banca Transilvania), BT Asigurări (Banca Transilvania) and BCR Asigurări, a company who registered the highest increase from the top 10 companies of 375% in 2005 relative to 2004 thus climbing 5 places in the top reaching the 5'th position.

**Top 10 according to gross premium included in general insurance in the year 2005
(mil. Euro)**

2005	2004	Ins. Com.	premium 2004	premium 2005	Evol %	Trend no. places	Share market'04	Share market'05
1	1	Allianz Tiriac	169,1	219	29,5	Stagnation	25,4	22,5
2	2	Asirom	105,3	136,2	29,3	Stagnation	15,8	14
3	3	Omniasig	73,8	116	57,2	Stagnation	11,1	11,9
4	8	Asiban	35,7	72,3	102,5	Going up 4	5,4	7,3
5	6	Unita	40,8	68,1	67	Going up 1	6,1	7,0
6	5	Ardaf	43,1	62,9	45,9	Going down 1	6,5	6,5
7	8	BCR Asig.	30,9	60,7	96,5	Going up 1	4,6	6,2
8	4	Astra	47,6	51,4	8,1	Going down 4	7,2	5,3
9	9	Generali	21,1	30,2	42,9	Stagnation	3,2	3,1
10	15	BT Asig.	8,3	26,9	222,5	Going up 5	1,3	2,8
TOTAL TOP 10			575,7	843,7	46,5		86,5	86,5
TOTAL MARKET			665,5	975,2	46,5		100	100

The insurance market tripled itself in the last 5 years, reaching about 1,2 billions euro in 2005, growing with approximately 40% in comparison with the last year. The insurance products that quickened the market were the credit risks insurance, bought by the banks to cover the risks of unpaid credits, and the life and accidents insurance, houses and Casco, deals closed by the bank's clients, according to the credit's destination: nominated personal needs, mortgage, real estates, auto. A quarter of the sales of insurance policies closed in 2005 was realised through banks, which sold insurances of about 300 millions euro.

Bank assurance is defined in the insurance law to be the distribution activity of

insurance products complementary to the products offered by the credit institutions, developed through the credit institutions' network or the sale of insurance products and the products offered by the credit institutions through the common distribution channels. According to the law, insurance companies can distribute through banks only insurance products complementary to credits, for example life insurance, unpaid, house, auto.

Insurance products sold by banks are more simple than those that can be bought directly from the insurance companies. Also, the commission paid by the insurance company to the banks for the distribution of the insurance products is smaller than the one paid to the agents or to the brokers.

2. The information flow of the insurance associated to credit

Another aspect of the banks' implication in the insurance activities is bank assurance – insurance associated to credits. Such a product is OPTIMIST – group life insurance contract signed by *BRD- G.S.G. with AVIVA Life Insurance*. This partnership means giving preferential insurance terms to BRD clients who take out credits that demand making insurance.

This product targets clients, as physical person, which requests from BRD – GSK: real estate credit and credit for personal needs guaranteed with mortgage.

What's new with this product:

- it is a group insurance that implies granting preferential terms to BRD clients;
- the insurance premium is paid monthly together with the credit rate and is taken automatically from the current account;
- the insurance premium is calculated each month as a percentage applied to the credit balance.

Events insured: death, temporary invalidity, total and permanent invalidity.

Indemnity is paid in the case of:

- death/ total and permanent invalidity: credit balance + interest calculated for

maximum 7 months;

- temporary invalidity: payment relief for the insurance premium on a 6 month period.

Advantages for clients advantageous cost for clients considering that the premiums were negotiated by the banks and these decrease each month together with the credit balance consistency in time of the insurance premium independent of the increase in age of the insurance holder and his health state accessibility concerning payment of monthly insurance premium being easier to handle by the client taking the premiums automatically from the account at the same account deadline relief's the client from relocating in order to pay the monthly premium a competitive alternative to existing insurance offers.

3. Accidents insurance and long term savings

An other problem concerning banks' involvement is the one about attracting clients that are willing to put their savings into a bank, in insurance company's detriment. The public system of old-age pension is poor, because 18% of Rumanian people have, according to the statistics presented by the World Health Organisation, over 60 years old. In a couple of decades, because of the demographic falling down, elderly people will have even a larger share in the people structure. The question is how will the public system of old-age pensions survive in 20-30 years from now.

The answer is hard to anticipate, but one thing is sure at this time: the early personal saving for a worry less old age. Insurance companies are making market researches, trying to establish the current and future needs of insurance and personal protection, carefully preparing the introduction of the private old-age pension on the market. Almost all insurance companies have a product suited to these demands, called old-age pension, saving plan or old-age pension plan.

The most interested clients are the employees earning more than five gross medium

wages or the ones whose employer pay the tax to the public retirement fund equalling the minimum sum, afferent to the minimum wage on the economy, because of the high contributions, preferring to pay the employees "on the black market".

The first ones, because even if they want, they can't receive a pension higher than five times the medium pension from the public system which will be assigned in the year when they will reach the legal retirement age. But even more interested are the employees who earn just a small part of the incomes legally, on the work book, the rest being obtained at the understanding with the employer.

Both kinds, but the small businessman also who don't want to join the public pension system, can choose from 10-15 private pension offers provided by the insurance companies. That is why we will approach the impact of the pension plan with additional clause of death by accident, death by car accident, permanent or partial invalidity from accidents and from the exoneration from payment of the premium insurances in case of invalidity.

The pension is available on the market in two different types: as a traditional product, where the insurance company guarantees a minimum sum, and as a unit-linked product, when the risk which comes with the investment is laid on the insurance holder, choosing the percentage of the insurance policy belonging to the insurance and the percentage belonging to the investment program, also the income of this investment program: more or less risky.

In this field the insurance company is in competition with other financial institutions of the same profile which are willing to keep money on long term, giving capitalization according to the efficiency of each financial institution. The insurance companies enter the competition with other financial institutions willing to keep money and invest it on long term. The way and the efficiency used to fructify these funds by an insurance company in the bank's detriment is crucial in fundament a potential client's decision to place his savings.

For a guaranteed pension of 1.500 RON (which preserve their purchasing power through indexing) offered by the insurance companies that sell traditional products, the monthly premium to get started now at 30 years of contribution, is about 250-300 RON. In

other words, if we don't have any inflation at all until then, the 250 RON will become through capitalization in 30 years time a 1.500 RON rent.

If we take the case of insurances is foreign currency, for example USD, where the inflation is less than 2%, is easier to calculate. So, to a 1.250 USD saving into a bank for 30 years with a medium interest of 5% a year, the capitalized value will reach 88.450 USD. In these terms we won't have any covering in case of death by accident or other occasions during this period.

An insurance company – Aviva, to the same annual contribution as the bank account case, which estimates a rate of investment earnings of 7,5%, offers a value to the insurance policy of 95.770 USD in 32 years time, sum that can be make into a monthly rent of 790 USD. We can observe that the insurance company gives covering in case of death of 10.000 USD during this period and a higher profit rate than the one offered by the bank. At the same contribution, a bank would offer at a medium interest of 7,5% a year, in this period of time more than 160.000 USD.

It is not just Aviva's case, Alliantz Tiriac, in the pessimistic case when the investment has an efficiency of 5,6% a year for 30 years, to a contribution of 250 USD a year, at the end of the period there will be 13.202 USD in the account. During this period the client has covering in case of death of 10.000 USD. Banked for 30 years with the same interest, the 250 USD a year will become 19.708 USD. In the optimistic case, at a interest of 16,3% a year, the insurance company estimates that the value of the account will reach 107.495 USD(the covering stays at 10.000 USD). We can observe that insurance companies give a better efficiency than the banks (Aviva has in the pessimistic case regarding the evolution of the investment of 7,5% a year to USD), the costs of the contract and the closing of the deal make the insurance policy's price a little higher.

The additional clauses attached to the pension products which also cover accident risks don't make the price higher with a significant percentage. The Interamerican clauses for different coverings (invalidity, death by accidents, chirurgical interventions) make the

premium higher with a few extra lei, according to the size of the covering in case of death, invalidity or payment for hospitalisation and surgery.

Regardless of where the savings are made in a bank the mutual fund ,retirement fund, or insurance fund this must be done as early as possible. Due to the capitalisation of interests the first 5 years of contribution are worth more then the last 5. An issue which arises for the future is where to invest the money on a long term basis. A company with medium and long term financial engagements needs means of placement that rise to their demand in order to cover them without any difficulties.

Even more than that a insurance company who seeks to conserve and increase in time the value of the money collected from its clients in the form of insurance premiums must offer increased protection towards the inflation effects of the market and the devaluation of national currency. Even though it is backed up by more then 10 years of experience the Romanian financial market is not capable of offering such placement means regardless if referring to the segment of the market related to state titles or the market of capital. The need of placement instruments becomes increasingly pressing as the revenues from the insurance premiums rise. During the working period of the one paying the contributions, the pension contributions should be invested into a mix of assets with growth potential, to preserve on long term the real value of the funds.

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THE STATE FINANCIAL CONTROL

Lecturer PhD Constantin CUCOŞEL, Northern University of Baia Mare

The essential feature of market economy is the balance between independent economic agents and the autonomous ones as this type of economy functions without any restrictions imposed by the state, thus each economic agent is free to spend, use, produce and save as much as they consider fit in order to follow their own economic interests in the general context of matching them with the real needs and interests of society.

Under such circumstances, the new commercial societies (firms) have become autonomous subjects for economy. Consequently, the relationships between the state and the commercial societies achieved a fiscal nature, in most of the cases, where the state exercises its fiscal supremacy. Thus, the societies feel compelled to give up part of their net internal product they produce or earn on the market in the form of duty and taxes.

Key words: *fraud, offence, delinquency, tax regime, customs regime, operational control, unforseen control.*

1. The targets of the state audit

The state audit includes in its domain the administration and usage of the public financial means, as well as the compliance with the financial accounting rules in the activity carried out by the economic units (self-governing state companies, trading companies, etc), concerning the way they fulfill their obligations towards the state.

To be more specific, the targets of the state audit are the following:

- The administration and usage of the assets received from the state for expenses related to the functioning and maintenance of the central and local bodies of state administration and of the state financed units;
- The use of the assets received from the state to make investments of general concern, the funding of activities and products for other destinations too, according to the legal provisions;
- The use of the own means and funds and the compliance with the financial accounting rules in the activity of the self-governing state companies and of the national trading companies;
- The exactness and the truthfulness of the data recorded in the accounting and the constitutive acts of the trading companies and the other economic units, with the purpose of establishing correctly and fulfilling entirely and in due time all the fiscal and financial obligations towards the state, etc.

The field of state audit also includes issues concerning the prevention and fight against frauds, offences, and delinquencies of the tax regime and the customs regime. This type of audit is operational and unforeseen and has as main targets to apply and execute the fiscal laws and customs regulations, trying to prevent any kind of elusion or evasion from the paying of duties and taxes. It also includes the compliance with the trading rules, in an attempt to prevent the contraband trade and all the means forbidden by the law; other activities established by the law.

2. Organizing the state audit

The central body of the executive power, which applies the strategy and the program of the Government in the field of economic policy and public finance policy, is the Ministry of Public Finance.

The Ministry of Public Finance performs the following tasks:

- The general administration of the public finance;
- It acts to encourage the economic activity on criteria of efficiency and economic balance, by using economic, financial, and monetary instruments, according to the requirements of the market economy, by activating the freedom of initiative at a macro level;
- It acts to create the frame for fair competition in the economy and it supervises the compliance with the legal provisions concerning competition;
- Through its bodies, it performs the audit and the financial supervision of the state bodies and institutions, it controls the financial activity of the self-governing state companies and of the trading companies, as well as of the other social and economic units;
- Through its specialized agents, it performs, on behalf of the state, the control over the administration and usage of the financial means of the central and local bodies of state administration, as well as over the state institutions, of the financial accounting compliance in the activity of the self-governing state companies, the trading companies and other economic units, related to the fulfillment of the obligations towards the state.

The state audit is organized and it functions within the Ministry of Public Finance through two organs, which are:

1. The general authority of state audit;
2. The Fiscal guard.

For counties and for the capital, there are authorities of state audit and departments of the fiscal guard that work within the structure of General regional authorities of public finance.

2.1.The general authority of state audit

The general authority of state audit of the Ministry of Public Finance and its subordinate units have the following attributions:

- They control the administration and usage of the assets received from the state for expenses related to the functioning and maintenance of the central and local bodies of state administration and of the state financed units;
- They control the use of the assets received from the state to make investments of general concern, the funding of activities and products for other destinations too, according to the legal provisions;
- They control the use of the own means and funds and the compliance with the financial accounting rules in the activity of the self-governing state companies and of the national trading companies;
- They control the exactness and the truthfulness of the data recorded in the accounting and the constitutive acts of the trading companies and the other economic units, with the purpose of establishing correctly and fulfilling entirely and in due time all the fiscal and financial obligations towards the state, etc.
- They fulfil also other set control attributions, according to the law, which are the responsibility of the Ministry of Public Finance.

The Ministry of Public Finance, based on the observations resulting from the control performed by its specialized bodies, has the right to prescribe the following:

- Adopting the measures that will remove and prevent the irregularities observed in the financial accounting activity of the central and local administration, as well as of the self-governing state companies;
- Correcting and drawing up the balance sheets and paying to the budget the taxes and other legal incomes due to the state;
- Applying the measures to comply with the legal provisions in the field of prices and rates (later on, by instituting the Competition Department, the attributions in this field have been restrained);
- Suspending the application of measures that don't comply with the fiscal and financial accounting rules.

Within a calendar year, an economic unit may be object to only one accounting control, for the truthfulness of balance sheets and for determining the sums due to the state for whatever reason; the period that makes the object of the control is the entire period since the previous control of the same kind and targets, which, according to the law, has not been written-off.

An exception to this are the actions of documentation, analysis and supervision of the implementations of rules, which can be performed only after notifying the economic unit and receiving its advice, as well as the verification of the complaints about possible evasion of the fiscal and financial laws, which are performed as often as needed.

The maximum duration for a control action for one economic unit is of three months, regardless of the period that is object of the control.

During the accounting control meant to determine the amounts of money due to the state for whatever reason, the economic units have the right to be assisted by a consultant, who is usually chosen from the list of certified accountants or chartered accountants.

The measures prescribed after the control are communicated to the ones who had

been the object of the control within 30 days from the end of the verification and may be disputed, at the Ministry of Public Finance, within 30 days from the date they were received.

The general authority of state audit and the local authorities of state audit of counties and of Bucharest are structured by functional services, as in the following model:

1. The methodology, coordination and programming service for the activity of state audit from the central office and the local authorities supervises the completion of its own tasks and the connection to the other authorities of the Ministry of Public Finance, other ministries and central institutions;
2. The control service, created for the following operations:
 - Respecting the financial discipline and the payments to the economic units;
 - Restructuring the activity of the national trading companies and administrating the public patrimony;
 - Fulfilling the financial obligations towards the public funds and using the amounts of money received from the state to finance the economic activities and the public institutions;
 - Respecting the monetary discipline and the legal provisions concerning the trading transactions with foreign economic units;
 - Of the debts and internal and external commitments of the state, administrating the state guaranties;
 - Of the financial activities of the self-governing state companies, the organization and functioning of their own audit;
 - Complying with the financial accounting rules in the activity of the institutions and the self-governing state companies in the field of national defense and public order;

- Complying with the financial accounting rules in the activity of the insurance and re-insurance companies.

The local authorities of financial audit from the counties are structured by functional services, according to the number of specialized positions.

2.2 The fiscal guard

The fiscal guard is under the command of a general commissioner and it has a central apparatus that has the right to act on the entire Romanian territory, and a territorial apparatus, organized by county departments and of the capital. The activity of the Fiscal Guard is coordinated by the guard command.

The departments of the Fiscal Guard have control competence on the territory of the county (or of the capital) where they are organized. The extension of the control can only be achieved with the approval of the general commissioner or of a deputy.

Each department of the Fiscal Guard is managed by a department chief-commissioner, who is subordinate to the general commissioner.

The financial accounting and administrative operations specific to the departments of the Fiscal Guard are achieved through the general authorities of public finance.

The central apparatus and that of the departments of the Fiscal Guard are structured in specialized divisions, managed by a division chief-commissioner, and in other sections, according to the organizational chart approved by the minister for Finance.

In the management activity, the general commissioner and the department chief commissioners are supported by a number of deputy general commissioners and deputy department chief commissioners, as is established by an order of the minister for Finance.

The Fiscal Guard command carries out its activity based on the activity program, and it meets every three months or more often if that is the case, to analyze mainly the following:

- • The periodical reports of managing board of the Fiscal Guard, to establish the measures needed to improve its activity;
- • The collaboration between the Fiscal Guard and the authorities of the Ministry of Public Finance;
- • Globally and by stages, the results obtained by the Fiscal Guard in the actions organized in collaboration with various government bodies;
- • The proposals for measures concerning the improvement of the legal frame, with the purpose of canceling the overlaps, blanks, and dysfunctions of any kind;
- • The completion and updating of the activity programs, based on the current needs.

The Fiscal Guard Command also informs the leaders of the Ministry of Public Finance, on a regular basis, about the special problems occurring in its activity, proposing the measures needed.

The control papers are made out according to the legal provisions, the working rules for the employees of the Fiscal Guard and the methodologies established by the Ministry of Finance. The record of finding and sanctioning the offences is made out to sanction both fiscal infringements and other kinds of actions, according to the provisions of special laws, which also dispose the complementary measure of seizure.

The control papers may be disputed through the specific administrative means, according to the provisions of the Law no. 506/4.10.2001.

The objections, disputes or complaints against the control papers made out by the commissioners of the Fiscal Guard will be dealt with according to the provisions of the laws and regulations concerning their adjustment.

The documents establishing duties, taxes, and other sums that must be paid to the state budget, resulting from the performed controls, are transmitted to the fiscal body to

be supervised and cashed, according to the specific methodology made out by the Ministry of Finance.

3. The Accounting Court

The Accounting Court is the supreme institution of audit, which also fulfils jurisdictional attributions over the means of formation, administration and usage of the financial resources coming from the state and from the public sector. It functions in collaboration with the Parliament and it carries out its activity independently, according to the laws.

