MONETARY EXPECTATIONS OF THE ROMANIAN EXECUTIVES REGARDING THE ADHERATION

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This paper explores the monetary expectations induced to the managers of Romanian firms by adheration. It is based on an investigation among twenty Romanian executives regarding the impact on adheration over monetary aspects: inflation, exchange rates and adoption of euro. We conclude that the results of the monetary policy in the last years made the executives confident that the Romanian authorities could maintain the monetary stability after the adheration.

Keywords: *expectations, adheration, exchange rates, inflation targeting, euro adoption*

1. Introduction

Inherently, the Romanian companies' executives' expectations will have a significant impact on the processes linked to the European Union (E.U.) adheration. Among these the monetary expectations could influence in an important way, at least on short term, prices and exchange rate evolution. The monetary expectations study regarding the E.U. adheration implies the approach of some related aspects, especially the macroeconomic processes. In order to describe the monetary expectations we used the results of an investigation over a group of twenty executives. This article includes the following chapters:

- The role of the expectations in the macroeconomic systems;
- Characteristics of the monetary stability for the Emerging Market Countries;
- The monetary impact of the transition countries adheration to the European Union;
- Monetary processes in Romania in the transition period;
- Investigations regarding the monetary expectations of the Romanian Executives.

2. The role of the monetary expectations in the macroeconomic systems

The recent economic theories assign to the expectations an important role in different fields. From the monetary equilibrium point of view there are noticed two types of expectations: the expectations regarding the inflation and the expectations regarding the exchange rate evolution.

The expectations regarding the inflation are given by the opinions that individuals (consumers, employees, companies' executives a.s.o.) have regarding the prices evolutions in a future period. It is accepted that the expectations that over-evaluate the inflation amplify the prices increase. There could be identified different mechanisms for this phenomenon production, such as: when it is anticipated a big inflation rate, the employees would demand significant wages increases, in order to maintain their retributions purchasing power and the executives would increase the sale prices, in order to recover the increased costs a.s.o. Based on similar mechanisms it may be considered that expectations that under-evaluate the inflation could lead to the prices increase slowing down. However, the

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expectations introduction in the econometric models is quite difficult because these are very hard to estimate [5;11]. With this purpose there may be used samples regarding the expectations of some individuals' categories. For these countries it is recommended that in the exchange rate expectations study to be used samples.

The expectations over a currency devaluation or revaluation influence in a significant way, at least on short term, the currency rate evolution. The lack of trust in the national currency usually accelerates its depreciation, while national currency reinforcement is favored by the trust in its strength. The exchange rates expectations estimation is different related to some particularities of the financial systems. In the countries with developed financial markets the best estimator is considered the forward exchange rate [4;8]. However, this variable is less relevant in the case of the emerging markets.

The main impact that monetary expectations have over the macroeconomic equilibrium is taken into consideration in the economic (especially monetary) policies conception. In the last decades, for most of the central banks it became as a custom the objectives announcement regarding the inflation or the exchange rates, in order to influence the monetary expectations. However, it was proved that inflation rate and exchange rate couldn't be chosen together as main objectives of the monetary policy [9]. In these circumstances a Central Bank has to choose between price stability and exchange rates stability. Generally, the control of inflation is considered more important than the stability of exchange market.

3. Characteristics of the monetary stability for the Emerging Market Countries

Often, in the emerging market countries the trust in the national currency is reduced and this fact could amplify, in crisis situations, the monetary instability. This situation was reflected in the 1990's by the fact that in many countries the balance sheets of firms, households and banks were substantially dollarized and the population preferred saving in foreign currencies [9]. As a consequence, the central banks from many emerging market countries fixed as the main target the exchange rates stability and some of them established even peg exchange rate regimes. Usually, the monetary policies objectives regarding the exchange rates were made public, in order to influence the monetary expectations. These policies succeeded in bringing a certain trust in the national currency in the same measure they assured the exchange rates stability. However, for many of the emerging market countries the exchange rates stability, although it had on short term anti- inflation impact, overvalued national currency, affecting in a negative way the commercial balance.

The economic crisis from the 1990's revealed the monetary policies weaknesses based on the exchange rates stability. After their surpassing, in many emerging market countries it was adopted the inflation targeting. Such a monetary policy strategy addresses directly to the inflation expectations by the fact that it implies the public announcement of medium-term numerical targets for inflation. The success of such a policy depends, mainly, on the credibility of the Central Bank capacity to achieve its targets. It was proved that in case of a low level of credibility, the monetary expectations amplify the inflation, while significant credibility favors the disinflation [6;9].

