INTERNATIONAL RESERVES, GUARANTEE THAT SUPPORTS ROMANIA'S ECONOMIC DEVELOPMENT

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Abstract:

Aggregate demand in our country far exceeds the ability of the economy to produce goods and services. The gap between total demand for goods and services on the one hand and economic status, on the other hand stands out primarily by the continuing need for funds to cover the budget deficit.

The Lack of foreign investors, poor development of capital market and non-involvement of credit institutions to support economic development leads the Romanian state to borrow regularly on international money market. Guarantor of the country for these loans is the reserve fund managed by the central bank of the state.

Trade deficits and foreign borrowing are two components of the same problems. As the state borrows more from the international financial markets the higher is the trade deficit. A national initiative on facilities development companies with export production and aggregate demand for domestic products, can lead to lower imports. Increasing the fund's reserves and activation may be one of the solutions required to support economic development. Through this study we try to discover the role of the reserve fund and other sources of economic development.

Keywords: *international reserves, liquidity, reserve currency*

JEL Classification: *E00, E52*

1. Introduction

The Earth lives in debt!

The most powerful country in the world US spends more than many can afford. So it is in Romania!

Romania is, however, one of the few European countries that went through a "financial repression," even if "international reserves" of our country gave assurances that we are not in a default.

The evolution of the global financial system has shown that money is not circulated from the rich to the poor but the opposite? Why? This was due to the needs of developing states to make the "reserve fund" which in most countries in the world was built "until recently" only in gold and US dollars.

Reserve funds give assurances that these countries can deal with "crises" and strengthen the confidence of creditors in its national currency. To pass the "transition period" to market economy Romania borrowed, usually in dollars from international financial institutions.

To the extent that a country does not comply with its external obligations, international lenders require repayment of loans. But if they find that the State reserves are large enough "sit quietly" or "recommended" measures of financial repression. This happened especially with Romania in 2009-2011, when the IMF recommendations were established "urgent measures" to reduce spending.

Now when Romania joined the Union Banking, the primary objective is, more than ever, price stability. But exchange rate instability may lead to price volatility to the extent that the central bank intervenes in the market to balance supply with demand rate. This would not be possible if our country does not have significant foreign exchange reserves. Incorrect assessment of the situation by the central bank when "speculators-investors" seek to have profit from "manipulating" currency may affect the stability of the financial system and economic stability. Central bank intervened every time by balancing demand and supply money.

The reserve of the EU member countries as part of the global reserve system proved unable to stop the "financial crisis" started in the US in late of 2007 and has slowed the development of the global economy.

Money and other valuables locked in "international reserves" of states in the world that provides government loans to balance national budgets, produce nothing. They are like "a bucket" of gold buried at the root of a tree! But money using a new paradigm could help meet the "total demand" for goods and services.

"A strong global economy requires a high demand of goods and services, big enough to match the production capacity of the world. Total demand for goods and services (the sum of household consumption demand, investment demand of firms and demand from governments) around the world is called global aggregate demand. "[2]. In this attempt of economic globalization, the economy of a state must be supported by a coherent program of development of production of goods and services. Stability and economic development assures more funds from various sources.

Since loans from international financial institutions that receive the developing countries are for a certain period, those who save more, really, can invest more.