The 139 article of the Romanian Constitution organizes the Accounting Court by the following functions:

- The Accounting Court performs the control over the means of formation, administration and usage of the financial resources coming from the state and from the public sector. According to the law, the Court also fulfils jurisdictional attributions;
- The Accounting Court annually submits to the Parliament a report about the management account of the national public budget from the expired budget year, including the irregularities observed;
- The members of the Accounting Court, chosen by the Parliament, are independent and irremovable, according to the law. They are object to the incompatibility meant for judges.

The organization and functioning of the Accounting Court are settled by the Law no. 77/2002. According to the law, the Accounting Court has the following attributions:

- It controls the formation, administration and usage of the financial resources coming from the state and from the public sector, as well as the

means of management of the public and private state patrimony and of the patrimony of territorial administrative units, supervising the compliance with the laws and the way that the principles of economical use, effectiveness, and efficiency are applied in the management of the material and financial means;

- It performs the judgment and takes the decisions concerning the payment of civil compensatory damages for the damage done by the administrators, managers and accountants, as well as by the other kinds of persons under the jurisdiction of the Accounting Court, according to the law.

To perform its function of control over the formation, administration and usage of the financial resources coming from the state and from the public sector, as well as the means of management of the public and private state patrimony and of the patrimony of territorial administrative units, The Accounting Court controls:

- • The formation and usage of the state budget resources, of the resources from the budget of the state social insurance and the budget of the territorial administrative units, as well as the circulation of assets between these budgets;
- • The formation, usage and management of the special funds and of the treasury funds;
- • The formation and management of the public debt and the statement of the government guaranties for internal and external credits;
- • The use of the budgetary allowances for investments, of grants and transfers and other kinds of financial support from the state or from the territorial administrative units;
- • The formation, administration and usage of public funds by the autonomous public authorities and by the public institutions legally acknowledged, as well as by the autonomous state bodies of social insurance;
- • The statement, evolution and means of administration of the public and private state

patrimony and of the patrimony of territorial administrative units by the public institutions, self-governing state companies, and national companies, as well as the franchising or renting of goods that belong to the public property;

- • The formation, usage and management of the financial resources concerning the protection of the environment, the improvement of the quality of living and working conditions.

The main targets that will be taken into consideration during the control activities over the economic units are the following:

- • The level of the external prices obtained, the terms of payment used and the degree to which the complete cashing of the foreign currency has been insured in due time for the export transactions, and especially for the products of which there is a shortage on the internal market or the products that have a tradition for export;
- • The efficiency and legality of the use of monetary funds obtained through external credits, especially of the ones obtained with government guaranties;
- • The degree to which the license regime and the customs duty regime ensure the protection for export of the natural resources and of the internal industrial production for imports;
- • The causes that produced important losses for certain self-governing state companies and national trading companies;
- • The degree to which the economic units ensure the compliance with the legal procedures concerning the use of the funds destined to research by the institutions of specific profile;
- • Respecting the destinations specified by the law for the grants given from the state budget to the self-governing state companies and to the economic units;
- • Respecting the legal provisions concerning the following:

- The stock-taking and re-assessment of the fixed assets;
- The re-assessment of the current assets;
- The renting and the sharing of administrative location of subunits of trading companies;
- The selling of assets;
- The selling of shares, etc.
- • The legality and the efficiency of providing certain legal persons with money advances.

The main targets that will be taken into consideration during the control activities over the budgetary units are the following:

- • The means of formation, appropriation, and usage of the funds resulting from the selling of the shares of the tenements;
- • The management of the patrimony of the territorial administrative units and public institutions, the compliance with the legal provisions concerning the renting of spaces and goods, as well as the legal provisions concerning the franchising of lands;
- • Complying with the legal regulations concerning the cashing and using of the school fees in foreign currency collected from foreign citizens;
- • The misappropriation of funds, from one budget year to another, and from the approved destinations;
- • Complying with the legal regulations concerning the capital expenditure related to the following:
 - o Approving, making out the technical and economic documentation;
 - o Ensuring the funding sources;
 - o Organizing the auctions;
 - o Making advance payments;
 - o Performing the reception and the payment;

- • Complying with the legal provisions concerning the encashment and usage of the extra-budgetary incomes;
- • The legality and the efficiency of providing certain legal persons with money advances.

The control performed by the Accounting Court is subsequent and concerns the compliance with the legal dispositions related to the management and use of the public funds (material and financial means).

The Accounting Court has as main attribution the verification of the following:

- • The general annual account of the government budget implementation;
- • The annual account of the state social insurance budget implementation;
- • The annual accounts of the special funds budget implementation;
- • The accounts of the treasury funds;
- • The annual account of the public debt, of the state, and of the statement of the government guaranties for the internal and external credits received by other legal persons.

In fulfilling the attribution described previously, the Accounting Court, based on its own control program, verifies, during the budget year and at its end, the following:

- • The accounts of the public management of money, other public values and material goods;
- • The accounts of the cash execution of the public budgets;
- • The implementation accounts for the budgetary grants and allowances for investments given to other beneficiaries than public institutions;
- • The balance sheets and implementation accounts for applicants of budgetary credits, for the administrators who manage the funds that fall under the public budget regime;
- • The accounts of the transactions concerning the public debt.

By verifying the accounts, the Court establishes if:

- • The accounts that are subject to its control are exact and according to the reality and if the stock-taking has been performed within the terms and under the conditions specified by the law;
- • The incomes of the state, of the territorial administrative units, of the state social insurance, and of the public institutions completely or partially financed through extra-budgetary means have been legally established and cashed within the terms specified by the law;
- • The expenses have been committed, settled, ruled out, paid and recorded according to the legal regulations and in compliance with the provisions of the budget law;
- • The grants and allowances for investments have been given from the budget or from the special funds, under the legal conditions, and if they have been used according to the established destinations;
- • The contracting of public loans, the rebate of their matured installments, and the payment of the due interest rates has been performed under the legal conditions;
- • The debentures and obligations of the state and of the territorial administrative units are justified or secured, and if the assets are protected according to the law;
- • The franchising or the renting of public goods has been performed under the legal conditions;
- • The financial management meets the quality standards concerning economical use and the efficiency parameters.

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CREDIT RISK MANAGEMENT

Associate Prof. PhD. Adrian ŞIMON „Petru Maior” University, Tîrgu-Mureş

Credit risk management lies at the heart of survival for the vast majority of banks. The profile of customers (WHO has been lent to) must be transparent and the risks associated with the key banking products (WHAT has been lent) must be understood and managed. The maturity profile of loan products (for HOW LONG the loans have been made) interacts strongly with liquidity risk management, thus credit risk can be limited by reducing connected- party lending and large exposures to related parties.

I. Classification of the banking risks

The banking domain is very large and in a continuous change being characterized by the existence of many types of risks:

A. Significant risks

The classification of significant banking risks, taking into consideration their importance in ensuring a prudential activity, has the following structure:

1. The credit risk
 - the country risk
 - the transfer risk
2. The market risk
 - the price risk
 - the foreign currency risk
 - the exchange rate risk
3. The liquidity risk
4. The operational risk- the juridical risk
5. The reputation risk

B. Other types of risk

Besides the significant risks there are a series of risks that act independent or interdependent of the significant risks namely:

1. The capital risk
2. The solvency risk
3. The personnel risk (attacks, kidnappings, death, injuries, sexual harassment, insufficient knowledge of the employees)
4. The risk of theft and fraud (internal, external)
5. The risk of damage of the tangible assets
6. The risk of activity interruption/ system mal functioning
7. The risk of physical loss or damage (fire, arson, explosion, flood, earthquake)
8. The risk of inadequate sales practices (the lack of the client's signature, breach of confidentiality, insufficient knowledge regarding the market risks)
9. The risk of banking crisis
10. Other risks

II. General aspects regarding the significant risks:

The credit risk: Credit or counterparty risk - defined as the chance that a debtor or financial instrument issuer will not be able to pay interest or repay the principal according to the terms specified in a credit agreement – is an inherent part of banking. Credit risk means that payments may be delayed or ultimately not paid at all, which can in turn cause cash flow problems and affect a bank's liquidity. Despite innovation in the financial services sector, credit risk is still the major single cause of bank failures. The reason is that more than 80% of a bank's balance sheet generally relates to this aspect of risk management.

Banks engaged in international lending face additional risks, the most important of which are country and transfer risks. The country risks encompass the entire spectrum of risks posed by the macroeconomic, political, and social environment of a country that may affect the performance of borrowers. Transfer risks are the difficulties that a borrower might have in obtaining the foreign exchange needed to service a bank's loan.

Additionally, foreign currency risk aspects may also affect loan classification in cases where a debtor has borrowed in one currency but generates cash flow in another currency. In effect, the foreign currency risk aspect magnifies the credit risk taken by a bank, cases relevant in emerging market economies or in economies where the domestic currency is unstable and/or lacks full convertibility.

The market risk: is the risk that a bank may experience loss or non-realization of the estimated profits due to unfavourable movements in market prices, interest rates and currency exchange rates. Market risk results from changes in the prices of equity instruments, commodities, money and currencies. Its major components are therefore equity position risk, commodities risk, interest rate risk and currency risk. Each component of risk includes a general market risk aspect and a specific risk aspect that

originates in the specific portfolio structure of a bank. In addition to standard instruments, market risk also applies to various derivatives instruments, such as options, equity derivatives or currency and interest rate derivatives.

The liquidity risk: Liquidity represents a bank's ability to efficiently accommodate the redemption of deposits and other liabilities and to cover funding increases in the loan and investment portfolio.

A bank has adequate liquidity potential when it can obtain needed funds (by increasing liabilities, securitizing, or selling assets) promptly and at a reasonable cost. The importance of liquidity transcends the individual institution, because a liquidity shortfall at a single institution can have system wide repercussions.

The operational risk: is the risk that a bank may experience loss or non-realization of the estimated profits due to internal factors (inadequate development of the internal activities, malfunctioning of the information systems, reporting systems, inadequate internal risk monitoring rules) or external factors (economic conditions, changes in the banking environment, technological progress). In the absence of efficient tracking and reporting or risks, some important risks can remain ignored, do not trigger any corrective action and can result in disastrous consequences.

The reputation risk: is the risk that a bank may experience loss or non-realization of the estimated profits due to the clients' lack of trust in the integrity of the credit institution. The measures for the mitigation of this type of risk may comprise the thorough analysis of the media communicates and information and clarifying the mal-intentioned or negative ones that affect the image, performances and reputation of the bank. Also the bank should try to find solutions to the clients' complaints and give professional advice at the level of standards practiced by its competitors.

III. The Aggregate Loan Portfolio Analysis

- A summary of the major loan types, including details of the number of customers, average maturity, and the average interest rate earned;
- Distribution of the loan portfolio, including various perspectives on the number of loans and total amounts, for example according to currency, short-long term maturities, industrial and/ or other pertinent economic sectors, state-owned and private borrowers, and corporate and retail lending;
 - Loans with government or other guarantees;
 - Loans by risk classification;
 - Nonperforming loans.

Nonperforming loans

Loans are often considered to be nonperforming when principal or interest on them is due and left unpaid for 90 days or more.

The nonperforming loan portfolio is an indication of the quality of the total portfolio and ultimately that of a bank's lending decisions.

The aggregate level of provisions indicates the capacity of a bank to effectively accommodate credit risk.

The analysis of a nonperforming loan portfolio

- Aging of past-due loans, including principal and interest, by more than 30, 90, 180, 360 days. These classifications can be broken down by type of customer and branch of economic activity to determine overall trends and whether or not all customers are affected equally.
- Reasons for the deterioration of the loan portfolio quality, which can help identify possible measures that can be undertaken by the bank to reverse a given trend.

- A list of nonperforming loans, including all relevant details, should be assessed on a case-by-case basis to determine if the situation is reversible, exactly what can be done to improve repayment capacity, and whether or not collection plans have been used.
- Provision levels should be considered to determine the bank's capacity to withstand loan defaults.
- The impact on profit and loss accounts should be considered to determine exactly how the bank would be affected by the deterioration of asset quality.

IV. Credit risk management portfolio

Credit risk is the most common cause of bank failures.

There are minimum standards for credit risk management.

Specific credit risk management measures typically include:

1. Policies aimed to *limit or reduce credit risk*, such as policies on concentration and large exposures, adequate diversification, lending to connected parties, or over-exposures.
2. Policies of *asset classification*. These mandate periodic evaluation of the collectibles of the portfolio of loans and other credit instruments, including any accrued and unpaid interest, which expose a bank to credit risk.
3. Policies of *loss provisioning* or the making of the portfolio of allowances at a level adequate to absorb anticipated loss – not only on the loan portfolio, but also on all other assets that are subject to losses.

Workout procedures

- Reducing the credit risk exposure of a bank, for example by having the borrower provide additional capital, funds, collateral or guarantees;

- Working with the borrower to assess problems and find solutions to increase loan service and repayment capacity, such as the provision of advice, the development of a program to reduce operating costs and/ or increase earnings, the selling of assets, design of a debt restructuring program, or changed loan terms;
- Arranging for a borrower to be bought or taken over by a more creditworthy party, or arranging for some form of joint-venture partnership;
- Liquidating exposure through out-of-court settlement or by taking legal action, calling on guarantees, foreclosing or liquidating collateral.

Policies to limit or reduce credit risk

Large exposures.

Most countries impose a single- customer exposure limit of between 10 and 25 percent of capital.

The Basel Committee on Banking Supervision has recommended a maximum of 25%, with the intention of reducing it to 10% as soon as this is practical.

The adequacy of a bank's policies, practices and procedures in identifying common or related ownership, the existence of effective control, and reliance on common cash flows.

Related-party lending. Lending to connected parties is a particularly dangerous form of credit risk exposure.

Related parties typically include a bank's parent, major shareholders, subsidiaries, affiliate companies, directors, and executive officers.

Over exposure to geographical areas or economic sectors.

Asset classification

Assets are classified at the time of origination and then reviewed and reclassified as necessary a few times per year. Economic trends and changes in respective markets and the price of goods also affect evaluation of loan repayment.

- **Standard, or pass.** When debt service capacity is considered to be beyond any doubt: loans and other assets that are fully secured by cash or cash substitutes (e.g. bank certificates of deposit and treasury bills and notes)
- **Specially mentioned, or watch.** Assets with potential weaknesses that may, if not checked weaken the asset as a whole or potentially jeopardize a borrower's repayment capacity in the future: credit given through an inadequate loan agreement, a lack of control over conditions that may negatively affect the borrower in the future, it also applies to borrowers with an adverse trend in their operations or an unbalanced position in the balance sheet, but which have not reached a point where repayment is jeopardized.
- **Substandard.** This classification indicates well-defined credit weaknesses that jeopardize debt service capacity, in particular when the primary sources of repayment are insufficient and the bank must look to secondary sources for repayment: collateral, the sale of a fixed asset, refinancing, or fresh capital. Substandard assets typically take the form of term credits to borrowers whose cash flow may not be sufficient to meet currently maturing debts or loans, and advances to borrowers that are significantly undercapitalized. They also include short-term loans and advances to borrowers or which the inventory-to-cash cycle is insufficient to repay the debt at maturity. Nonperforming assets that are at least 90 days over due are classified as substandard.
- **Doubtful.** Such assets have the same weaknesses as substandard assets, but their collection in full is questionable on the basis of existing facts. The possibility of loss is present, but certain factors that may strengthen the asset defer its classification as a loss until a more exact status may be determined. Nonperforming assets that are at least 180 days past due are classified as doubtful, unless they are sufficiently secured.
- **Loss.** Certain assets are considered uncollectible and of such little value that the

continued definition as bankable assets is not warranted. This classification does not mean that an asset has absolutely no recovery or salvage value, but rather that it is neither practical nor desirable to defer the process of writing it off, even though partial recovery may be possible in the future. Nonperforming assets that are at least one year past due are also classified as losses, unless such assets are very well secured.

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NON-BANKING FINANCIAL INSTITUTIONS - FUTURE CREDIT INSTITUTIONS

Associate Prof. PhD. Daniela ZĂPODEANU, University from Oradea

Financial activity, through its specific, is an activity that must be ruled, the implications of banking risks that may appear being major. Recently, activity of non-banking financial institutions from Romania was ruled. Facing that non-banking financial institutions are developing specific credit activities, was established as supervising authority National Bank of Romania.

In this context is rising the problem of instituting supervising and ruling activity of non-banking financial institutions, if these will be concretized in prudential rules for preventing financial risks specific to banks. As a big part from societies entering under the incidence of a new legislative framework do not have an important market quotas, is expected to produce mutations in fusion kind at Non-banking Financial Institutions level.

More than that, appears the problem of mark off between the others credit institutions and non-banking financial institutions, practically, to mark off banking system, respective a future enlargement of banking system from Romania.

Integration of financial markets based mainly on two fundamental premises, capital's mobility and substituting financial assets¹ is encouraged by competition's rise, technology development and legislative framework. On the background of financial market's integration, formation of conglomerates represents a reality of last three decades, no matter what the modality through is realized: acquisition of majority participation, acquisition of the other entity or entity's fusion.

Banks started to offer diverse services to make more profitable their distribution networks and finally to obtain profit's raised. In the same time, non-financial companies entered in financial arena in this period of time. As a result, financial markets became more competitive and now exists more societies offering financial services called non-banking financial institutions.

Especially we are talking about companies for financing automobiles and producers of consumption goods, which wanted to increase selling for their products. Ford Motor Credit acquisitioned Ford Nationwide Financial Corporation and another credit and economies societies in other states, becoming the biggest company holding of economies and credit in United States, offering services of mortgage, deposits and credit cards².

To become financial institutions full service, brokerage societies became financial conglomerates, offering banking product to their clients. Supplementing banking products with the insurance ones determined, also, insurance companies to become financial conglomerates. We assist at interference of bank's universal activities, specialized or business, and mutual banks (credit cooperatives) or economies banks with the activity of non-banking financial institutions.

¹ Corina Weidinger Sosdean - Euro and international financial markets, Mirton Publishing House, Timisoara, 2005, p. 176

² Davis S. Kidwell, Richard L. Peterson – Financial Institutions Markets, and Money, The Dryden Press, 1995, p. 399

Non-banking financial institutions, whose main feature is that they cannot constitute deposits, are: societies for financing selling with buying option, mortgage or real estate credit societies, leasing societies, factoring societies, insurance societies, brokerage societies, collective placement societies, etc.