4. The monetary impact of the transition countries adheration to the European Union

For some of the former socialist countries in the Eastern Europe the transition finished or is about to finish when the adheration to the European Union takes place. The adheration releases, inevitably, significant monetary expectations by the implied serious changes of the economic systems. However, these expectations express in a different way on short term and on medium or long term. The short term monetary expectations evaluation is very complex in the context they are influenced by different factors that act in different directions: lining up some prices to those from the European Union, eliminating or diminishing some subsidies, abolishing some customs duties a.s.o. On the other hand, on medium term it is expected that adheration to the European Union increases the trust in the national currencies of the former socialist countries. The monetary size of the adheration to the European Union of a former socialist country also includes the relation with the European Monetary System and with the EURO currency.

The Maastricht Treaty from 1992 established the conditions a country must accomplish in order to adopt the EURO:

- a high degree of prices stability, meaning a yearly inflation that doesn't have to exceed 1,5 % the average of three countries from the Community with the best results in the prices stability;
- the public finances situation must be under control: the budget deficit lower than 3 % from the GDP; the public debt less than 60 % from the GDP;
- complying with the fluctuation normal margins established by the exchange rate mechanism from the European Monetary System for at least two years, without the devaluation of the currency in comparison with the one of another member state;
- the level of the long term interest rates that doesn't have to exceed 2 % the average of three countries from the Community with the best results in the prices stability.

On medium and long term it is expected that adopting the EURO currency increases the trust in the monetary stability from the former socialist countries. However, the moment of the new currency introduction may be followed, on short term, by significant changes of the prices [2].

5. Monetary processes in Romania in the transition period

In Romania, for the transition to the market economy the gradual reform was preferred to the shock therapy. Consequently, the monetary instability maintained for a long period, although it didn't have very high levels (as in Poland, for example). From 1990 till 2004 Romania had "two digit levels" inflation, the highest level being in 1993 when the inflation rate was 295, 5 % [13]. The serious monetary instability from the first years of transition caused expectations that amplified the inflation. Moreover, the lack of trust in the national currency favored the savings in foreign currencies, especially in American dollars. However, together with the reforms progress, there were created the conditions for the macroeconomic stabilization.

The budget deficits were reduced and The National Bank of Romania (NBR) was not obliged anymore to finance them by monetary issue. The Law No. 312 of June 28, 2004 gave to NBR operational independence, allowing it to concentrate on the inflation. From 1999 the inflation rate continued to decrease, having in 2004 "single digit levels". This success in disinflation has strengthened the NBR's credibility so that, in the opinion of NBR's governor, from 2006 the expectations regarding the inflation favored the efforts of monetary stabilization [7]. The differences between the actual and target inflation rate were reduced gradually had also a contribution to this fact (Table 1).

Table 1 – Actual and Target Inflation Rate

Percent: Dec / Dec

Year	Actual Inflation Rate	Target Inflation Rate
2000	40,7	27
2001	30,3	25
2002	17,8	22
2003	14,1	14
2004	9,3	9
2005	8,6	7,5 ± 1 pp
2006	…	5 ± 1 pp
2007	…	4 ± 1 pp

Source: *National Institute of Statistics, National Bank of Romania*

In this context, NBR adopted inflation targeting and this strategy proved to be successful until now. However, the moment of adheration could bring (the same as in other former socialist countries) significant increases of some prices. In connection to this event, the NBR's governor has some concerns:

- Fiscal policy relaxation;
- Wages increase;
- Indirect taxes alignment to the levels assumed in the agreements with the European Union [7].

After the adheration to the E.U., Romania becomes member state with temporary derogation from the adoption of euro. The calendar proposed by the Romanian authorities includes the adheration to ERM II in the period 2010 – 2012, euro being adopted in the period 2013 – 2014.

6. Investigations regarding the monetary expectations of the Romanian Executives

On short term, the monetary expectations of the Romanian Executives could have a significant impact on the prices and exchange rates evolutions after the adheration. For the study of these expectations there were used the results of an investigation regarding the preparations for the adheration performed in the period June – August 2006 on a group of twenty firms' executives [12]. The methods used for this investigation included both questionnaires and interviews concerning the studied aspects. Obviously, based on such a small sample, the results of the investigation can not be generalized for the whole community of executives from Romania. However, these could be useful to understand the way in which some monetary expectations issue.