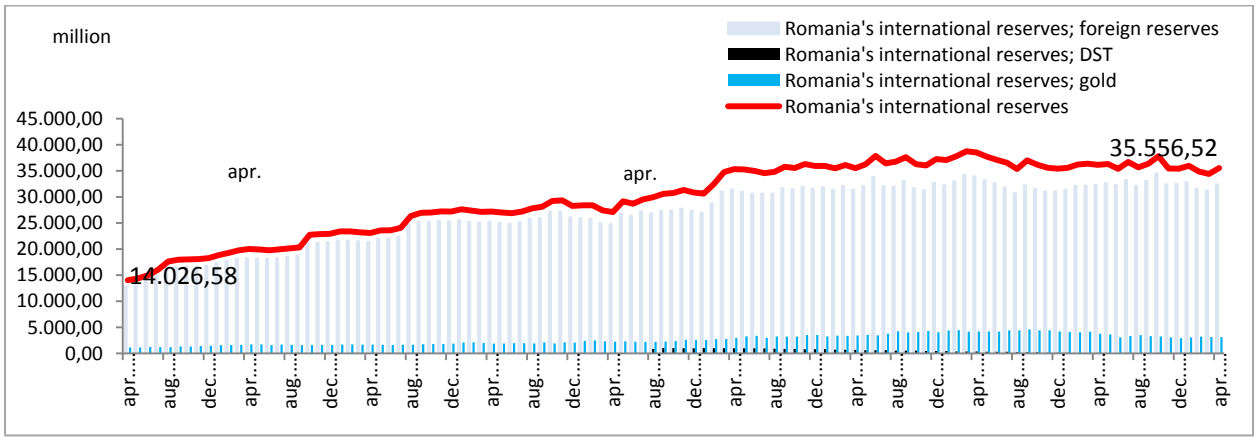
2. The role and evolution of international reserves

International reserves or "reserve funds" managed by the central bank of Romania are used primarily for:
- balance of payments if the deficit can not be covered otherwise;
- guarantee an external loan, if it is needed for balance of payments;
- money market intervention to influence favorable currency reserves by selling operation in order to change the report - matching;
- placement of the surplus balance in order to exploit it.

International reserves have a duty in ensuring a country's international liquidity. International liquidity reflects the level of development of the national economy, the contribution of the country to international trade, efficiency and competitiveness of products in foreign markets.

Changing international reserves of Romania is mainly determined by the change currency reserve.

This in turn was influenced by the country's financial-currency:
- foreign currency inflows, representing changes in the foreign exchange reserve by credit institutions, supplying European Commission's account, and Ministry of Finance's account, the central bank purchases of foreign exchange, revenue from international reserve management and others;
- foreign currency outflows, representing changes in the foreign exchange reserve made by credit institutions, payments of principal and interest on public debt denominated in foreign currency (capital repayments and interest loan from the International Monetary Fund, the repayment of bond issue denominated in euro Ministry of Public Finance) payments by the European Commission, other payments levies, bank charges.



Source: www.bnr.ro

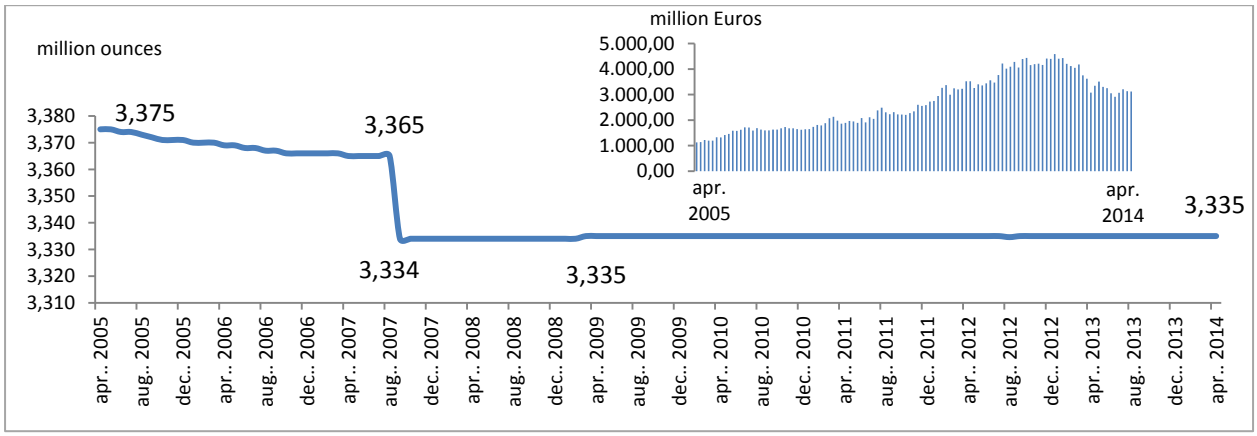
Figure no.1 International reserves of Romania

In previous figure we see an increase of international reserves at 14026.58 million Euros in April 2005 to 35556.52 million Euros in April 2014. It appears that the largest share in Romania's international reserves is represented throughout the period analyzed in proportion over 85% of foreign exchange reserves followed by over 7% by gold reserve and reserve DST.