The main problem that appears in connection with formation of conglomerates is the one of risks associated to the activity of each institution that is a part of a conglomerate, respective the one of preventing financial risks through instituting some prudential norms to assure market's discipline. Market's discipline represents the situations of enforcing some constraints for diminish the risks assumed by ruling authorities. Not accidentally we are talking about supervising authorities at plural, because there are not rules to realize prudential supervise approach at financial conglomerates level in its ensemble, this stays at sector's level. So, each sector has specific rules but also distinct control authority, that has in specific cases a relative right for obtaining information from control authorities of the other sector³.

If regarding bank markets, insurance market and capital market, things are from this point of view (prudential rules and supervising authorities) placed and we cannot think a banking system without supervising authority, regarding financial institutions activating on the non-government credit market, but are not credit institutions (they are not a part of banking system) it doesn't certainly exist specific rules and supervising authorities. Diverse countries enforced for these institutions similar rules with the ones for credit institutions, or specific minimum rules, or they enforced rules only for the big societies.

Similar of world wide trend, Romanian banks developed their products and services specific to leasing societies, insurance societies, capital market intermediary societies or collective placement organisms, through participations at distinct societies

³ Cristina Ciomas – International Insurances, Architecture and problematic at the beginning of the III rd millennium, Intelcredo Publishing House, deva, 2001, p 88

(according legislation in act), forming financial groups. E. g. Financial Group of Commercial Bank of Romania comprises along bank also BCR Insurance SA, BCR Leasing SA, BCR Securities SA (through fusion of two societies of securities in which BCR had participation as a result of the fusion BCR and Bancorex), BCR Asset Management SA (society for administration of open funds for investment, risk funds and investment society, authorized by National Commission of Securities), but along other banks formed financial groups: BRD, ING Bank Romania, Raiffeisen Bank Romania, Alpha Bank Romania, etc.

Is normal the development of financial groups in Romania having as a nucleus an universal bank because banking system developed on an existing structure before 1990; in consequence banks offer integral financial services to their clients, being capable in any moment to find solutions to their financial problems.

Financial market's discipline and operator's on these markets is assured in our country by three supervising authorities: National Bank of Romania (B.N.R.), National Commission of Securities (C.N.V.M.) for capital market, Commission for Supervising Insurances (C.S.A.) for insurance market. In this context, is raised the problem of opportunity of instituting supervising and ruling of the non-banking institution's activity, recently adopted in Romania⁴.

Appealing assuring and maintaining of financial stability, financial intermediary in its ensemble, legislative gave the supervising and monitoring of non-banking financial institutions to banking supervising authority: B.N.R., so enforcing rules of functioning similar to the ones for credit institutions. Are endorsed in this way financial leasing activities, mortgage and real estate credit activities, commercial transaction's funding of micro-credit, selling consumption goods with part payment, and activities developed by guarantee funds, reciprocal help houses, and pawn shop.

Concrete modality of realizing market's discipline instituting at B.N.R. level of

⁴ Government Ordinance no 28/2006 – Official Monitor no 89/31.01.2006

three books: overall book, special book and evidence book, indicates a simple evidence or a monitoring for majority of institutions and supervising only for the big ones, B.N.R. being in the impossibility of comprising all 4617 institutions under supervising; from these 4308 are reciprocal help houses and pawn shops, that are only highlighted⁵.

Why B.N.R., and not an independent institution as authority? Because B.N.R. proved to be a solid institution, with all bankruptcies recorded in Romania, which we may say were inevitable in a fragile economic environment in transition.

About the opportunity of instituting prudential rules specific to the banks for preventing financial risks at non-banking financial institutions level having in sight difficulty and even incapacity of adapting them to minimum social capital of 200.000 Euro equivalent, but also costs of prudential ruling, being proved the fact that these are transferred over clients, we have a simple answer through functioning (and crises) in Romania of others financial institutions, namely credit cooperatives.

Credit cooperatives, called until 2000 “popular banks” functioned according legislation regarding organizing and functioning of consumption cooperation and credit cooperation, braking practically banking legislation that provided: “ is forbidden to any person to develop banking activity on the territory of Romania without an authorization issued by National Bank of Romania”⁶. Not being covered by B.N.R. supervision in year 2000 some credit cooperatives were in impossibility to give back to people the deposits, so is coming back over old law of cooperation, their performance being considerate performance under banking legislations, in this manner are defined some norms of bank prudentially for credit cooperatives⁷. According to new legislative framework popular banks were in the situation either to re-organize and affiliate to a central house of credit

⁵ source: www.bnr.ro

⁶ Banking Law no 58/1998 – Official Monitor no 121/23.03.1998.

⁷ Urgent Government Ordinance no 97/2000 regarding credit cooperates organizations – Official Monitor no 142/29.06.2000

cooperatives (that guarantees integrally obligations of affiliated cooperatives) becoming credit institutions supervised by National Bank, or to change their juridical form and become commercial banks. We don't have to expect a crisis of one of financial institution category, to create prudential ruling and supervising framework.

We have to remark major difference between credit cooperatives as credit institutions that collect deposits and non-banking financial institutions that cannot collect deposits and cannot even to collect resources from capital market issuing bonds, according to new legislative framework. There are opinions of some specialists saying that is no need for banking rules for non-banking institutions, because in their case is not present un-payment risk these keeping property over acquired goods through leasing or mortgage credit, for example. Wrong! Whole ruling framework has as an objective protecting clients of financial institutions. Or, their bankruptcy would mean partial or total loss of sums paid as advance and installments for developing contracts in cases mentioned above (leasing, mortgage credit, real estate or even selling of goods with part payment). MTS Leasing case that brined losses for contract's beneficiaries, is relevant.

Obvious, objective of new rules is to enforce a higher degree of discipline in financial market framework, but final beneficiary must to be re-found at the level of service's clients offered by these non-banking financial institutions through a higher degree of insurance and protection felt by these; including authorization by B.N.R of these institutions, function of management's quality, has as a scope credibility and functioning efficiency increase.

Although, because a big part of societies under new legislative framework incidence do not have an important market quota is expected to produce mutations like fusions at non-banking financial institutions level, although B.N.R. never announced giving a period to fulfill conditions of these institutions.

Looking beyond ruling these institutions we can see an enlargement of banking system in Romania, because instituting B.N.R. supervising only difference between

credit and non-banking financial institutions remains the one of un-constituting deposits by the last ones. More than that, for a part of these institutions, becoming credit institutions assimilated to banking system, is not excluded in the future the change of their statute; e.g. mortgage credit institutions (4 as a number in present), that can become mortgage credit banks (adapting to legislation, of course). Mortgage credit institutions were forced, since their creation⁸, to a social capital minimum 3 mil. Euro, elaborating of some own norms of crediting to comprise including prudential norms, constituting specific credit risks provisions and organizing accountancy accordingly some norms applicable to credit institutions, all these in conditions of B.N.R. notification of set up and future changes regarding mortgage credit society.

The same possibility exists in the case of consumption credit societies (21 as a number), commercial transactions funding societies (6 as a number) and even leasing societies case (261 as a number)⁹ having in sight that beginning with 2007 banks will may develop directly leasing operations.

Until the possibility of enlargement banking system, we hope in an market reorganization, and also, we hope that supervising instituted will not transform in a formal or old-fashion control. The way in which different countries approached supervising and financial market's ruling problem constitutes an actuality subject in the perspective of harmonization with Basel II accord rules.

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THE IMPROVEMENT OF THE BUDGETING SYSTEM IN CONSTRUCTIONS

PhD. Emil CHIRILĂ, University of Oradea

The strategy of the construction enterprises must establish the assembly of the long term major objectives (4-5 years), the resources allotted, as well as the main ways to obtain the competitive advantage, suitable to the size of the company.

The forecasts of the construction enterprises are achieved during different periods of time, distinguishing between:

- *Strategic plans (5-10 years)*
- *Operational plans (2-5 years)*
- *Budgets (1 year)*

The budget is considered as an instrument of correlation and efficiency of the relation between expenditure and earnings, and the budgeting, a systematic economic practice that assumes the performing of a formal process of financial resources allocation, in order to achieve some objectives established for the future.

The coherence of a budgetary system is ensured by complying with some principles:

- *the totality principle*

- *the principle of overlapping the budgetary system on the authority system*
- *the principle regarding the maintenance of the solidarity among departments and of the concordance with the general policy of the company*
- *the principle of suppleness in an economic-social frame more and more loaded by constraints*
- *the principle of coupling with the personnel policy*

The drawing up cycle of the budgets can be decomposed into four phases:

- 1) the identification of the objectives of the enterprise;*
- 2) the drawing up of preparation studies regarding the production factors market and the sale market;*
- 3) the drawing up of pre-budgets;*
- 4) the drawing up and approval of the enterprise's budgets.*

The main objective of construction business companies consists in assuring *viability* in terms of internal and international competition in connection with sustainable developing, and the results of the activity are generated in financial indicators such as: profit, company's value, liquidity.

The strategy of building companies has to set all the major long term objectives (4-5 years), the assigned resources, but also the main means of achievement in view of obtaining the competitive advantage, suited to the size of the company.

Building companies' strategy consists in defining the general acting directions of developing axes, that the leadership wishes to fallow in the next few years, and the strategic plan has to reconsider the main points of the strategy, such as:

- Resources: markets, activities, services, technologies;
- Company's objectives: the market figure, turnover, result;
- Means of attaining the objective: internal and external growth, geographical

areas, the need of extra resources;

Building companies' planning is made on different terms, resulting the following categories:

- Strategic plans (5-10 years)
- Operational plans (2-5 years)
- Budgets (1 year)

Planning of financial indicators uses the following instruments:

- The income and expenses budget;
- The planning balance sheet;
- The financing table
- The cash flow board
- The projected dynamic of the main financial indicators

Today's practice at building companies sees the profit and loss account as the only document that involves planning, the balance sheet and the table for treasury flow being seen as reporting documents of the past financial situation

A performing management system imposes the building of balance sheet on the ground of the income and expenses budget and the cash flow predicted for the next period seeking response to the following:

- the external financing need on the set of using full (or partial) production capacity;
- the turnover level that does not require external financing;
- the profit range, holding the debts/own funds ratio constant;
- the possibility of retrieval the investment in due term
- the rotation rates (and other indicators) of future assets and liabilities.

Building projected financial situations implies going through the following steps:

- 1) Setting hypothesis regarding the given period.

- 2) Setting some financial indicators as requirement for control and margin threshold to frame them.
- 3) Compiling financial projected situations.
- 4) Checking the accomplishment of set requirements.

To explain financial planning models, we shall use the information gathered from annual situations of the budget report N (2004) and N-1 (2003) at CRISANA CONS SA ORADEA.

The legal planning model starts on the premises that for the planned year N+1 (2005), the planned inflation will be 7%, the profit tax rate will be 16%.

The simplified profit and loss account earned for the financial report year N (2004), approved by AGA (General Stockholders Convention), looks like this:

Turnover	206.000 million lei
Income	212.000 million lei
Expenses	184.200 million lei
Gross Income (Profit)	27.800 million lei
Tax	6.950 million lei
Net Profit	20.850 million lei

The profit distribution according to AGA decision:

Reserves (growing own financing sources)	14.805 million lei
Dividends	6.045 million lei

The company's simplified balance sheet for the financial report N-1 (2003) and N (2004) presented in the following table contains:

Balance sheet	N-1	N	Variations N-(N-1)
Gross assets	28.750	38.800	10.050
Total amortization	3.100	5.650	2.250
Net set assets	25.650	33.150	7.500
Stocks	2.122	5.545	3.423
Debt	20.626	68.470	47.844
Available	2.730	7.155	4.425
Circulating funds	25.478	81.170	55.692
Total assets	51.128	114.320	63.192
Own funds	36.084	53.390	17.306
Suppliers	14.344	51.260	36.916
Other debts	700	9.670	8.970
Total debts	15.044	60.930	45.886
Total liability	51.128	114.320	63.192

Considering the two consecutive periods we could compile the cash-flow for N (2004):

+Net profit	20.850
+Amortization	2.550
- Stock variation	3.423
- Debts variation	47.844
+Suppliers variation	36.916
-Other assets elements variation	-2.550
+Other liability elements variation	-3.169
=cash flow from exploiting activities	8.430

-Acquisitions from immobilizing	10.050
=Cash-flow from investment activities	-10.050
+Payment dividend	6.045
=cash-flow from the financial activity	6.045
Available to start with	2.730
Total cash-flow	4.425
Available at the end	7.155

Other assets elements variation: total assets variation – debts variation – stocks variation – funds variation – variation of available funds – fixed funds reception

$$63192 - 47844 - 3423 - 4425 - 10050 = -2250$$

Other liability elements variation: variation of total liability – profit – suppliers' variation – payment dividends – amortization expenses

$$63192 - 20850 - 36916 - 6045 - 2550 = -3169$$

Next phase sets the relevant indicators for financial planning, looking to obtain adequate values for the main financial and economic indicators in the next period. Thus is calculated the stocks rotation rate, the debts rotation rate, the circulating funds rotation rate and the suppliers' rotation rate for N (2004):

$$\text{Stock rotation} = (\text{St}/\text{CA}) \times 360 = 9.7 \text{ days} \sim 10 \text{ days}$$

$$\text{Debts rotation} = (\text{Cr}/\text{CA}) \times 360 = 119.6 \text{ days} \sim 120 \text{ days}$$

$$\text{Circulating funds rotation} = (\text{Acirc}/\text{Ca}) \times 360 = 141.85 \text{ days} \sim 142 \text{ days}$$

$$\text{Suppliers' rotation} = (\text{FN}/\text{CA}) \times 360 = 89.058 \text{ days} \sim 90 \text{ days}$$

The company wishes to bring the analyzed indicators in the N+1 financial exercise (2005) to these values:

Stock rotation	= 12 days
Debts rotation	= 90 days
Circulating funds rotation	= 120 days
Suppliers' rotation	= 45 days

For the year N+1 (2005), the projected profit and loss account looks like this:

Turnover	201120
Amortization	2915
Income	206230
Expenses	188747
Gross profit	17483
Tax	2797
Net profit	14686

Proposed distribution of the profit:

- own financing sources	12685
- dividends	2000
- investments	5000

Considering the planned profit and loss account, the values of circulating funds elements for N+1 (2005) shall be calculated by dividing the number of days a year has to the desired number of days for one rotation, thus obtaining a rotation coefficient. Relating the turnover to the coefficient obtained as described, the circulating funds elements' value will result as follows:

N+1	
Stocks N+1 = $360/12=30$	$201120/30=6704$
Debts N+1 = $360/90=4$	$201120/4=50280$
Suppliers N+1 = $360/45=8$	$201120/8=25140$
Circulating funds N+1 = $360/120=3$	$201120/3=67044$

Availability = circulating assets –debt = 67044-50280-6704=10060

Net immobilized assets = net assets+investments=38800+5000=43800

Amortization N+1 = amortization N+ provisioned amortization N+1=
=5650+2915=8565

Net assets = Immobilized gross assets – amortization = 43800-8565=35235

Circulating assets=67044

Assets = 35235+67044=102279

CP = CP (N) + profit redistribution N+1=53390+12685=66075

Total debts=Total assets – CP=102279-66075=36204

Other debts = total debts – suppliers = 36204-25140=11064

The result account provisioned on the financial report N+1 can now be defined and variations to accomplish cash-flow are set. Company’s balance sheet for the year N+1, variations

Balance sheet	N+1	N	Variations (N+1)-N
Gross assets	43800	38.800	5000
Total amortization	8565	5.650	2.915
Net set assets	35.235	33.150	2.085
Stocks	6704	5.545	1.159
Debt	50.280	68.470	-18.190
Available	10.060	7.155	2.905
Circulating funds	67.044	81.170	14.126
Total assets	102.279	114.320	-12.041
Own funds	66.075	53.390	12.685
Suppliers	25.140	51.260	-26.12
Other debts	11.064	9.670	1394
Total debts	36.204	60.930	-24.526
Total liability	102.279	114.320	-12.041

Cash-flow provisioned for the year N+1:

+Net profit	14686
+Amortization	2.915
- Stock variation	1.159
- Debts variation	-18.190
+Suppliers variation	-26.120
-Other assets elements variation	-2.915
+Other liability elements variation	-5.522
=cash flow from exploiting activities	5.905
-Acquisitions from immobilizing	5000
=Cash-flow from investment activities	-5000
+Payment dividend	2.000
=cash-flow from the financial activity	2.000
Available to start with	7155
Total cash-flow	2.905
Available at the end	10.060

Variation of other asset elements= $-12041-1159-(-18190)-2905-5000=-2915$

Variation of other liability elements= $-12041-14686-(-26120)-2000-2915=$
 $= -5522$

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MONETARY POLICY AND FINANCIAL DEVELOPMENTS

Emilian ȚEPELUȘ, Romexterra Bank S.A.

Assistant Alina SOLOVĂSTRU, “Dimitrie Cantemir” University, Tîrgu-Mureş

This work wants to briefly present the monetary policy and the financial developments in 2005 in Romania, focusing on the monetary policy, the interests rates evolution, the currency exchange rate evolution and cash flow, the domestic currency and the loan and also the inflation perspectives.

1. Monetary policy

The third quarter of 2005 was a special period for the central bank as regards the monetary policy strategy and tactics. In August, the NBR shifted formally to inflation targeting, the adoption of which had been prepared during the past 16 months. By adopting inflation targeting, the central bank assumed more clearly the task of consistently pursuing the fulfilment of its fundamental objective, its accountability for achieving the inflation target being more clearly expressed.

In the period under review, monetary policy had to deal with the tighter constraint from short-term capital inflows, which rose to an unprecedented level, and with the risk of an increase in such inflows. The central bank undertook strenuous efforts to reconcile the need of minimizing this threat in the short run with the goal of ensuring sustainable disinflation in the medium and long run. For this purpose, the NBR adopted and implemented an adequate mix of monetary policy, prudential, as well as some administrative measures, the last two categories being meant to preserve financial stability and enhance the effectiveness of monetary policy instruments with a view to achieving and maintaining price stability. Under the impact of these measures, the broadly-defined monetary condition, including the developments in interest rates, exchange rate of the domestic currency and liquidity across the economy, have remained on course to achieve medium-term disinflation.