In the field of the monetary expectations, the investigation aimed at three aspects:

a. the impact on short term of the adheration on the inflation;
b. the evolution on short term of the exchange rates after the adheration;
c. the euro adoption.

a. The impact on short term of the adheration on the inflation. In the questionnaires the twenty executives were asked about their opinion regarding the effects adheration would have on the prices evolution. It resulted that a big majority of 80 percent from the persons do not anticipate significant changes in the inflation process (Table 2).

Table 2 – Answers of the executives regarding the impact on short term of the adheration on the inflation

Variants of answer	Significant decrease	Significant increase	No significant changes	No answer	Total
Number of answers	3	1	16	-	20
Weight	15 %	5 %	80 %	-	100 %

In the interviews phase, the executives who anticipate that inflation would no change in a significant way explained that in Romania the most categories of prices are already aligned up to those from the European Union, so that the adheration would no cause significant changes. The three managers who bank on the significant decrease of inflation consider that the disinflation that began more years ago would be amplified by the trust in the monetary stability brought by the adheration. The executive who anticipates an inflation speed-up explained that the adheration to the European Union would lead inherently to a generalized wages increase that would cause the significant increase of the prices.

Regarding the prices established by the firms they administrate, all the interviewed managers asked they would not consider as necessary a significant increase in the months that followed the adheration.

b. The evolution on short term of the exchange rates after the adheration. In the questionnaires phase the twenty executives were invited to anticipate the exchange rates short term evolution after the adheration. It resulted that 45 percent of the executives consider that there would not be significant changes in the exchange rates evolution, while 40 percent could not anticipate the impact on the adheration on the exchange market (Table 3).

Table 3 – Answers of the executives regarding the impact of adheration on the exchange market

Variants of answer	Significant depreciation of the national currency	Significant appreciation of the national currency	No significant changes	No answer	Total
Number of answers	3	-	9	8	20
Weight	15 %	-	45 %	40 %	100 %

In the interviews phase, the executives who do not bank on significant changes of the exchange rates explained they trusted the capacity of the National Bank of Romania to stabilize the exchange market, no matter what the pressures could be after the adheration. The managers who could not anticipate the impact of adheration on the exchange market explained it by the big number of factors that would act in that context. The three executives who expect a significant depreciation of the national currency have the conviction this evolution would be caused by the Romanian authorities' intention to protect, by a weak currency, the domestic products against the external competition. In the interviews phase it also resulted that any from the twenty executives did not have taken into account measures of currency risk management, although most of the firms deal with foreign trade.

c. The euro adoption. In the questioning phase, the twenty executives were invited to indicate the moment when, in their opinion, Romania would adopt euro. It resulted that managers placed that date in the period 2010 – 2013 (Table 4).

Table 4 – Answers of the executives regarding the year when Romania would adopt euro

Variants of answer	2010	2011	2012	2013	Total
Number of answers	6	5	8	1	20
Weight	30 %	25 %	40 %	5 %	100 %

In the interviews phase it resulted that all the persons were sceptic regarding the euro adoption conditions accomplishment of Romania. However, these expect a permissible evaluation in this field, in the same way it happened in the case of the European Union adheration. None from the twenty executives took into consideration special preparations for the euro adoption, in the conditions in which this event seemed quite far away.

7. Conclusions

In this paper we analyzed the Romanian executives' monetary expectations caused by the future adheration to the E.U. We approached the role of inflation and exchange rates expectations for the emerging market countries which applies inflation targeting as a monetary policy strategy.

The analysis of monetary expectations about adheration was based on an investigation among twenty Romanian executives which approaches three monetary aspects: inflation, exchange rates and euro adoption. Regarding the inflation the majority of executives don't anticipate significant changes because they consider the prices in Romania are already aligned to those from the E.U. They don't share the main concerns of NBR regarding the fiscal policy relaxation, the wages and some indirect taxes increase. Most of the executives don't expect significant changes or couldn't predict the evolution of exchange rates after the adheration to the E.U. Majority of them trust in NBR's capacity to influence exchange market.

Regarding the adoption of euro, most of the managers placed this event between 2010 and

2012, while the Romanian authorities anticipate this will happen in the period 2013 – 2014. This situation has two major causes. First, the executives are not enough well informed regarding the conditions of euro adoption. Second, many of them consider that concerning the euro adoption Romania will benefit by a lenient evaluation, so it happened in the case of adheration to the E.U. From this investigation a significant trust of the executives in NBR resulted, being a favorable aspect regarding the success of the inflation targeting.

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