If foreign reserves has been in a continuous increase from 12,894.70 million Euros in 2005 to 32404.59 million Euros in April 2014, the same can be said about reserves in SDRs. Reserve Fund SDR has recorded highest value during the period August 2009 - August 2010 (approximately 900 million Euros) after which it decreased in April 2014 and reached the amount of 35.17 million Euros.

Changing currency reserve in April 2014 was produced on the one hand of foreign entries that represented 2510 million Euros (representing changes in the foreign exchange reserve by credit institutions, funding the account of the European Commission, Ministry of Finance supply accounts - including the amount resulting from the issue

Eurobonds of the Ministry of Finance, with maturity in 2024), and on the other hand, is due to outflows of currency 1.346 million Euros (representing changes in the foreign exchange reserve by credit institutions, payments of principal and interest on the debt currency denominated public and others).

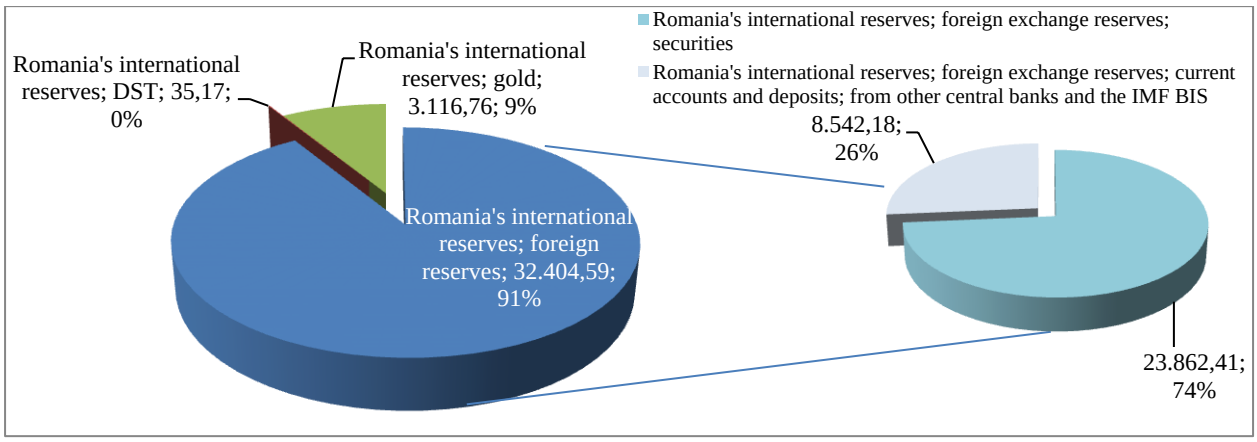


Source: www.bnr.ro

Figure no.2 The amount of gold in international reserves of Romania

According to data from the previous figure it is observed that a gold reserve of Romania in April 2005 was 105 tons of pure gold. This reserve has gradually decreased until August 2007 reached the amount of 104.7 tons, and in October following the redefinition of gold reserve in accordance with international (in gold reserves of central bank's are only included standard ingots and bars with title minimum of 995/1000 and gold coins with title minimum of 900/1000, gold that is managed under other separately) was a decrease of one tone.

In April 2014 the amount of pure gold in international reserves of Romania was 103.7 tons which are estimated at 3116.76 million Euros. Although the decreased amount of gold located in Romania's international reserves, its value compared to 2005 registered international growth due to the increase in the value of gold.