The third quarter of 2005 witnessed extremely challenging macroeconomic conditions from the perspective of monetary policy conduct; the central bank had to deal with the still overly rapid growth rate of domestic demand, on the one hand, and the impact of the strong resurgence in speculative capital inflows on the domestic financial market, on the other; another matter of concern was the risk of worsening of inflation expectations against the backdrop of persistently unfavourable impact of some of the supply-side factors (the increase in fuel price) on consumer price index, which made the central bank revise the year-end inflation target to 7,5 percent.

The still fast growth of domestic demand in Q2 – despite the decline in self-consumption – and, especially, the developments in some relevant indicators in Q3 pinpointed the persistence of pressures exerted by the rapid increase of domestic absorption on the main macroeconomic equilibria. According to statistical data, the main driver of this growth was further household consumption; thus, July through August, sales of most market goods and services posted annual average rises relatively higher than in 2005 Q2. During the period, the high growth of private consumption was

steadily fostered by fast upward trend of household disposable incomes as a result of: (i) the sharp increase in net real wages (their average annual growth rate went up to 14,2 percent during July-August, compared with 13 percent in Q2); (ii) the increase in remittances from Romanian workers abroad to a record high (due also to seasonal factors); and (iii) the rise in the number of employees economywide.

The effect of higher incomes on household consumption was enhanced by that of changes in household behaviour in the last few years; thus, heavy resort to bank and non-bank loans by individuals as well as further decline of the annual real growth rate of household savings with banks may suggest that individuals chose to increase current consumption to the detriment of future consumption, which contrasted with the behaviour prevailing in the past years. During July-August, the average annual growth rate (in real terms) of balance of household loans rose to 62,2 percent (compared with 53,1 percent in Q2 and 43,4 percent in Q1). This development was mostly driven by consumer loans, the real average annual growth rate of which (77,9 percent) outpaced by far that recorded in the previous quarter (61,2 percent). Although the growth pace of foreign currency-denominated consumer loans slowed, they continued to be the fastest—growing component of consumer loans (annual increase of 303,6 percent compared with 403,1 percent in the previous quarter) given that lending terms were seen as being more affordable. The rise was also underpinned by promotional banking products provided by a large number of credit institutions interested in explaining their market share, the relatively attractive supply of some of the banking products being supported by resources of the parent banks.

Behind the strong domestic demand during the period under review stood also the higher growth rate of private sector investment, bolstered by large inflows of funds. Thus, July through August, long-term credit rose at a real average annual rate almost similar to that record in the previous quarter, with the annual rate of increase of leu-denominated loans being two times higher than in 2005 Q2. The average monthly

volume of medium-and long – term foreign credits to non-bank sector increased by eur 203 million (EUR 187,3 million in the previous quarter). Pressures exerted by excess domestic demand – to which external financing contributed significantly, further fed mostly thorough into the trade deficit, whose widening slowed down only slightly July through August, compared with the previous quarter.

Inflows of potentially volatile capital were much higher in 2005 Q3. The inflows of speculative capital increase starting July, due mainly to (i) the still high interest rate differential between domestic and world markets, (ii) the expectations of further nominal appreciation of the leu against the euro, due also to the expected flexibilisation of the exchange rate regime following the shift to inflation targeting and (iii) the possible decrease of sovereign risk premium. Large inflows of volatile capital brought about the surge of transactions performed by bank clients of the interbank forex market to monthly record highs and, especially, the expansion of the bank balance of non residents' leu-denominated time deposits (a more than threefold increase in August). The adverse direct effects of volatile capital inflows were mainly the strong increase of pressures of the exchange rate and rapid nominal appreciation of the leu as well as the expansion of surplus liquidity in the banking system and costlier sterilisation operations performed by the central bank, as part of the volatile capital was mopped up.

These macroeconomic conditions, which featured fast expansion of domestic demand financed from foreign borrowings, either directly by or via banks, on the one hand, and the increase of risks to macroeconomic equilibria and financial stability associated with the rise in volatile capital inflows, on the other, rendered the dilemma concerning the interest rate policy more difficult.

To the macroeconomic challenges added also the slightly slower disinflation (compared with the short-term forecast of the NBR) attributed mainly to higher-than-expected increase of prices for fuels and vegetables. In order to strike a balance between the need to strengthen its credibility by ensuring that the inflation target is met, on the

one hand, and the need to increase the role of anchoring public expectation through the announced inflation target – on the other - both playing a more significant role in the context of the new monetary policy strategy – the central bank revised the year-end inflation target. Even under these circumstances, the persistence of pressures from high growth rates of prices for services as well as the likelihood of larger second-round effects of administered price adjustments due for the coming months on core inflation continued to pose a risk to keeping disinflation in line with the targeted trend.

In the context of major challenges stemming from economic conditions, the central bank decided to combine in a flexible and consistent manner monetary policy, exchange rate, prudential and even administrative measures. During the first part of the period under review in an attempt to prevent the economy from overheating, the central bank relied, to a larger extent, on the interest rate policy. Thus, after deciding to put a halt to key rates cuts in July, in August the NBR tightened further interest rate policy by raising the average effective interest rate on sterilisation operations to 8,5 percent – one of the benchmarks used by credit institutions in setting lending and deposit rates. Moreover, in order to enhance the transparency of the central bank and consistency of monetary policy decisions as well as a view to boosting the signalling role of interest rate- given the adoption of inflation targeting in August – the central bank decided to eliminate the departure between the policy rate and its effective sterilisation rate.

Nevertheless, over the period, the interest rate policy was affected by the restrictions deriving from the significant rebound in speculative capital inflows and by its scant efficiency which was ascribed to the large share of foreign exchange-denominated loans in non-government credit (59,4 percent in August); the two reasons underlay the central bank's decision to refrain from making increased resort to the interest rate policy. In order to tighten further the monetary policy and ensure better functioning of (RON-denominated) credit channel and interest rate channel, on the one hand, and to mitigate the risks that fast-paced foreign exchange-denominated loans

posed to financial stability, on the other, in July the National Bank of Romania adopted a package of measures meant to: (i) gradually apply the 30 percent reserve ratio on all foreign – exchange liabilities, irrespective of their maturity and the date they had been raised, (ii) reduce to 16 percent from 18 percent the reserve ratio on RON-denominated liabilities with maturities of up to two years and (iii) amend the norms on containing household credit risk by tightening bank lending requirements.

At the same time, the central bank resumed its intervention in the foreign exchange market in an effort to deter volatile capital inflows by stifling expectations of steady strengthening of the domestic currency and by increasing the unpredictability of exchange rate movements. The record-high purchases in August notwithstanding, the domestic currency continues to strengthen (by 1,7 percent in nominal terms against the euro, after posting an appreciation of 1,4 percent in July).

Against the backdrop of still raising volatile capital flows, in spite of the implementing mix of measures, the National Bank of Romania decided to radically change its manner of approaching the macroeconomic context, by adopting the extreme solutions of easing the factio the interest rate policy. The daily average interest rates on bank's deposits with the central bank were lowered gradually in anticipation of the restrictive effects of (i) change to required reserves for foreign exchange deposits and (ii) the maintenance of policy rate at 8,5 percent. This decision was implemented via the liquidity policy, with the NBR starting in the latter half of August to gradually reduce the volume of surplus liquidity absorbed through one month deposit operations; under the circumstances, credit institutions imported more frequently to the deposit facility, causing the average interest rate on both one-month deposits and the deposit facility to take a dive.

However, this measure was not efficient enough, as the interbank foreign exchange market still experienced noticeable rises in arbitraging operations; as a result, the NBR viewed the sharp cut in its key rates as a necessary step. Therefore, the

central bank decided to lower the policy rate to 7,5 percent the interest rate on the lending facility to 14 percent and the interest rate on the deposit facility to one percent, the same level applied by the ECB. Moreover, the NBR continued to mop up only part of the liquidity surplus, whereas the banks’ heavier resort to the deposit facility led to a sharp decline in the average interest rate on bank deposits with the NBR (5,2 percent in September). The market reacted swiftly to these decisions ; capital inflows ceased to grow while the domestic currency appreciations came to a halt, posting a trend reversal towards end-September.

In an attempt to mitigate the effects the looser interest rate policy and on liquidity in the economy and to improve non-government credit structure in order to support financial stability, the NBR Board decided in September to take some administrative measures with a view to containing the expansion of foreign exchange – denominated loans . The measures consisted in limiting the exposure of credit institutions to at most 300 percent of its own funds when granting foreign exchange-denominated loans to unhedged borrowers, natural and legal persons (entailing credit risk for the credit institutions acting as lenders).

2. Financial markets and monetary developments

The unexpectedly strong increase in volatile capital inflows and the manner in which the NBR attempted to consolidate monetary stability and preserve banking system soundness had a heavy impact on monetary conditions in 2005 Q3. The RON saw stronger nominal appreciation against the EUR, while short-term interest rates went down , their trend sharpening at the end of the considered period . Money demand was further robust, while the growth rate on non government credit accelerated particularly on the back of the fast increase in household loans.

2.1. Interest rates

Given the specific liquidity conditions and the frequent and sizeable change to the central bank's interest rates, the interbank deposit rates followed a downtrend July through September, with occasionally rapid and sharp downward adjustments.

Thus, after remaining relatively stable in July, in the latter half of August, interbank deposit rates witnessed a plunge as a result of the NBR's decision to stop siphoning off entirely the liquidity surplus via one-month deposit-taking operations. The significant cut in the volume of deposits taken by the monetary authority coupled with the rise in excess reserves in the banking system, following the NBR's purchases of foreign exchange in the considered period, on the one hand, and with the slight drop in demand for liquidity, on the other, led to an unprecedented increase in bank's resort to the deposit facility. Against this background, daily interbank deposit rate plummeted, moving gradually away from the policy rate and nearing the floor of the corridor defined by the standing facility rates. The decline in interest rate sharpened in September amid the step-up in liquidity surplus and the fall in the deposit facility rate; in September, the average interbank rate dipped by 4 percentage points from June to 3,4 percent.

Following the increase in both the liquidity surplus and interbank market uncertainty, interbank deposit rates on overnight transactions fell occasionally even below the deposit facility rate, fluctuating in a wider range (between 1,1 percent and 7,6 percent). Under the impact of the same factors, the volatility of overnight rates rose gradually, hitting a record high in September.

The pick-up in liquidity surplus caused the interbank market to lose depth, with the average volume of interbank transactions decreasing 18,3 percent quarter on quarter. In month-on-month comparison, the loss of depth was the more so obvious considering that the average flow of deposit in September accounted for only 47,4 percent of the June flow.

1M-12 M BUBOR yield curve posted a faster decline, showing however a

flattening trend. Average overnight and one-week BUBOR rates fell even more sharply , their monthly average standing 3 percentage points lower at end September, compared to the end of June; as a result, the spread between monthly average of 12-month BUBOR rate and overnight BUBOR rate widening again, from 1.6 percentage points in June to 3.6 percentage points in September. The spread between overnight BUBOR rate and effective interest rates on overnight transactions rose by 0,2 percentage points.

Similar to the previous quarter, forward rates, calculated on the basis of September quotations, indicate that interbank rates will remain unaltered in the following three months (3-month BUBOR rate is expected to reach 7,8 percent in December, staying almost flat compared with Q3). For March and June 2006, 3-month BUBOR rate is anticipated to move down by 0,4 percentage points and 0,6 percentage points respectively, compared to the level for December 2005. According to the NBR's monthly survey, the 12-months BUBOR rate is expected to drop half of a percentage point in October and one percentage point by October 2006 (compared with the level recorded at end-September 2005).

Unlike interbank rates, interest rate on the primary market for government securities fell steeply only in September, down 1,7 percentage points on 3-months T-bills and 1,1 percentage points on 3-years bonds. By contrast , interest rates on newly – issued government securities flattened out somewhat in July and August after edging up in the previous quarter.

In September, the fall in interest rate on government securities was fostered by strong demand of market participants for government paper, on the one hand, and by the low volume of government securities on offer, on the background of further surplus in the Treasury's account, on the other. As a matter of fact, this surplus allowed the Ministry of Public Finance to make net redemption of roughly RON 63 million, i.e. the entire amount projected to be redeemed.

In the quarter under review, the Ministry of Public Finance issued particularly

government securities with maturities of 3,5 and 10 years and only to a small extent 3-month Treasury certificates; the interest rates on the newly – issued securities ranged between 5,4 percent and 8 percent.

Unlike other categories of interest rates, the interest rates applied by banks to non-bank non-government clients decreased at a slower pace June through August 2005. The development was illustrative of the fact that the NBR interest rates cuts over the first half of the year no longer acted as an incentive. The drop in the average interest rate on deposits with the central bank in September is seen to gradually feed through to the interest rates applied by credit institutions, which are expected to move down faster in the coming months.

In 2005 Q3, the average interest rate on new time deposit went down 0,4 percentage points, while that on new loans declined by one percentage point. In the latter case, the steeper decrease was due to the 1,3 percentage point drop in the interest rate on loans granted to legal entities, possible as a result of stiffer competition. By contrast, the smaller adjustment of interest rates on time deposits made be attributed to the relative sensitiveness of some credit institutions (holding a large share of household savings) to the NBR officials’ statements on the maintenance of interest rate at attractive levels for depositors.

2.2. Exchange rate and capital flows

Approaching the adoption of direct inflation targeting was one of the catalysts for the occurrence of the effects of April liberalisation of non-residents’ access to leu-denominated time deposits. Starting July, capital inflows increased sharply, leading to record high turnover on the interbank foreign exchange market, which exceeded by far the previous quarter’s readings, and to an unprecedented increase in pressures on the exchange rate of the domestic currency.

On this background, in July and August, the nominal appreciation of the domestic currency against the euro accelerated significantly. Towards the end of Q3, interbank forex market conditions changed markedly, causing the fall of RON/EUR rate to come to an end and leading subsequently to a trend reversal thereof; nevertheless, the domestic currency appreciated by 3 percent in nominal terms versus June (- 4,7 percent in real terms). In the quarter under review, the RON strengthened by 3,6 percent in nominal terms against the USD (5,3 percent in real terms), regaining part of the ground lost in the previous 3-month period. Calculated as annual average change for the third quarter, the domestic currency strengthened further against the EUR (16,2 percent in nominal terms and 26,5 percent in real terms), slowing however its appreciation against the USD (16 percent in nominal terms and 26,3 percent in real terms).

The mounting pressures on the exchange rate of the RON stemmed from the very high levels of oversupply on the foreign exchange market in the first two months of the third quarter, fuelled by short-term capital inflows which reflected nonresidents' keener interest in acquiring RON-denominated assets (see Section 1. Monetary Policy). Seasonal factors, such as the pick-up in the volume of remittances from abroad, the rise in receipts from tourism, as well as the lower demand for the foreign currency to make payments on external private debt also contributed to the step-up in the foreign currency surplus on the forex market. Moreover, forex market supply was fed by part of the financial flows which were specifically aimed at bridging the higher trade deficit or at meeting the higher level of required reserves in foreign exchange by banks. July through August, capital inflows went up against the background of : (i) the 4,4 time expansion in non-resident banks' deposits compared to the previous quarter; (ii) the sales of foreign securities by resident banks, amounting to EUR 333 million in July and EUR 368 million in August; (iii) the still high volume of foreign loans taken by banks and corporate sector. On the other hand, the EUR 500 million-worth of funds raised by Bucharest Mayoralty at end-June following the bond issue in Luxembourg had no

impact on the foreign currency supply in the interbank forex market.

In an attempt to dampen volatile capital inflows and to put a halt to the excessive appreciation of the RON, in July-August period, the central bank purchased a record high volume of foreign currency on the forex market. Starting with the latter half of Q3, the NBR eased the liquidity policy and the interest rate policy in an effort to reduce arbitraging opportunities. Even though it became less predictable, in August, the RON/EUR exchange rate continued to decline steeply. However, in September, the downward trend came to a halt and the exchange rate moved up, due to re-emergence of forex deficit on the interbank market, causing the RON to soften 0,1 percent in nominal terms. The drop in foreign exchange supply towards the end of Q3 was mainly due to the declining short-term capital inflows following the decrease in NBR interest rates and interbank rates, as well as to the fact that investments on other markets became more profitable. The seasonal drop in remittances also contributed, to a lesser extent, to the contraction in total foreign exchange sales.

In the coming months, amid further lowering pressures from volatile capital inflows, the scope of influence of the traditional determinants of the exchange rate path is expected to broaden; in this respect, in the short run, the following developments will prevail: (i) possible widening of the trade deficit; (ii) increase in payments on external private debt; and (iii) pick-up in the volume of remittances in December. Some of the effects of the said developments were already manifest in October, when the domestic currency depreciated at a faster pace against the euro.

2.3. Money and the credit

Money

In June-August 2005, money demand remained robust, the growth rate (30,4 percent) of broad money (M2) slowing only slightly compared to previous months”

record values. The expansion was largely due to the same factors as in the previous period (foreign capital inflows, including those associated with privatisation proceeds, increase in non-government credit and the change in households’ financial asset portfolio structure); the impact of rising public spending during the reported period added to the above-mentioned factors.

However, the structure of M2 witnessed a relative worsening, as a result of the non-bank sector’s increased propensity for holding liquid monetary assets. Whilst narrow money (M1) rose at one of its fastest rates in the last decade, quasi-money dynamics slowed; under these circumstances, the share of M1 in broad money peaked at 25,8 percent, a record monthly average for the past 7 ½ years. Demand deposits remained the fastest growing component of narrow money, as their rise was driven mainly by the low opportunity costs as well as by certain incidental factors. On the other hand, the increase in currency outside banks followed a relatively stable path, except for June, ahead of the upcoming domestic currency redenomination.

Composition of broad money by currency continued to improve, with the share of forex deposits in M2 touching its lowest monthly average in the last 6 ½ years, i.e. 32,9 percent.

The growth of household deposits continued to slow down during the reported period. This was the result of the deceleration in the growth of savings (in both domestic and foreign currencies) that occurred despite the accelerated growth in disposable incomes of households (against to background of the increase in wages and remittances from abroad) and the contraction in government securities portfolio held by individuals. Given the drop in interest rates on time deposits, the sharper decline in leu-denominated savings of households was associated with unprecedented increase in their current account.

The growth rate of corporate deposit also slowed, given that the change in leu-denominated time deposits stayed on downward drift, while the change in forex

deposits resumed the downtrend in July. The slower pace of increase incorporate forex deposit was caused by the transfer of privatisation proceeds to the MPF account and by the potential impact (still at an early stage) of liberalisation of residents' access to opening accounts abroad. On other hand, the following inflows were channelled to the companies' accounts: (i) transfers representing capital increases of newly-privatised companies, (ii) changes in non-bank clients' financial asset portfolios (the stock of government securities fell 15,6 percent in real terms during the reported period), and (iii) budget appropriations for the rehabilitation of houses and infrastructure hit by natural calamities.

Non-government credit

The growth rate of non-government credit continued to gain momentum June through August 2005 (26,4 percent, the highest monthly average so far this year), reflecting the faster increase in household loans. The main drivers of this development were the increase in household incomes and the strengthening of the domestic currency, on the one hand and the keener competition among credit institutions, mirrored by relatively low interest rate and a large range of banking products, on the other hand, against the background of a pick-up in banks' borrowings and deposits from abroad; under one-off factor that must likely spurred lending during the reviewed period was the fact that borrowers sought to avoid the tighter conditions imposed by the entry into force of the new norms on lending.

The structure of non-government credit by currency reveals a steady upward trend in leu-denominated loans and the commencement of a deceleration in the growth of forex-denominated loans (expressed in EUR). Thus, the share of foreign exchange-denominated loans in total loans witnessed a decline, yet it stayed high (59,7 percent, on average, during the period under review), whereas the spread between the growth rates of forex and leu-denominated loans narrowed steadily. It is quite likely that, towards the

end of the period, this trend also reflected the impact of changes to required reserves. By borrower, loans to households continued to grow faster, their rate outpacing that of corporate loans. Long-term loans in domestic currency households rose most rapidly due to the relatively low interest rates on real estate and mortgage loans. Nonetheless, demand for consumer loans remained very strong, such loans accounting for 74 percent, on average, of total loans; however, in the case of this category of loans, a gradual rise in the households' preference for forex-denominated loans was manifest.

The annual inflation rate was 8,6 percent at the end of 2005. The upward revision of the August projection (7,5 – 8 percent) was due to larger than expected increases in oil and food prices, as well as a higher forecasted exchange rate of the RON against the euro for the fourth quarter of 2005. In our opinion, disinflation is projected to continue through 2006, supported by the gradual reduction of the excess demand on the favorable influences of the RON exchange rate on import prices. It is nevertheless expected that the substantial adjustments projected for administered prices, along with a temporary slowdown in the reduction of inflation expectations in the first part of 2006, will push the year-end inflation close to the upper bound of the target band or even to overflow it with one percent.

The main risks of deviations from the projected inflation path could be generated by: new significant hikes in world oil and gas prices, increases in administered prices which may differ in terms of magnitude and timing from the forecast assumption, substantially different exchange rate dynamics as well as less prudent fiscal and wage policies than assumed in the baseline scenario.

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SOME CONSIDERATIONS RELATED TO THE COST OF THE CAPITAL

Lecturer Gheorghe GAVRILAŞ, “Petru Maior” University, Tîrgu-Mureş

The cost of the capital always remains a problem in discussion, living behind concepts and also considerations which don't wander us from the truth, but on the contrary, helps us to understand much deeply the economic realities.

In this study, I started from the reason that it would be necessary to present the cost of the capital taking into consideration not only the capital pattern but also the financial pattern.

In this context, I took into analysis a Commercial Bank Society.

In the table no 1.A. the main indicators are reproduced, with witch we will operate for the determination of the cost of the capital, respectively social capital, intrinsic capital, necessary operating capital, total capital, net profit and distributed dividends.

Table 1.A

mii lei ROL lei RON

No.	Indicators	Period				
		2001	2002	2003	2004	2005
1.	Social capital	200.000.000	440.000.000	600.000.000	1.200.000.000	120.000.000
2.	Premiums related to the capital	903.676	-	-	-	-
3.	Provisions	199.324.715	339.132.274	358.814.680	388.532.455	45.490.404
3.1.	Legal provisions	110.056.927	164.784.362	208.926.047	211.863.839	45.490.404
3.2.	General provision for the credit risk	16.222.061	29.129.248	38.190.398	64.970.381	-
3.3.	Other provisions	73.045.727	145.218.664	111.698.235	111.698.235	-
4.	Provisions from reassessment		17.089.096	19.754.054	19.754.054	-
5.	Funds	53.863.349	-	-	-	-
6.	Differences from reassessment	15.338.065	-	-	-	-
7.	Advances on the costs for risks and charges	-	51.929.052	35.710.986	-	223.335
7.1.	Other advances on the costs	-	51.929.052	35.710.986	-	223.335
8.	Intrinsic capital	469.429.805	848.150.422	1.014.279.720	1.608.286.509	165.713.739
9.	Debts on medium and long term	32.276.981	85.718.629	64.770.589	58.648.295	4.992.935
10.	Afferent interests	4.474.609	10.440.290	4.546.925	4.680.492	186.707
11.	Commissions	207.898	509.801	330.640	189.864	9.433
12.	Necessary operating capital	506.389.293	944.819.142	1.083.927.874	1.671.805.160	170.902.814
13.	Debts on short-term	1.465.893.588	2.254.434.288	3.459.494.950	5.226.090.925	883.405.981
14.	Afferent interests	202.683.228	285.318.634	233.511.959	409.522.378	32.004.174
15.	Commissions	9.416.990	13.932.143	16.980.331	16.612.263	1.617.021
16.	Total capital	2.184.383.099	3.498.504.207	4.793.915.114	7.324.030.726	1.087.929.990
17.	Net profit	155.216.672	220.093.277	180.898.754	92.042.900	19.818.171
18.	Distributed dividends	60.000.000	91.664.000	127.695.920	62.325.125	7.247.032

Starting from the Gordon-Shapiro formula, we can calculate the cost of the intrinsic capital:

$$P_A = \frac{D_t}{r-g} \Rightarrow r = \frac{D_t}{P_A} + g$$

For 2001, $r = \frac{7.500}{25.000} + 11.902 = 11.902,3$ lei/sher. We apply the same method for the years 2002, 2003, 2004 and 2005; the resulted information are given in the table 1.B

Table1.B

No.	Indicators	Period				
		2001	2002	2003	2004	2005
1.	Number of shares	8.000.000	17.600.000	24.000.000	48.000.000	48.000.000
2.	Nominal value(P_A)	25.000lei ROL	25.000 lei ROL	25.000 lei ROL	25.00 lei ROL	2,5 lei RON
3.	Dividend/Share	7.500lei ROL	5.208 lei ROL	5.320 lei ROL	1.298, lei ROL	0,15 lei RON
4.	Net profit /Share	19.402 lei ROL	12.505 lei ROL	7.537,4 lei ROL	1.917,5lei ROL	0,4128 lei RON
5.	g	11.902lei ROL	7.207,37leiROL	2.216,78lei ROL	619,12 lei ROL	0,261 lei RON
6	r	11.902,3leiROL	7.207,2 lei ROL	2.216,99lei ROL	619,17 lei ROL	0,3218 lei RON
7.	r %	47,60	28,82	8,86	2,47	12,87
8.	g%	61,34	57,63	29,41	32,28	63,42

The cost of the intrinsic capital is given by the profitability rate claimed by shareholders who, in this context, is between 2,47% and 47,60%; rate of capitalization of the profit is between 29,41% and 63,42%.

Hereinafter we determine the cost of the outside capital on medium-term and long-term. This cost is given by the suitable rate of interest and bank commissions cumulatively.

Table 1.C

No.	Indicators	Period				
		2001	2002	2003	2004	2005
1.	Rate of interest (r_{dl})%	13,86	12,17	7,02	7,98	3,73
2.	Rate of commission %	0,64	0,59	0,51	0,32	0,18

The cost of the outside capital is between 3,73% and 13,86%, this being given by the rate of interest and by the additional elements, respectively commissions between 0,18% and 0,64%.

If we know the two costs, we determine the weighted cost-average of the capital:

$$\bar{c}_1 = \frac{c_{pr}}{c_{pr} + c_{\hat{i}}} \times r\% + \frac{c_{\hat{i}}}{c_{pr} + c_{\hat{i}}} \times r_{d_1}\%$$

Thus, in 2001:

$$\bar{c}_1 = \frac{469.429.805}{469.429.805 + 32.276.981} \times 0,476 + \frac{32.276.981}{469.429.805 + 32.276.981} \times 0,1386 = 45,42\%$$

According to this calculation algorithm in 2002 $\bar{c}_1 = 27\%$, in 2003 $\bar{c}_1 = 8,74\%$, in 2004 $\bar{c}_1 = 2,66\%$ and in 2005 $\bar{c}_1 = 12,59\%$

Taking into consideration the fact that short-term debts have a continual characteristic, it is essential to determine the cost of those. The results are presented in the table 1.D.

Table 1.D

No	Indicators	Period				
		2001	2002	2003	2004	2005
1.	Rate of interest (r_{d_2}) %	13,82	12,65	6,74	7,83	3,62
2.	Rate of commission %	0,64	0,61	0,49	0,31	0,18

Hereinafter we determine the cost-average of the capital, taking into consideration, this time, the short-term debts which had a continual characteristic.

$$\bar{c}_2 = \frac{c_{pr}}{c_{pr} + c_{i_1} + c_{i_2}} \times r\% + \frac{c_{i_1}}{c_{pr} + c_{i_1} + c_{i_2}} \times r_{d_1}\% + \frac{c_{i_2}}{c_{pr} + c_{i_1} + c_{i_2}} \times r_{d_2}\%$$

For 2001 the weighted cost-average of the capital is:

$$\bar{c}_2 = \frac{469.429.805}{1.967.600.374} \times 0,476 + \frac{36.959.488}{1.967.600.374} \times 0,1386 + \frac{1.677.933.806}{1.967.600.374} \times 0,1382 = 21,86\%$$

Following the same calculation algorithm in 2002 $\bar{c}_2 = 16,92\%$, in 2003 $\bar{c}_2 = 7,21\%$, in 2004 $\bar{c}_2 = 6,56\%$ and in 2005 $\bar{c}_2 = 5,06\%$.

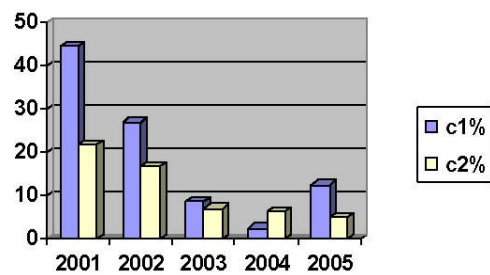
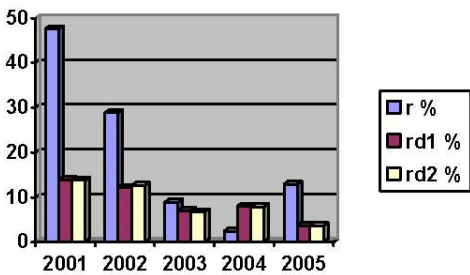
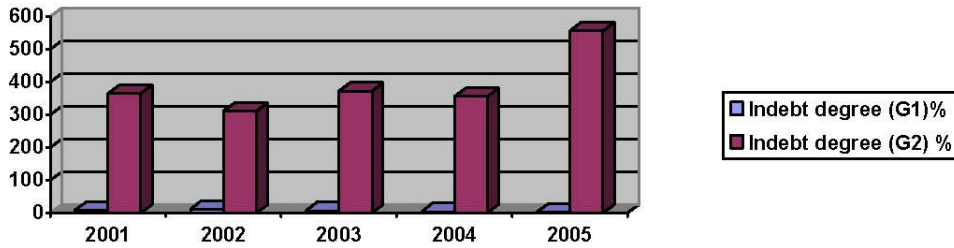
We present the previous information in the table 1.E. In this table are calculated the indebt degrees (medium-term and long-term indebt and the medium-term, long-term and short-term indebt)

Table 1.E

No.	Indicators	Period				
		2001	2002	2003	2004	2005
1.	Indebt degree (G_1) %	7,87	11,39	6,86	3,94	3,12
2.	Indebt degree (G_2) %	365,32	311,42	372,64	355,39	556,51
3.	r %	47,60	28,82	8,86	2,47	12,87
4.	rd_1 %	13,86	12,17	7,02	7,98	3,73
5.	rd_2 %	13,82	12,65	6,74	7,83	3,62
6.	\bar{c}_1 %	44,42	27	8,74	2,66	12,59
7.	\bar{c}_2 %	21,86	16,92	7,21	6,56	5,06

The indebt degree G_1 had been calculated as a division between the medium-term and long-term debts and the intrinsic capital; the indebt degree G_2 as a division between the sum of debts and the intrinsic capital.

The determinations from the tables: 1A-1E is graphically represented below:



Some considerations must be underlined:

- the intrinsic capital has the highest cost;
- there are no major value differences between the cost of outside capital on the medium and long term and the cost of outside capital on the short-term;
- indebt degree on medium and long term is decreasing and the indebt degree on short-term is increasing; thus, the bank society prefers a short-term indebt;
- weighted cost-average is calculated taking into consideration the economy tax;
- during the entire analysed period 2001-2005, the three elements of the cost of the capital (r , rd_1 , rd_2) had suffered important diminution. Thus " r " from 47,60% to 12,47%, rd_1 from 13,86% to 3,73% and rd_2 from 13,82% to 3,62%. All these in the context of the great increase of the indebt degree G_2 from 365,52% to 556,51%;
- the capital cost is determined by the rate of discounting, rate which implies

an estimation of the profitability claimed by shareholders and of the rate of the interest “supervised” by the National Romanian Bank;

- in the case of the G_1 's increase in the context of the growing claim of the credit, we can estimate an increase of rd_1 and rd_2 , simultaneously with a decrease of “ r ”. Simultaneously with the interest's increase, even if there is tax economy, the costs will diminish the incomes, as a conclusion, the gross and net profit;

- „ r ” wouldn't diminish so much if the state didn't act through fiscal policy as it happens very often (example: the decrease of the tax on profit from 40% to 25% and to 16%);

- When the entity uses intrinsic and outside stocks, it is necessary to determine weighted cost-average and the marginal cost of the capital.

- Starting from the information obtained in the determination of the cost of the capital between 2001 and 2005, an estimation of this for a future period (2006-2010) means the usage of probability calculations, prognosis. Up to the present, the social capital (120.000.000 lei RON, between 2001 and 2005) had a cost defined through distributed dividends of 41.415.536,5 lei RON and the profit reinvested from its remaking was 84.643.331,3 lei RON.

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LES RESPONSABILITES DE L'ETAT EN MATIÈRE FISCALE

Conférencière Dr. Ioan Dan MORAR, Université des Oradea

Le pouvoir financier de l'Etat s'exerce dans un cadre institutionnel, et est soumis à des procédures dont les justifications sont à la fois politiques et techniques.

Les lois de finances sont votées par le Parlement, préparées et exécutées par le Gouvernement, et assurent une répartition des rôles entre les deux pouvoirs.

S'action financière de l'Etat est donc soumise à des formes, encadrée par des procédures, et mise en œuvre par des acteurs politiques et administratifs.

Elle repose aussi sur un ensemble de mécanismes, particulièrement complexes dans un système comme le nôtre où public et privé sont étroitement imbriqués.

Le Trésor et la Banque Nationale jouent au sein de ces mécanismes un rôle prépondérant. Enfin, au cœur de l'action financière de l'Etat il y a nécessairement le pouvoir fiscal, instrument privilégié de l'action de l'Etat, mais aussi reflet de la société elle-même, de ses structures comme de son inconscient.

L'Etat, a toujours assumé des responsabilités particulières vis-à-vis de l'économie. Cette présence de l'Etat s'est diversement manifestée selon les épargnes et selon la nature des instruments utilisés.

Les finances publiques contemporaines, nées des crises, des guerres, et de

l'évolution de la demande sociale elle-même, sont caractérisées par un changement de dimension qui a transformé leurs rapports avec l'économie générale.

L'Etat, au plutôt l'ensemble des collectivités publiques, influe ainsi directement et massivement sur l'efficacité de notre l'économie, sur la structure des biens mis à notre disposition, et sur la répartition des richesses.

Ce changement de dimension des Finances Publiques se manifeste sans deux aspects. Un aspect quantitatif d'abord : le poids financier de l'Etat et de ses composantes par rapport au P.I.B. a considérablement augmenté. Un aspect quantitatif ensuite : ce n'est pas seulement le volume des flux financiers publics qui s'est accru, mais c'est aussi leur contenu qui s'est transformé.

Des dépenses d'un type nouveau se sont développées, et répondent à des objectifs qui ne sont pas tous économiques, mais qui ont tous des incidences économiques. Durant les décennies qui ont suivi la seconde guerre mondiale tout s'est passé comme si les Etats occidentaux, tout en inscrivant leur politique et financière dans le cadre théorique de l'économie de marché s'étaient, en réalité par des interventions de toute nature, efforcés de modéliser le marché selon leurs préférences.

L'Etat était ainsi devenu l'instrument privilégié de régulation de l'économie.

L'expérience a, d'autre part, montré à quel point était simpliste l'idée selon laquelle la micro-économie pouvait être réduite à la condition de serviteur passif d'une macroéconomie orientée et dirigée par l'Etat. Les dépenses publiques, la fiscalité, la monnaie et le crédit ne sont pas les seuls déterminants de l'économie, quelle que soit leur importance stratégique : les décisions prises au sein de la microéconomie, les réactions qu'engendre toute modification des règles du jeu par l'Etat, les relations entre les différents acteurs privés, nationaux et internationaux, affectent profondément et rapidement l'économie globale, et sont susceptibles de déjouer ou d'accumuler les projections faites au niveau de l'Etat.

Mais ce n'est pas seulement l'efficacité de l'intervention de l'Etat qui a été

contestée, notamment sans ses aspects financiers, mais aussi la légitimité même de cette intervention. A des degrés divers, dans tous les Etats occidentaux, le rôle de l'Etat n'est important.