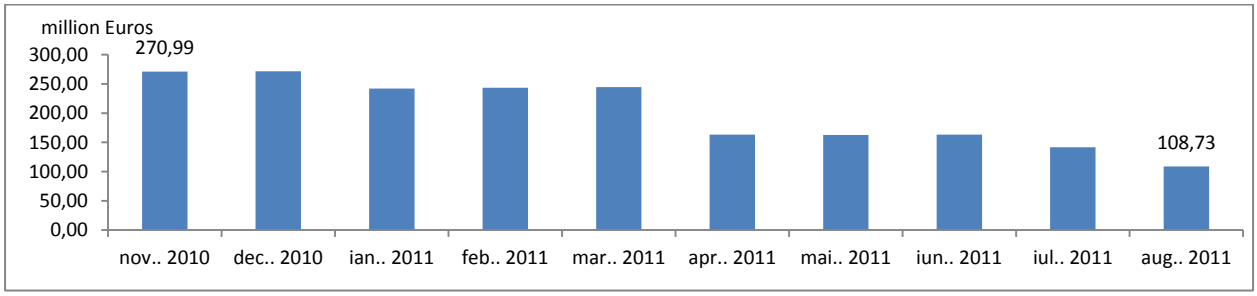


Source: www.bnr.ro

Figure no.3 Reserves of Romania in April 2014

During this period in which Romania is a member of the EU (in April 15, 2014) the central bank's international reserves are 91% represented foreign reserves.

Of these 74% are located Currency in sight accounts and deposit accounts opened with other central banks and the IMF., The difference of 26% being represented by securities.



Source: www.bnr.ro

Figure no. 4 Other assets held in foreign currencies

During the financial crisis, although in a very short period of time, from November 2010 to August 2011, the National Bank of Romania holed and other assets in foreign currencies in the form of securities that were not included in international reserves. Their value is shown in the previous figure, where it notes that, although at first there were 270.99 billion Euros, the value gradually decreased until August 2011 to 108.73 billion Euros.

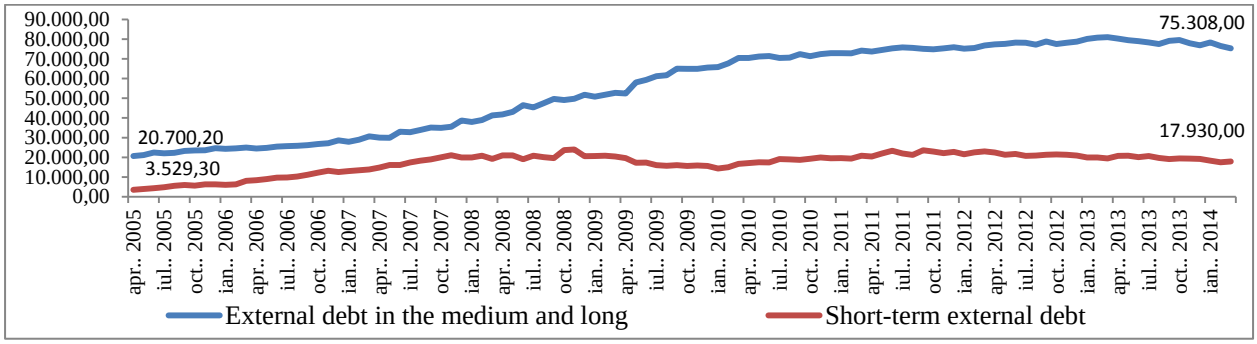
Table no. 1. The currency structure of foreign exchange reserves and foreign debt

	31.12.2002				**31.12.2003**			
	Currency reserves		**External debt on medium and long term**		**Currency reserves**		**External debt on medium and long term**	
	million Euros	**%**	million Euros	**%**	milion Euros	**%**	million Euros	**%**
Total	*6.919,1*	*100*	*14.691*	*100*	*7.136,1*	*100*	*15.401,2*	*100*
EUR	3.242	46,9	6.992,5	47,6	4.205,4	58,9	8.340	54,2
US dollar	3.623,6	52,4	6.811,6	46,4	2.540,9	35,6	5.956,7	38,7
Other values	53,6	0,8	886,9	6,0	389,8	5,5	1.104,5	7,2
	31.12.2005				**31.12.2012**			
	Currency reserves		**External debt on medium and long term**		**Currency reserves**		**External debt**	
	million Euros	**%**	million Euros	**%**	million Euros	**%**	million Euros	**%**
Total	17.900	100	24.593	100	31.206	100	99.681	100
EUR	11.580	64,7	15.583	63,4	22.694	72,7	70.315	70,5
US dollar	5.397	30,2	6.822	27,7	5.847	18,7	6.779	6,8
Other values	923	5,2	2.188	8,9	2.665	8,6	22.587	22,7

Source: Balance of payments and international investment position

From the table above we can see that foreign exchange reserves began to be held predominantly in euros (50%) in 2003, as a result of external debt in the medium and long term in euro that exceeded debt in US dollar by 1.2 percent recorded in 2002.