Mais l'idée que c'est le marché, et non l'Etat, qui est l'instrument global de régulation de l'économie fait désormais l'objectif d'un large consensus.

Cette idée a en deux conséquences : elle s'est traduite, tout d'abord, par la volonté de mettre fin à la gestion administrée de l'économie ; elle a fait aussi sentir ses effets au sein de l'Etat lui-même qui, au moins dans certains domaines, s'est aligné sur les principes de l'économie de marché.

A l'époque contemporaine le désengagement de l'Etat, s'est opéré de plusieurs façons : la plus spectaculaire a été le mouvement de dénationalisations que a affecté les économies occidentales, l'Etat a, d'autre part, très largement cessé de protéger du marché et la politique industrielle.

Les mesures fiscales soient votées par le Parlement, la technicité de l'impôt et le fait qu'il constitue un sujet particulièrement risibles, font que le Gouvernement garde la haute main sur l'imitation des projets et par conséquent sur la décision fiscale. Tout en sont de son droit d'amendement, le Parlement prend rarement l'initiative eu la matière, les textes votés étant la plupart du temps d'origine gouvernementale.

Le Gouvernement, comme tout pouvoir, n'est cependant pas totalement autonome dans sa prise de décision. Celle-ci est le fruit d'avis autorisés comme de discussion ou de concertations avec d'autres acteurs. La réalité du processus de décisions est toutefois peu apponante parce qu'il relève de pratiques complexes dont aucune règle écrite ne fixe de procédure.

Le processus de la décision fiscale et l'expression de la décision politique et s'organise aussi sur la base d'autres réseaux que ceux traditionnellement identifiés et analysés et dans laquelle s'affirme une approche technique qui n'est pas exempte toutefois d'influences politiques.

Ceux est une conséquence de l'évolution générale contemporaine et d'une structuration en réseaux au sein desquels la décision devient la productif d'une dialectique parfois difficile à appréhender.

C'est souvent l'attouchement de ce processeur que les parlementaires ont reculement ô la prise de décision fiscale, ou doit release le rôle important du Service de la législation fiscale aussi que celui d'organes de concentration et de conseil.

Les finances locales occupent aujourd'hui une place essentielle dans le processus de transformation de la société qui s'est engagé dans le cadre de la décentralisation des collectivités territoriales.

Aussi doit-on souligner d'entrée que les finances locales ne se situent pas seulement au cœur d'un processus de transformation des structures locales ; celui-ci concerne plus globalement les structures de l'Etat ainsi que celles du marché économique et financier.

Issue d'un double mouvement, un retrait de l'Etat et un élargissement corrélatif de l'espace d'intervention des initiatives locales publique et privées, une telle recomposition est celle qui résulte d'une connection plus étroite entre organismes du secteur multiples rapports qui se nouent en viennent à former de véritables systèmes, dépassons les cadres habituels de fonctionnement.

De fait, l'on peut constater qu'au plan local et depuis quelques années, les ponts se sont multipliés entre sphère publique et sphère privée ; des partenariats se sont instaurés, des relations se sont établies, qui forment aujourd'hui un ensemble aux ramifications particulièrement étendues.

D'autre part, une multitude d'acteurs interviennent dans un tel cadre, non seulement les communes, les départements, les régions et leurs établissements publics, l'Etat ainsi que les autorités déconcentrées de celui-ci, mais aussi des sociétés d'économie mixte, des associations, des groupements d'intérêt public, des entreprises, des banques, sans oublier les lieux avec les institutions financières.

Nous passerons en revue les défauts que doivent éviter les impôts locaux, ainsi que les qualités qu’ils doivent avoir. Nous constaterons ensuite que, en dépit un système cohérent de solutions, précisément dans les cas où les collectivités locales sont de taille réduite. Ceci est fort heureux, car nous savons que ce sont là les cas où l’éventail du choix entre tous les types d’impôts est le moins ouvert.

Les impôts locaux doivent satisfaire à un ensemble d’interdits plus rigoureux que les impôts d’Etat, en raison de la combinaison de deux nécessités évidentes : ne pas comporter de risque de doubles emplois, de la part de collectivités locales différents sur une même assiette ; ne pas nécessiter des contrôles aux limites des territoires des collectivités locales.

En ce qui concerne l’interdit des doubles emplois, il s’agit, certes, d’une exigence également applicable aux impôts d’Etat.

Mais les Etats exercent, eux, des contrôles à leurs frontières, et le respect de la règle de souveraineté fait que chaque Etat est absolument maître chez lui, dans le domaine des impôts indirects, sans courir la risque d’établir des impositions formant double emploi avec celles d’autres pays.

Ainsi, entre Etats, le risque de double emploi n’existe qu’en matière d’impôts sur le revenu et sur les patrimoines, de telle sorte que ces deux types d’impôts sont le principal objet des conventions de double impositions que les Etats concluent les uns avec les autres.

L’existence d’unités monétaires distinctes aide, du reste, au fonctionnement de ces conventions.

Il est évident hors de question que des contrôles aux frontières puissent exister entre les collectivités locales d’un même Etat.

Ce serait restreindre la liberté de mouvement des citoyens, et les apposer les uns des objectifs du pacte social. Ce serait aussi grever l’activité économique de charges inutiles et arbitraires.

Seule l'opiniâtreté de l'ancienne conception régaliennne de l'impôt, sans doute, a permis que les droits d'octroi perçus ou bénéfice des communes subsistent aussi longtemps que cela a été le cas.

Tout comme les impôts d'Etat, les impôts locaux doivent : être économiquement neutre (c'est-à-dire satisfaire ou postulat économique de la fiscalité) ; être équitables, c'est-à-dire taxer de la même manière des contribuables qui se trouvent dans de situations identiques, ou sein de la collectivité locale.

L'Etat a, enfin, pratiqué, à tous les niveaux, une politique de déréglementation etc.

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LA REFORME DU SYSTEME DE RETRAITES EN ROUMANIE - LE PILIER PUBLIC -

Dan MAJOR, Université „Dimitrie Cantemir” des Tîrgu-Mureş

Dans le monde entier, les difficultés financières auxquelles se confrontent les systèmes de Sécurité Sociale sont engendrées principalement par le vieillissement de la population. Pour l'équilibre budgétaire, on adopte soit des mesures d'augmentation des contribution ou de diminution du quantum des prestations, soit leurs combinaisons. En Roumanie, la transition vers l'économie du marché, outre ses avantages économiques et sociaux indéniables, a impliqué aussi l'apparition des phénomènes négatifs, avec des implications sur le plan social, ce qui a déterminé un alignement permanent du système public de retraites sur les conditions économiques, sociales et politiques des 16 dernières années.

INTRODUCTION

Jusqu'en 2001, le système national de retraites en Roumanie était de type redistributif pay-as-you-go (PAYG), dans lequel les dépenses pour les retraites courantes étaient couvertes de la contribution des génération actives dont les retraites devaient être a leur tour financées par les générations futures. Dans le

cadre du système public on accordait des pensions d'ancienneté, des pensions d'invalidité et de succession, de même que d'autres prestations sociales.

L'organisation et le fonctionnement du système public de retraites étaient règlementés par la loi 3/1977. Celle-ci spécifiait, entre autres, des prévoyances sur la pension supplémentaire, sur la retraite anticipée et sur des aspects concernant l'aide sociale. Les mutations majeures de la période de transition ont déterminé des changements aussi du cadre législatif, la loi déjà évoquée étant successivement amendée après 1990.

Le droit à une pension se créait à l'accomplissement cumulatif des conditions concernant l'âge légal de retraite et l'ancienneté dans le travail. L'âge standard de retraite et l'ancienneté était de 57 ans pour les femmes et 62 ans pour les hommes. Mais en réalité, dans les conditions de la retraite anticipée à 52 ans les femmes et 57 ans les hommes, l'âge moyen de retraite avait atteint 51 ans pour les femmes et 56 pour les hommes¹. L'unique critère d'éligibilité étaient constitué par l'ancienneté accomplie dans le travail, de 25 ans pour les femmes et 30 ans pour les hommes. Les personnes engagées et les chômeurs ont été les catégories socio-professionnelles qui ont bénéficié en particulier de ces prévoyances favorables à la retraite.

Il y avait aussi des fonds pour la pension supplémentaire auxquels contribuaient obligatoirement tous les salariés couverts par une assurance dans le système public. La période minimale de cotisation était de 5 ans, à la retraite l'assuré ayant la possibilité de bénéficier d'une augmentation du quantum de sa pension de 12% au maximum.

La base de calcul pour établir le quantum de la pension était représentée par la moyenne des revenus obtenus au cours de 5 ans consécutifs des 10 dernières années de travail, le revenu de référence étant constitué du salaire brut de base auquel on ajoute une série d'augmentations permanentes.

Le système public de retraites était entièrement financé des contributions payées intégralement des employeurs. Les salariés ne contribuaient qu'en pourcentage de 3% (initialement 2%) aux Fonds pour la pension supplémentaire. Les subventions du budget d'État ont constitué une source supplémentaire importante de revenus, dans le contexte des déficits successifs enregistrés du budget de la sécurité sociale d'État.

Le système de retraites était complété par de multiples systèmes de pensions constitués pour différentes professions. Ainsi, il y a eu des systèmes de sécurité sociale des avocats, du personnel militaire et des structures MAI, des artistes, des écrivains et musiciens, des cultes religieux admis par la loi. La plupart de ces systèmes ont été intégrés dans le système de la sécurité sociale d'État, à partir de 1992, à présent seuls les avocats et les militaires ayant leurs propres systèmes de sécurité sociale.

¹ Lambru, M.; Chirițoiu, B. – „Le Système Roumain de la Sécurité Sociale et l'adhésion à l'Union Européenne”, Institutul European din România, București, 2002, p.25

1. Arguments pour la réforme

Au début de la période de transition le système de retraites roumain se trouvait dans une situation relativement positive: le rapport entre les contribuables et les retraités était surunitaire et les taux de participation de la population sur le marché du travail enregistraient des valeurs élevées. Par conséquent, le budget de la sécurité sociale d'État était excédentaire, au moins dans les premières 5 années après 1989, et le taux de remplacement des revenus provenant des salaires avec la pension est resté à des niveaux élevés. L'action combinée de plusieurs facteurs tels le rapport de dépendance, les conditions difficiles du marché du travail (le chômage élevé) et la situation économique aussi, ont exercé un impact négatif sur les

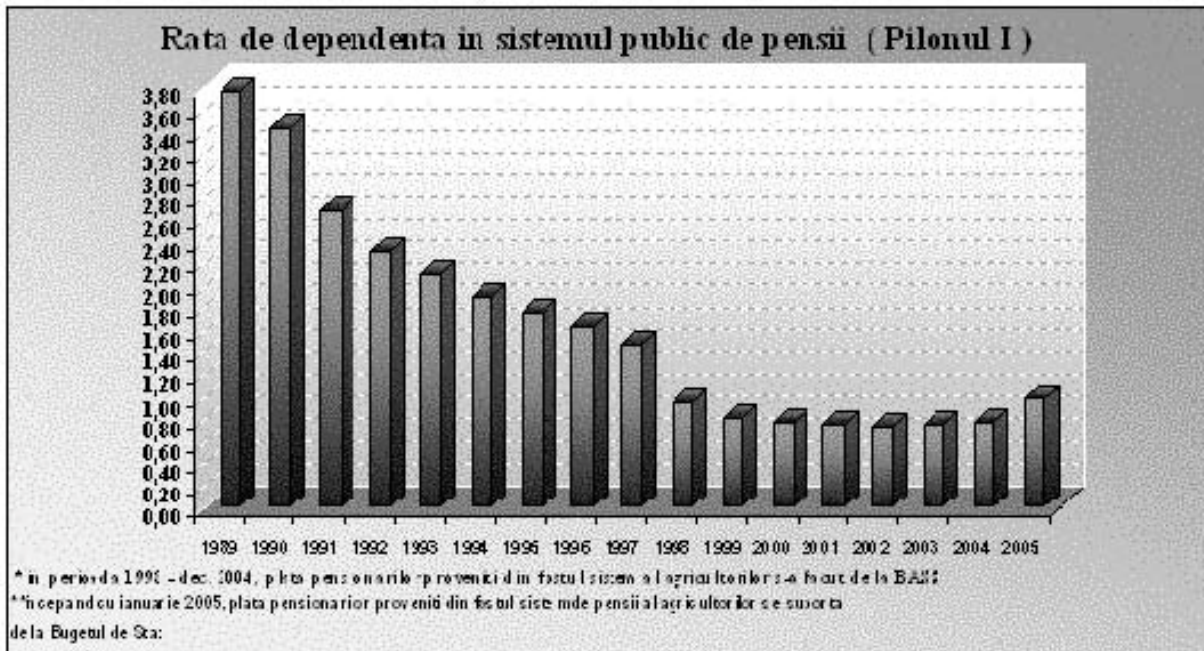
dépenses publiques pour les pensions et sur le soutènement du système.

Le poids des dépenses publiques pour les pensions dans GPB se trouve étroitement en liaison avec la participation de la population sur le marché du travail. Une diminution du nombre absolu de contribuables n'est pas la seule explication qui vaille pour les niveaux bas des dépenses pour les pensions enregistrés en Roumanie. Ils sont dûs aussi aux petits revenus collectés au budget de la sécurité sociale d'État. Le dynamisme positif du secteur d'information, les dettes importantes au budget de la sécurité sociale d'État ont érodé le niveau des revenus disponibles, en dépit de certaines valeurs élevées de la participation de la population sur le marché du travail.

Les conditions démographiques de la Roumanie ne constituent pas le moteur de la réforme dans le domaine des retraites, mais, à long terme, elles ne peuvent pas être ignorées. Les données et les études des spécialistes indiquent une diminution de la population jeune sur le fond d'un taux de croissance naturelle négative, alors que le poids de la population de plus de 65 ans augmente. On estime qu'en 2020 le pourcentage de la population âgé de plus de 65 ans dépassera 20% dans le total de la population active.

L'aggravation de cette situation s'explique par les changements radicaux produits dans le rapport entre les retraités et les contribuables. Pendant 10 ans (1990-2000), ce rapport a diminué de plus de moitié, de 3.43, en 1990, à 1.2 en 2000. Plus précisément, le nombre des retraités a doublé, tandis que, dans la même période, le nombre de contribuables s'est réduit de moitié. En 1990, environ 8.2 millions de salariés finançaient les pensions de 2.4 millions de retraités, en 2000 le rapport était presque unitaire, demeurant relativement constante jusqu'à présent (en février 2006 le taux est de 0.98), comme on peut le remarquer dans le graphique nr. 1.

Graphique nr. 1 - Le taux de dépendance dans le système public de retraites – pilier 1



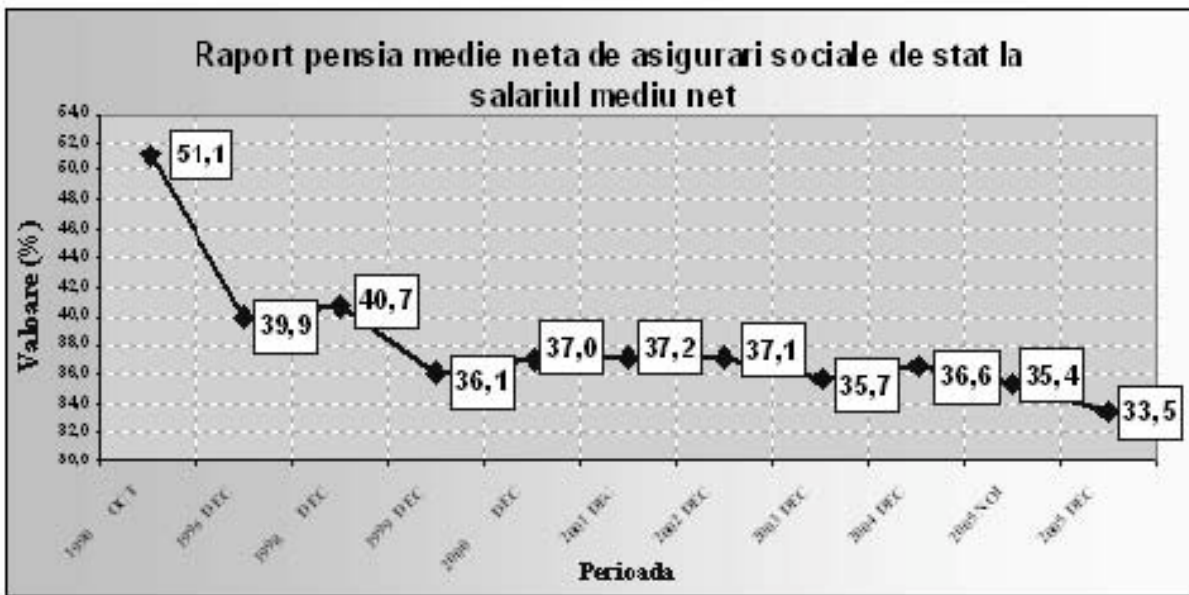
Source: CNPAS 2006

La croissance sans précédent du nombre des retraités est due, entre autres, aux conditions moins restrictives concernant la retraite anticipée et la retraite à cause d’une maladie (la pension d’invalidité). Cette tendance de croissance du nombre des retraités corrobore avec le phénomène du travail noir, de l’immigration accentuée de la force de travail jeune et les grandes dettes au budget de la sécurité sociale d’Etat complète le tableau des obstacles majeurs auxquels s’est confronté et se confronte encore le système public de retraites.

Dans le contexte de la crise financière que traverse le système public, les taux de remplacement des revenus obtenus des salaires avec la pension ont continuellement diminué, provoquant l’appauvrissement de la population de plus de 65 ans. Les mesures de recorréler des pensions appliquées dans cette période sont restées sans effet significatif, dans les conditions où l’indexation des pensions se rapportait à un taux inférieur au taux d’inflation. Cette pratique a continué après l’application de la loi

19/2000 aussi, la valeur réelle de la pension se diminuant toujours de sorte qu'à la fin de l'année 2005 on a enregistré le rapport le plus bas entre la pension moyenne nette et le salaire moyen net. L'inflation a érodé elle aussi la valeur réelle des revenus, la catégorie socio-professionnelle la plus affecté étant les retraités dont le pouvoir d'achat a diminué toujours, à voir le graphique suivant.

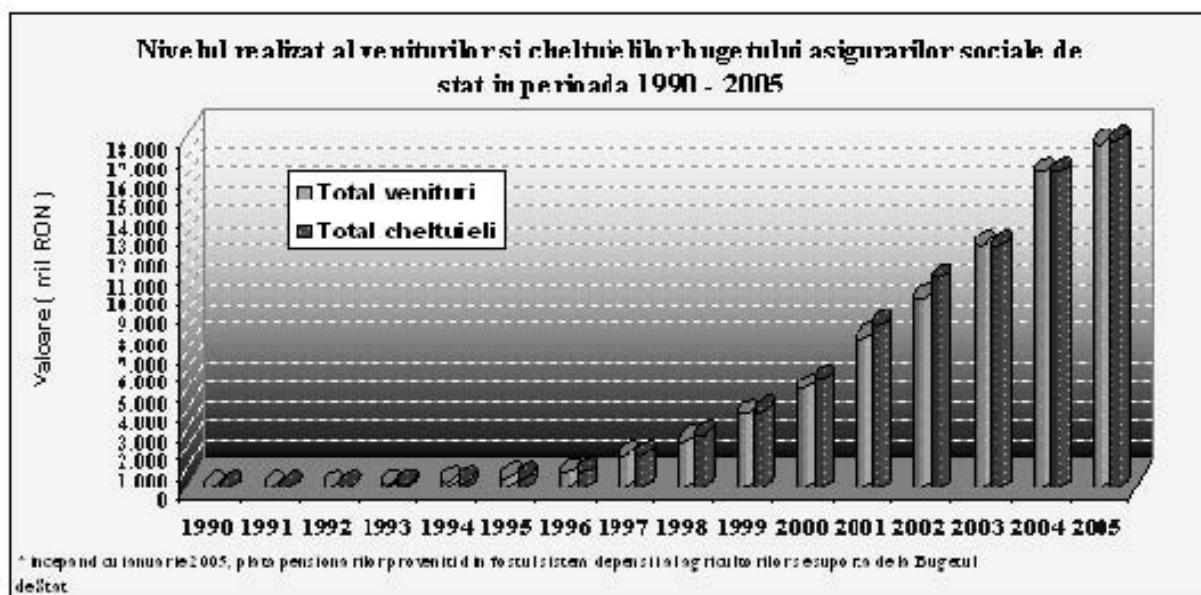
Graphique nr. 2 – rapport de la pension moyenne nette de sécurité sociale d'Etat au salaire moyen net



Source: CNPAS 2006

Les tendances présentées antérieurement ont eu leur impact sur la structure des frais publics aussi et ont affecté le soutènement financier du système. Le budget de la sécurité sociale d'Etat a enregistré des déficits successifs à partir de l'année 1995 et paraient à peine à être relativement équilibré en 2003, gardant depuis un équilibre relatif entre les revenus et les frais (à voir le graphique 3).

Graphique nr. 3 – niveau réalisé des revenus et des frais du budget de la sécurité sociale d’Etat dans la période 1990-2005



Sursa CNPAS

Dans la deuxième moitié de la décennie '90, les mesures prises pour la réforme du système de retraites ont visé, principalement, trois directions d'intervention: la viabilité financière du système de retraites, l'assurance des revenus adéquats aux retraités et la simplification de l'administration du système.

Premièrement, on a envisagé, d'une part, la croissance des revenus au budget de la sécurité sociale d'Etat, et d'autre part, la stabilisation des frais publics avec les pensions. Dans cette direction sont encadrées les mesures d'augmentation des contributions collectées à BASS qui pratiquement ont doublé au cours de la décennie '90 (de 15% en 1990 à 35% en 2000). La même tendance se fait remarquer aussi dans le cas des contributions pour la pension supplémentaire, de 3% en 1986 à 5% de 1999 jusqu'en avril 2001 quand elle a été annulée.

La prolifération sans précédent des emplois dans des groupes spéciaux de travail, à des conséquences importantes sur la croissance du nombre des retraités, a motivé

l'introduction de la contribution différenciée par groupe de travail (loi 49/1992). Si en 1992 la contribution se situait dans un intervalle entre 25-35%, en 2000 sa valeur était contenue entre 30-40%.

On remarque aussi une amélioration du degré de couverture dans le système public: à partir de 1995, on offre aux personnes qui déploient des activités indépendantes et à celles engagées conformément aux conventions civiles de travail, la possibilité de conclure des contrats de sécurité sociale, bénéficiant des mêmes droits que les personnes assurées obligatoirement dans le système public. Finalement, certaines prestations sociales financées du budget de la sécurité sociale d'Etat sont transférées à d'autres institutions.

Deuxièmement, on a adopté des mesures qui visaient la conservation de la valeur réelle des pensions. Le mécanisme d'indexation des pensions par rapport à l'inflation a constitué la méthode préférée utilisée par les facteurs de décision. En réalité, l'indexation s'est réalisée à un pourcentage moindre que l'inflation, ce qui s'est reflété aussi dans la décroissance du rapport entre la pension moyenne des assurances sociales et le salaires moyen de l'économie de 50% (le graphique nr. 2).

Le mécanisme d'ajustement compensait aussi, d'autre part, les inégalités engendrées par la manière de calculer les pensions et leurs indexations partielles. La base de calcul pour le quantum des pensions ne se trouvait que partiellement en corrélation avec le taux de l'inflation, ayant pour effet des différences pour les générations des retraités. Trimestriellement, pour assurer un niveau adéquat des revenus aux retraités et diminuer les inégalités grandissantes entre les générations, le gouvernement faisait indexer les pensions. Mais ces mesures de recorrélation étaient limitées par la disponibilité de ressources financières.

Troisièmement, toute une série d'actes normatifs ont visé la simplification de l'administration proprement-dite du système public des pensions: de 1993 à 1998 différents schémas occupationnels ont été intégrés dans le système général, de sorte qu'à

présent seuls les avocats et les cadres militaires bénéficient encore d’un régime propre de sécurité sociale.

2. La restructuration du pilier public – le premier pas de la réforme

La fluctuation continuelle des pensions de la période 1995-2001 constitue la preuve des indexations ad-hoc des bénéficiaires. Elle est fréquente après l’inflation et est suivie de projets de recalculer les bénéficiaires. Depuis 1996 on a conçu cinq projets de recorrélation pour le système de retraites d’Etat et deux pour le système de retraites pour les agriculteurs. Les règles d’indexation et de recorrélation n’ont pas été uniformes pour tous les groupes de bénéficiaires de pensions pour vieillesse, invalidité, succession, ni même pour le cadre de chaque groupe.

L’adoption de la loi 19/2000 concernant le système public de retraites et autres droits de sécurité sociale a marqué le commencement de la réforme du système de retraites roumain. On envisageait aussi bien la révision du système PAYG, que l’introduction des sources alternatives de financement. Le modèle promu des autorités roumaines a été inspiré par „le modèle des trois piliers” soutenu par la Banque Mondiale et d’autres institutions financières internationales.

La Roumanie a initié une stratégie de réforme qui est basé sur un cadre qui sollicite la diversification des sources de financement du système de retraites. Ainsi, la première composante de ce nouveau système repose sur la rationalisation et l’amélioration de l’ancien schéma de type PAYG, celui qui a été légiféré par la loi 19/2000 et compléter ultérieurement. La deuxième composante, au caractère obligatoire, sera financée et administrée par le secteur privé. Enfin, la troisième composante fait référence aux schémas bénévoles de retraites, administrés exclusivement par la secteur privé.

Les plus importants éléments de nouveauté introduits par cette législation pour la restructuration du pilier public concernent:

- a) la restriction de l’accès aux bénéficiaires par:

- l'augmentation graduelle, jusqu'en 2014, de l'âge de la retraite de 57 ans à 62 ans pour les femmes et de 62 ans à 65 ans pour les hommes. Cet aspect a retardé la croissance du nombre des bénéficiaires du système et son utilisation comme alternative pour la main d'oeuvre redondante;

- la sollicitation d'un nombre plus grand d'années de travail pour l'octroi de la retraite (l'ancienneté dans le travail augmente de 30 ans à 35 ans pour les hommes et de 25 ans à 30 ans pour les femmes);

- l'introduction d'un filtre plus sévère de contrôle en ce qui concerne l'octroi des pensions d'invalidité. Cette prévoyance a contribué à la réduction du nombre de retraités et implicitement de la différence entre le nombre des contribuables et celui de bénéficiaires;

b) l'introduction d'une nouvelle méthodologie de calcul de la pension (un système de points d'inspiration allemande). La nouvelle méthodologie compte les contributions payées chaque année de travail, de sorte que le quantum de la pension se situe dans l'intervalle 30-50% des revenus bruts réalisés. Pour contrebalancer l'inflation et la dévalorisation, les pensions seront indexées trimestriellement<

c) l'extension du groupe des bénéficiaires et une plus précise définition de la sphère de couverture des bénéficiés. Ainsi, le système public:

- englobe, à côté des employés et des libres-professionnels, des engagés avec des conventions civiles et les chômeurs. De cette façon on réalise une couverture universelle;

- introduit des conditions restrictives pour l'encadrement des emplois dans la catégorie des emplois dans des conditions particulières, réalisant une réduction du nombre des personnes encadrées dans ces emplois;

d) redéfinition du régime des contributions pour les pensions dans le système public, celles-ci étant supportées en pourcentage de 9.5% du salaire des engagés et la différences par les employeurs. Cette mesure transmet un message politique et

économique important. Le signal de la classe politique vise la responsabilisation: l'Etat est responsable de l'établissement du cadre général de la protection sociale, mais l'individu, par son salaire et ses contributions est, substantiellement responsable pour lui même. Du point de vue de la contribution d'un engagé, toute croissance des bénéfices conduit instantanément à l'augmentation des contributions prélevées des salaires individuels. Le message économique qui en résulte est que le salarié est celui qui paie, au moins partiellement, pour la sécurité sociale;

e) l'administration du système public de retraites se réalise par une institution autonome avec des compétences dans la collecte et la distribution des fonds publics de pensions, respectivement la Maison Nationale de Retraites et autres Droits de la Sécurité Sociale.

En conclusion, la restructuration inévitable du marché du travail a engendré au cours de la transition à l'économie de marché une série de pressions sur le système de retraites, au fur et à mesure que la participation de la main d'oeuvre a diminué et le chômage s'est accru. Les mesures de politique économique orientées à court terme, la retraite à l'avance, les critères permissifs d'établissement de la pension d'invalidité, la croissance du taux d'impos, aussi bien que les changements ad-hoc des bénéfices n'ont fait qu'aggraver les problèmes du système.

Dans ce contexte, la dernière loi des pensions offre le cadre institutionnel pour la réduction des coûts et évincer les motivations adverses. Cependant, restent encore présents les problèmes liés exclusivement au taux de l'imposable en soi, qui pourrait rendre de nouveau le système inefficent.

Un pas important dans le progrès de la réforme a été constitué par la finalisation du processus de recalculer les pensions à la base de la nouvelle méthode de pointage. Nous apprécions qu'elle représente un acte d'équité sociale, les contribuables bénéficiant ainsi de pensions conformes à la valeur des contributions payées durant leur vie active. Une remarque à faire, c'est que les pensions qui avaient une valeur

surdimensionnelle par l’application des anciennes méthodes de calcul sont restées a leur valeur initiale, de sorte que les avatagés par les valeurs respectives plus importantes peuvent continuer à en jouir. Cet aspect peut être corrigé, à l’avenir, par eviter d’englober cette catégorie de pensions dans les futurs processus d’indexation.

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THE NEED OF IMPLEMENTATION IFRS ON ROMANIAN CAPITAL MARKET

Assistant Ioan Ovidiu SPĂTĂCEAN, “Petru Maior” University, Tîrgu-Mureş

The IFRS implementation and application efforts are of a great importance for the Romanian capital market development, since institutional and individual investors are “seeking” for a universal “accounting language” that allows a comprehensive view upon financial position, performances and changes in financial position of securities issuers that are listed on the stock exchange.

The decision of undertaking a certain level of risk when investing in securities is highly correlated with the need of understanding certain financial features related to the companies that issue financial instruments for the purpose of raising public funds. In this topic, one of the major contributions that IFRS have come with, is the require that financial statements are prepared in accordance with a set of qualitative attributes and they need to offer a true and fair view of the financial position and performances of the securities issuers.

From this perspective, the risk of default and the risk of bankruptcy are significantly reduced, provided that investors become more confident of the capital market mechanisms and its reason to exist in a market economy based system.

1. The IFRS „revolution”- a general approach

It is a nowadays reality that providers of debt or equity capital, generally defined as investors, operate on a truly global basis. They have a real opportunity to invest without barriers and in a profitable manner their financial resources and, as a result, they increasingly expect that financial information on which investment decisions are based, to be presented in a comprehensive, transparent and commonly understood format.

By using a single universal “accounting language”, such as reporting in compliance with International Financial Reporting Standards (IFRS), companies’ financial statements try to put an end to the various problems of interpretation associated with reporting on different accounting treatments, specific to each national accounting system.

The complex process of developing and implementing a set of International Financial Reporting Standards has become a global business project, that mainly aims to encourage the free flow of funds between international capital markets by making comparable the financial statements of multinationals, so that investors and other users can assess their financial position and performance.

This process has been in a constant progress since the early seventies, under the leadership of the International Accounting Standards Board (IASB) and its predecessor, the International Accounting Standards Committee (IASC).

In June 2000, the European Commission has made a major step on the “roadmap” of achieving international accounting convergence, by publishing a communication¹ which proposed that all listed companies prepare their financial statements in accordance with one single set of accounting standards, namely International Financial Reporting Standards (IFRS), at the latest by 2005.

Perhaps the biggest barrier met by the efforts sustained to elaborate a truly global

¹ Communication from the Commission to the Council and the European Parliament- *“EU Financial*

and harmonized set of international financial and accounting reporting standards is the need to converge IFRS with US GAAP and there are encouraging signs that this will happen. For instance, at a recent United States-European Union summit meeting in Washington, there were announced a series of undertakings designed to implement the Declaration on Enhancing Transatlantic Economic Integration and Growth. One of the undertakings is "promoting convergence of accounting standards as soon as possible"². In addition, The International Organization of Securities Commissions (IOSCO) has recommended that the world's regulators permit foreign issuers to use IFRS in preparing financial statements for cross-border offerings and listings.

Whilst the implementation process of IFRS has been reasonably successful around the world, the initiative has not been entirely free of controversy and challenges, even though the most significant of all are not around the principles of the standards themselves, but more with their practical implementation, highly influenced by different accounting national cultures.

The recent evolutions have defined a period of transition during which companies, especially public held ones, have sought to reconsider their accounting policies and to assess the impact of IFRS on their management and published financial statements. Given the high level of uncertainty surrounding the application of IFRS, many entities have managed the transition to IFRS temporarily, despite the fact that this kind of approach does not provide the sound basis for an auditable and permanent solution.

Looking ahead, the IASB has a full agenda of projects to introduce new standards and review the workings of existing standards. So, coping with changing standards and transitional arrangements is going to be a permanent feature of the reporting landscape for the foreseeable future. As the main body of standards settles down, the challenge of IFRS

Reporting Strategy: the way forward", Brussels, 2000, page no. 6

² The United States and the European Union initiative to enhance Transatlantic Economic Integration and Growth, 2004 Dromoland Summit

has moved from one of accounting principles to one of presentation and disclosure.

Although implementing IFRS is radical in some areas, it does not give rise to fundamental changes concerning the pattern in which accounting transactions are recorded, processed and reported. After all, at this point in time there are probably more similarities between IFRS and national accounting principles around the world than there are differences. Therefore, in practical terms, the challenge of implementing IFRS is around coping with managing the transition to a new reporting framework whilst simultaneously providing comparatives, according to an old standards regime and being able to report and understand the differences. In systems terms, coping with IFRS is all about flexibility, both now and in the future.

2. Concerning some challenges and the importance of adopting IFRS

Recently studies reveal the fact that almost all countries in the European region, but not only, are experiencing an intensive process of implementing IFRS, even though there are notable differences regarding the categories of companies covered, the certain technical and methodological solutions to how the standards are phased in and actually enforced.

Inevitable, the process of adopting IFRS is confronted with some inherent and provoking *challenges*³ due to:

- fundamental differences between national and international attitudes and practices that arise from diverse historical, cultural and legal traditions.
- the “substance over form” concept, which seems to be at the heart of the IFRS implementation problem. IFRS are written in a conceptual way and that is the very reason they can be characterized as a “substance over form” approach to accounting.

For example, IFRS do not refer to debits and credits, there are no instructions on

³ Implementing IFRS in Russia- 25 recommendations to facilitate the transition to IFRS , issued by the

bookkeeping, there are no account numbers, no instructions on what transaction documents should look like or any instructions on how the losses from the guilty party in the event of finding an inventory difference should be recovered. From this perspective, accounting regulation organisms have traditionally been very prescriptive and thus invite a “form over substance approach”. Indeed, accountants may be meticulous in ensuring that documents and the registered financial transactions have the correct form, even though it may, however, inaccurately reflect the substance. Where accountants have little or no experience with the substance over form concept, they may not be prepared at first to apply it.

- a company’s financial reporting needs to evolve, in order to meet new market demands.

Before the 1990’s, under the socialist regime, accountants were sensed as highly trained individuals, fully competent to provide the information needed by the state for national statistics and control. That type of information was never intended to be used by the financial markets, for corporate governance purposes or for the protection of investors.

In the new market economy system, the users of information and their needs are quite different, and company financial reporting must evolve to meet the needs of changing users and their informational demands. This is an opportune time to make this change alongside the European Union member states, including aspirants, as they move to introduce IFRS in consolidated accounts of listed companies.

In addition to the above mentioned challenges, some questions⁴ may arise and require competent answers, in order to address a successful subscribing to a IFRS reporting basis:

- what are the significant impact areas for each business and how complex will it be to convert to IFRS?
- how will IFRS impact reported business performance and how will this impact be communicated effectively internally and to the market at large?
- what expertise and resources will be needed to ensure a successful conversion?
- what are the potential benefits of converting to IFRS?