In late of 2012 Romania's foreign debt in the medium and long euro represents 70.5% of the total, while debt in dollars fell to 6.8%. As a result of central bank foreign reserves is held in excess of 72.7% in euros.



Source: www.bnr.ro

Figure no. 5 External debt

If we analyze the time evolution shows that Romania's external debt increased from 24229.50 million Euros in 2005 amounted to 93238 million Euros in April 2014. The sharp increase was recorded in 2007-2010.

From the previous figure it can be seen that in 2005 the short-term debt represented 15% of the country's total debt, while long-term debt was 85%. Time evolution resulted amendments to increase short-term debt at 19% of total external debt, while medium and long-term debt fell to 81%.

Although short-term debt as a share of total external debt increased, if we analyze the international reserve currency central bank in April 2014 amounting to 32404 million Euros, it appears that the immediate duty of 17930 million Euros may be covered if there are no other sources.

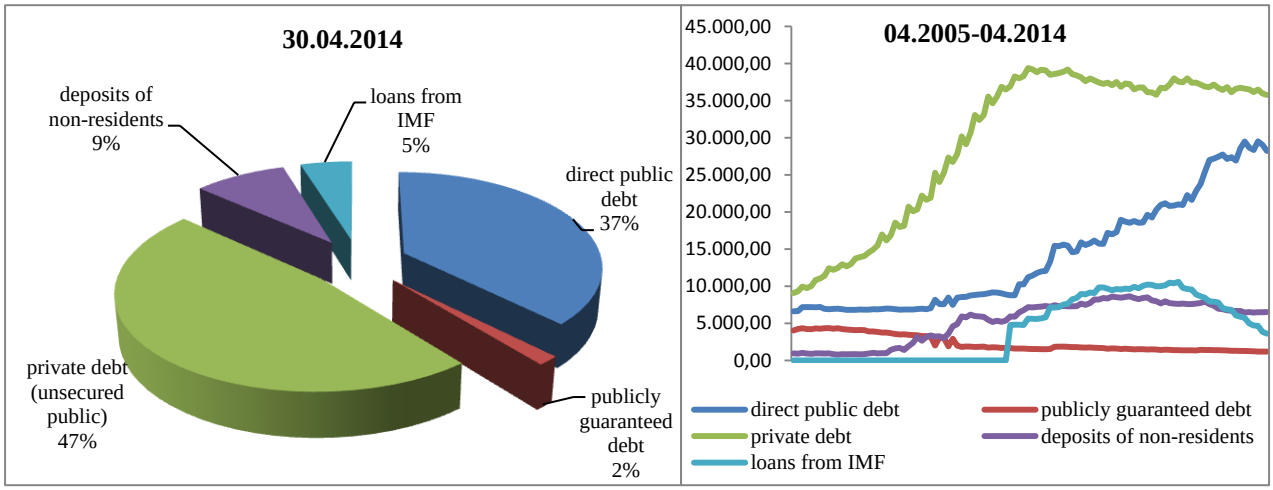


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Figure No.6 Structure by debtor external debt in the medium and long

Structure by debtor external debt in the medium and long term (Figure No. 6) shows that private debt (unsecured public) still holds (April 2014) the largest share of 47%, while 37% is direct public debt. Thus, 10.5% are loans that were obtained from the IMF, 9% deposits, and 2% of the guaranteed debt. From the previous figure it can be seen that from 2005 to 2014, private debt and public debt registered an upward curve directly, while guaranteed debt declined slightly.

3. Background on the economic development of Romania

Accession to the European Banking Union mechanisms will require a new relationship between economic growth and financial funds. In this equation is the crucial role of the banking unit. The financial crisis has demonstrated that the role of finance on growth over time is very important. Financial services and economic growth are mutually reinforcing. Attracting European funds is more optimal with banking and government funding guarantees. Credit institutions will advise national and European financial union compliance with new banking regulations.

Union Bank reorganized under "single supervisory mechanism" and "unique mechanism of resolution" bank is able to collect, effectively, information on customers 'bad payers' and eligible projects on which to draw EU funds. Projects that involve high risk and high costs for creating jobs and making "added value" will be monitored both as investors and bankers as that will invest in these projects. The stability of the banking system in Romania and the resumption of "credit" for economic development will encourage capital inflows.

Banking services available to investors via the "new architecture" banking union will lead to the development of international trade. This will increase exports various goods more attractive in terms of quality and price. By increasing productivity and specialization in high-technology goods and services will create conditions that large industrial corporation to give more resources to research to maintain and extend their competitive advantages.

The guarantee schemes within the banking union seek to protect depositors of each credit institution and ensure the stability of the banking system as a whole. UB provides DGS Directive of the existing national guarantee fund deposits and there is no risk that the financial crisis conditions not to return customer deposits, natural or legal persons.

The role of the banking union is to curing, the European monetary system and leave governments to address economic development strategy and not save credit institutions. Union bank break the link between risks in the European banking system and sovereign risks of the Member States.

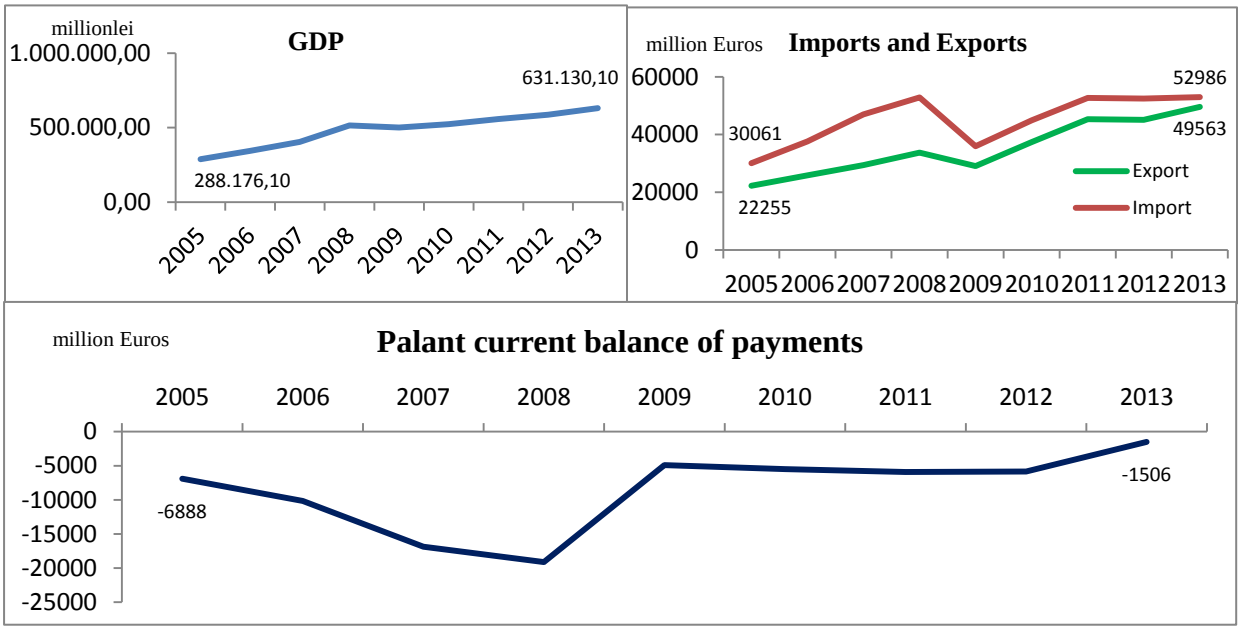
The bank's future resumption of lending and deposit security architecture promoted by the new banking union are the main directions that will curing of Romanian banking system stability represents the "foundation" of the economic system.