As for publicly interest entities, especially listed companies, the process of converting financial reports on IFRS basis is being associated with some considerable *advantages* that will out-weight the short term costs, such are:

√ reporting in compliance with IFRS will facilitate *better comparability* of companies' financial performances and may also result in *greater transparency* about companies' activities to outsiders;

√ concerning that providers of risk capital constitute the most important category of users, in the light of information disclosed by financial statements, the process of developing and implementing IFRS provides both a *stimulus and an opportunity for companies to improve their level of communications with all stakeholders*. The enhanced relations resulting from this improvement can provide a competitive advantage, particularly in terms of widening a company's access to capital markets and therefore, lowering its cost.

√ the increasingly qualitative requirements for the financial information prepared by listed companies, combined with both stricter enforcement of and better compliance with standards' disclosure requirements is designed to assure a *better protection* and an *adequate transparency level* for their investors, in accordance to general principles that define the corporate governance framework.

√ provided that reporting on a IFRS basis is mainly orientated to produce more accurate and reliable information, so that shareholders and potential investors are able to take well-

considered economic decisions, IFRS should also bring *lower costs* and *wider availability of capital* through increased cross-border listings and investment opportunities

3. The level of IFRS implementation process on the Romanian capital market: present day and a prospective view

Among the requirements of the national accounting system harmonization program, one referred to implementing and application of IFRS by the entities operating on the capital market, beginning with 2005 reporting year⁵.

Despite the fact that reporting in compliance with International Accounting Standards and European Directives, covered a period of three years⁶, the beginning of 2005 reporting year has brought a radical change by dropping out the necessity of adopting IFRS⁷. One possible explanation for this reconsidering point of view may be related to the needs of fulfilling some requirements specific to the European integration process.

From this perspective, the link to the IFRS reporting has not been entirely "cut off", as the entities operating on the capital market (listed companies, investment companies, intermediaries, investment funds, etc.) still have the option to prepare a distinctive set of financial statements, in the spirit of IFRS, for their own needs or other users' needs of financial information, except for the governmental agencies and fiscal authorities, provided that adequate capacity of implementation is assured⁸.

⁵ Minister of Public Finance's order no. 1827/2003, regarding changing and completing some accounting settlements, 6th article.

⁶ Ministry of Public Finance and National Securities Commission President's order no. 1742/106/2002 regarding the approval of accounting settlements harmonized with the 4th European Union Directive and International Accounting Standards, applied to entities supervised by National Securities Commission.

⁷ National Securities Commission President's order no. 75/2005 regarding accounting settlements in accordance with the 4th European Directive, applied to entities authorized, settled and supervised by National Securities Commission.

⁸ Minister of Public Finance's order no. 907/2005, regarding the categories of entities that apply to

Concerning the requirements of European Union accession process and the valuation reports issued by involved institutions’ (national and international accounting and audit regulators, external supervising organisms, rating agencies, etc.), the National Securities Commission will establish adequate implementation rules regarding reporting in the spirit of IFRS, beginning with 2007.

4. Conclusions

Without doubt, efforts sustained for implementing financial reporting under IFRS, especially for listed companies, will result in some major benefits for the capital providers, according to basic principles for a corporate governance framework-transparency, shareholders’ protection and a higher level of information accuracy.

Despite the fact that present national accounting settlements are accorded to European Directives, publicly companies (including those who are listed) are encouraged to prepare a distinctive set of financial statements using “IFRS language”, in order to meet the requirements of international accounting convergence process.

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FIXED ASSETS ACCOUNTING OF THE PUBLIC INSTITUTIONS ISSUES

Lecturer Brăduţ BOLOŞ, “Petru Maior” University, Tîrgu-Mureş

The Romania Public institutions Accounting is undergoing a reform process focused on aligning the Romanian methodology to the European context. For this reason a new accounting plan has been issued based on the French public institutions account plan. Fixed assets accounting rules are significantly changed since the last account plan. This paper is a brief analyze of the new accounting system of the fixed assets

1. The fixed assets as defined by the new accounting

The new accounting system of the public institutions is based on the French Public accounting system, and has many similarities with the one used by the companies. The instructions define fixed assets as “*assets intended for a long term use*”. They include non-corporal, corporal and financial assets.

- *The non-corporal fixed assets* are defined as assets without a physical substance.
- *The corporal fixed assets* are defined as objects or system of objects which have a

greater value than the limit established by government and a use period longer than a year.

- *The financial fixed assets* are deposits, capital investments, and contractual rights. Even if is not specifically expressed, they should be over a year term.

At this point we can say that fixed assets owned by public institutions are very similar to the fixed assets owned by any other type of entity. However, the property of the government is defined by other rules than any other. The fixed assets are separated into two main categories with different laws governing the property attributes.

- Fixed assets belonging to the *private property* of the central and local government
- Fixed assets belonging to the *public property* of the central and local government

If the private property of the state is supposed to be identical with any other property, the public property has three main attributes, which differentiate-it from any other property:

- The propriety rights cannot be conceded. That means that the fixed assets belonging to the public propriety cannot be either sold or donated, but only leased.
- They cannot be subject to warranty or expropriated by court decision
- The propriety right cannot be obtained by any means by private entities, including long them use or good faith possession.

2. Differences and similarities between the fixed assets accounting of the public institutions and the fixed assets accounting of the companies

From the point of view of definitions, the new law instructions contain no significant changes in these aspects compared to the former regulations. The only addition which can be observed is the introduction of the immaterial or non-corporal fixed assets as a distinct category in the public institution accounting. However this was

a very necessary step considering that companies are using this category for a long time now.

What is really different between companies and public institutions is that institutions do not always depreciate their fixed assets. The introduction of the fixed assets funds in the public institutions account plan, and the usage rules suggest that there should be a certain proportion of fixed assets which are not subject to depreciation.

Companies have only one fixed assets category, the land, which cannot be subject to depreciation. Public institutions appear to have this kind of assets at all categories.

From the point of view of public property assets, this can make sense. Fixed assets entering public property are not allowed to be sold. Because of that, the expenses regarding them are supposed to be recorded at the acquisition moment. In this case depreciation expenses cannot be recorded, because that would mean double expenses for the same goods. However, in fact public property can be protected by law against anything but depreciation, because with the exception of land, all fixed assets are affected by it, either recognized by the law or not.

The Funds accounts, which are connected to the non-depreciable fixed assets, are a traditional approach of the Romanian old accounting, which used to be cash based accounting. In fact they have been used by companies also in the past, but they make really no sense at all in an accrual principle based accounting plan.

The Fixed assets – Fixed assets fund relationship, which has been a traditional approach in the Romanian fixed assets accounting appears to be the main reason for introducing the notion of “non depreciable assets”. This has been a unsuccessful approach in the first companies account plans after the introduction of the accrual accounting, and it is to be expected to have the same faith in the public institutions accounting.

At a practical level the acquisition of fixed assets could be treated as follows:

A. If the fixed assets are depreciable:

Fixed assets account (2XXX) = Suppliers of fixed assets account (404X)

B. If the fixed assets are not depreciable:

Fixed assets acquisition expenses acc. (682x) = Suppliers of fixed assets acc. (404)

And: Fixed assets account (2XXX) = Funds account (10X)

This is very important if we regard this two accounting approaches from the financial results point of view. Using the “A” system implies having as expenses in this year final report only the depreciation expenses of this year, that means maximum one third of the total value of fixed assets acquisitions, using the “B” system implies having as expenses the whole value of the purchased assets at the end of the year. Due to the fact that the value of the fixed assets is usually very significant, the results can be significantly affected, so this issue is to be approached with caution.

Due to the fact that this regulation is new and untested at the practical level, changes are to be expected. If we consider the past approaches regarding the companies accounting, the funds use is due to disappear, at least in what concerns the private property of the state. So it is to be expected that public accounting will use the same system of accounts in the same manner as companies for the private property issues.

In what concerns the public property of the government, “the funds – fixed assets accounting”, as seen in the “B” article, approach, is a very good solution, very well tested in the past, so it should remain as long as the laws regarding the public property remain the same.

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ACCOUNTING TREATMENTS REGARDING TANGIBLE ASSETS AND THEIR IMPACT ON PRESENTING A TRUE AND FAIR VIEW

Assistant Irina PĂȘCAN, “Petru Maior” University, Tîrgu-Mureş

Permanent capitals represent an important element of the entity’s assets, providing information regarding the permanent resources allocation, the implemented investments policy, having an important role in the estimation of some economic-financial indexes.

Tangible invested capitals (Property, plant and equipment), according to international standard IAS 16 „Tangible invested capitals”, are goods hold by a company either to be used in the goods production or rendering services, either to be rented to the third persons or to be used in administrative aims.

The above mentioned international norm states (in the paragraph 7) the essential criteria of recognizing a tangible permanent capital within financial standings. The acknowledgment should be achieved as there is a sufficient certainty that the company should take benefit of the future economic advantages associated with holding and using the good, and its cost could be credibly established.

The accounting reasoning of the financial standings initiator is called to find answers to several questions that aim the elements of permanent capitals: to present tangible and intangible invested capitals in financial standings on historical cost or to reassess them? to capitalize the expenses subsequent putting in application of the invested capital or to include them in the current expenses of the year? which of the redemptions policies is much appropriate in order to reflect the activity’s specific nature carried out by the company?

Decisions adopted by the management have impact also on the net value of permanent capital, thus on the company’s financial standing, but also on its performances, by depreciation policy and the adjustments registration regarding the adopted permanent capital depreciation.

Accounting options regarding the initial assessment of the tangible invested capitals

As an economic entity to be able to acknowledge, in its financial standings, a tangible permanent capital, it is necessary that the company could credibly assess the asset’s cost. According to main acquiring possibilities of a tangible invested capital, the initial value could be represented by the acquisition cost, production cost, contribution value or the asset’s right value.

Acquisition cost of an invested capital is made of its buying price, to which is added the customs duties, unrecoverable taxes and all directed assigning costs, engaged to bring the asset within the foreseen used stage (preparation expenses of the area, transport and handling expenses, assembling expenses, fees of the legal services, appraised costs for disassembling and moving the asset, respectively restoration costs of the placement, as that cost is recognized as an allowance).

IAS 16 foresees on paragraph 16 that where the payment of an asset is delayed over the normal payment terms, the accounts shall reflect that the price must include, as from the economic reality's point of view, an intrinsic interest element, and the initial recognized value should be the equivalent value of cash. This would be, in normal conditions, the cash price payable without the existence of a prolonged credit. The difference between this value and total payments is known as a liability cost, that should be emphasized as a financial expense of the credit period, either capitalized together with the asset's cost (in accordance with the international accounting norm IAS 23 „Liability costs”).

Showing clearly their option to capitalize the costs with interests, trading companies have the possibility to avoid a cost's finding and to increase the accounting result. In case an economic entity has achieved major investments during the exercise, the result's impact could be substantial¹.

A company that decides the interests' capitalization and shall increase its result, but this increase being only temporary, following to be “recovered” within the next financial years, either gradual by redemption's recording, when the asset is used within the unit, or by diminishing the assignment's result with the capitalized interests, in case of selling the invested capital.

Validity of a permanent capital's cost achieved with own powers are usual dependent of the afferent records' quality. Production cost consists in acquisition cost of raw materials and consumable materials, the other production costs and indirect costs' quota attached to the invested capital production. The most questioning issues would be those concerning the allocation of indirect overhead expenses, including those with management. It could be the tendency to allocate as indirect expenses a larger part of the management costs, this having impact on reducing the expenses of financial year.

¹ N.Feleață, L. Malciu – *Accounting policies and options*, Economic Edition, Bucharest, 2002, page 420.

Also, production cost of an invested capital could include financial expenses, too, with the condition to represent afferent interests of the loans for the investment’s financing and to aim its performance period.

Further to the initial acknowledgment of a tangible invested capital, the company could “suffer” additional costs with the asset. The initial value of a tangible invested capital shall be raised with the value of further expenses only if it is estimated that would be acquired additional economic benefits in the future against those initial appraised. In order to be acknowledged as assets, the further expenses should demonstrate the increase of the initial asset’s capacity, improvement of resulted production quality or substantial reduction of exploitation expenses. All the other further expenses should be recorded within the year’s expenses, during which they are committed.

Estimations concerning the impact of depreciation policy on presentation an accurate image

Depreciation represents systematic appropriation of an asset’s depreciable value of its whole useful life duration.

Depreciation policy withhold by a company influences the result’s evolution. Parameters through which this influence is exercised are depreciation period, depreciation method and residual value.² Additionally, in some circumstances, depreciation expense could be a part of other assets’ cost (for example, depreciation of some production equipment is included in the stocks’ production cost).

The useful life duration is defined on basis of the usefulness that the entity appraised it for that asset.

² N.Feleağă, L. Malciu – Politici și opțiuni contabile, Editura Economică, București, 2002, pag. 412.

Appraisal of the invested capitals useful life duration is an issue of professional judgment that supposes taking into consideration of several factors: estimated level of the asset's use; estimated depreciation, wear and tear, taking into consideration the maintenance and repair program existing within the entity; obsolescence; legal limits of asset's use, as the contract's duration for the goods that are part of the object.

The life duration of an invested capital must be periodically reexamined and, if the forecasts are sensitive different of the previous estimations, depreciations costs of the running year and future years must be adjusted. For example, depreciation period could be extended if the company makes improvements, modernizations, essential repairs that improve the status and performances of that asset. Instead, the increased obsolescence could enforce the decrease of the asset's use duration.

Even if the change of useful life duration of a tangible asset is sensitive to achieve the principle of methods permanence and providing long comparability of the information of financial standings, it is also allowed by the international accounting norm IAS 8 „Net profit or net loss of the period, basic errors and alterations of the accounting policies”, with the condition of acquiring more relevant data or which provide more confidence.

For the systematic allotment of the asset's value on its useful life duration, could be used several ***depreciation methods*** (paragraph 47 of standard IAS 16):

- ❖ linear method – leads to a constant expense during the useful life duration of the asset;
- ❖ decrease method – has as result a decreasing expense with the depreciation during the useful life duration of the asset;
- ❖ totalizing method of useful life years – generates an expense based on estimated use or production of the asset during its useful life duration).

In choosing the depreciation method, the entities’ managers shall have in view the consumption rhythm of the economic advantages generated by holding and using those invested capitals.

Depreciation is a field of the accounting that involves a high degree of subjectivity. The international accounting norm does not include guidelines regarding the specific method of allowed or not depreciation. It is only required that the chosen depreciation method to be consequently applied, excepting when changing the depreciation method is justified by the circumstances modification. Any method would be selected, it must be also systematic and to comply with the economic profile of the asset subjected to depreciation.

So, the professional reasoning should be demonstrate for choosing the depreciation method, establishing the useful life duration, reviewing the useful life duration when the economic reality enforce it, change of depreciation methods, in compliance with the consumption way of economic benefits.

Possibility of periodical reviewing of the useful life duration of depreciable asset and the used depreciation method, when it is not used with a view to influence the accounting result, it is recommended for honestly emphasizing the physical status of depreciation or its obsolescence.

It is compulsory to present within the financial standings (at accounting notes) the information regarding the change of used depreciation’s appraisals and methods, by showing the reason that generated these changes and quantifying the changes’ effects.

As for financial standings showing as well as possible the economic reality within the company, it is necessary to disconnect the taxation accounting. Not the revenue office knows the way and rhythm of consumption the future economic advantages generated by using a depreciable invested capital, the effects of its obsolescence,

maintenance and repair program to which is subjected, the characteristic features in which is used, including the field and sector of activity in which the said company is running. All these aspects are known only by the technical specialists and experts of the company.

In case the company does not intend to keep the good until the expiring date of its economic life, shall establish the depreciable value as difference between the asset's entrance cost and *its residual value*.

The residual value must be periodically reexamined and adjusted in order to reflect the concrete conditions within the company.

Estimation of the residual value by the company's management should not be achieved with a view to improve the financial standings. The quoted companies for, reporting a result on action more attractive for the investors, could „refer” to appraise an excessive residual value, with effect on depreciation's diminishing and, so, on increasing the result.

Alternative to historical cost – premises and involvements of the reassessment process on the way of presentation the individual financial standings

Further to its initial acknowledgement as asset, a tangible invested capital could be assessed either to cost, less the depreciation acquired until that date, or the reassessed value, which represent the right value of the reassessment, diminished with cumulated depreciations and with the prospective subsequent losses cumulated from depreciation.

The company's decision to *reassess its permanent capitals* could have as starting point the objective need for acquiring relevant financial-accounting information, in conditions in which presentation of permanent capitals assessed to historical cost should lead, beside the inflationist process, to the company's twisted image reflected in the

financial standings. Really, assets' assessment on historical cost causes the sub-assessment of positions shown in the balance asset.

The right value on basis of which is established the reassessed value of the permanent capital is also a subjective value, due to the subordination report that could exist between the appraiser and the company of which assets are subjected to the reassessment (internal appraiser or extern appraiser), but also due to the uncertain feature of the forecasted information, used by the appraiser. The reassessment could represent a trial for the companies being in difficulties to „improve” their financial status or to artificial increase the gearing capacity (by growing the own capitals).

However, the reassessment could have effects on medium or long term on the accounting result. Reassessment of the depreciable invested capital generates an increase of the future depreciations (because depreciation for the subsequent period of reassessment is established starting from the new value and the remained usefulness period) and, thus, a diminishing of result.

In order to avoid the decrease of future results, the companies are tempted to reassess only the un-depreciable invested capital, as for example the lands.

Reassessment of permanent capital has an important role in presenting financial standings much closer to the reality, which includes accounting data complying with the quality features of reliability and relevance, but the reassessment must be achieved with sufficient regularity, and, on the other hand, must comply with provisions of reference accounting standards.

Selection, between possible options, of that generating the better information or the more useful one for taking decisions, is the responsibility of accounting professional, who have to be always connected to the real evolution of the company which must describe it, through information given by financial standings.

Decisions of the financial standings' initiator might not arise from the possibility of some opportunities resolution, neither to be influenced by the taxation impact on one

of the accounting options, but must lead to the fulfillment of the accounting supreme objective that is presentation of an accurate image of financial standing, financial performance and financial position’s evolution.

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