"A stable banking system, which ensures effective and sustainable mobilization of monetary cash economy, directing them towards effective financial activities, is an important precondition for economic development. The importance of banking system stability is more visible in terms of financial instability and imperfections banking system, banks' vulnerability to changes in the economic environment and banking crises are more similar to those evident in specific periods of the current crisis. "[3]

It's call "sustainable development" or "sustainable" in the context of real integration in the EU, Romania's economic development is the main target 'quality of life and the environment. "Economic development means first transformation in people's lives better. Currently this development is mainly based on projects financed from EU funds and loans from international financial institutions guaranteed by the Romanian mainly fund reserves. The natural consequence is the creation of new jobs and achieve added value is reflected in GDP. The goal of economic development is to 2020-2030 to achieve a GDP per capita that exceed the European average. In this period of sustained economic development requires narrowing the gap between our country and developed EU countries.

How to monitor economic development?

In addition to the macroeconomic indicators that indicate the current state of the economy of a state (fiscal policy, monetary policy, interest rates, consumer price index, retail sales indicator, balance of payments, GDP) this can be measured and purchasing power, an indicator synthetic reflecting real convergence of living standards. According Eurostat, currently GDP / capita in Romania is 41% of the EU average calculated at purchasing power standard.



Source: www.bnr.ro

Figure no.7 Macroeconomic indicators

The main indicator of economic development (GDP) grew at the end of 2013 with a value of 44380 million Euro compared to 2012. In the previous figure can be seen accelerated growth in exports from 2009 to 2013, when they reached a value of 49563 Euros with 3423 million Euros difference from imports. If we analyzed the balance of payment it can be seen that the current account deficit is decreasing in the period under review reached the end of 2013 amounted to 1506 million Euros.

Romania has recovered underdevelopment in many areas to reduce the economic gap with the developed countries. Thus, to achieve economic growth forecast as the European strategy in our country is primarily needed investment. Investment is the main way of economic growth and is based on two main sources: household savings FDI and foreign loans guaranteed by the national reserves.

Foreign direct investment, capital inflows completes all forms necessary funds for investments that create jobs and thus long-term economic development.

As the country becomes richer by a real economic development and has a "higher capital reserves" when the interest on the borrowed funds for investment is reduced and tends toward a long-term stable economic situation.

National savings and foreign direct investment will contribute to the development of industries that will give added value to the economy and increase GDP. In this situation it will allocate more money from GDP for education and workforce training in all forms, which will positively affect labor productivity growth in the real economy.

"The differences between developed and less developed country is not limited just at resources but also at knowledge, so investment in education and technology-derived largely from the government-are very important." [2]

Also the growth of per capita income rates will influence the rates amount saved will help increase education and raising living standards.

Technical progress and especially investments in new information technologies will create favorable conditions the process of "learning by making".

With government guarantees can carry out projects for the exploitation of non-renewable resources. According with Eurostat Romania has estimated untapped mineral reserves of over 20 billion tons: ferrous ores (potential resources 2.21 billion tons), iron ore (58.6 million tons of potential resources), salt (potential resources 16.96 billion tons), minerals nonmetallic (potential resources 292.8 million tons), sands and gravels (potential resources 456.9 million tons), ornamental rocks (potential resources 34.5 million tons, of which 6.39 million tons marble).

4. Conclusions

International reserves are composed and managed by the central bank of the state to mitigate any disturbance of the balance of payments, ensuring payment of external debt service, representing at the same time guarantee the country's external solvency.

The objective of the central bank is price stability, the regulating of demand and supply of money are sometimes resorting to international reserves. This creates a situation where the financial system is able to attract and place cash funds effectively and to withstand shocks without hurting the real economy.

Romania's entry into the European banking union paves a more flexible exchange rate policy interventions through uncommon from central bank foreign exchange market.

Increasing the role of international reserves has increased due to macroeconomic and financial imbalances caused by unhealthy functioning international financial system caused by the financial crisis. Due to the financial crisis, Romania was forced to resort to external borrowing to adjust budgetary imbalances and to support economic development.

Romania's economic development was and is traditionally supported by bank lending. Financial and banking groups will resume lending in much better conditions for local clientele and develop alternative funding solutions while attracting domestic financial resources. Banks are closely related to local clientele will help new banking products and services through economic development especially for regaining public confidence saving.

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