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Mr. Daianu, as a former Minister of Finance in the preparatory period for Romania before the official opening of the negotiations with the European Union, do you think the country was ready by that time on the necessary level for this process? Moreover, was it possible that Romania could have started the negotiations even earlier?

It is no secret that none of the post-communist accession countries met all basic economic conditions implied by joining the Union. Having said that one has to acknowledge the rather broad variety of circumstances among the accession countries, which are rooted in different economic development levels, the pre 1989 reform attempts and the post-1989 reform dynamics. In a way, it looks strange that relatively poor societies/economies have tried to join a club of relatively rich (prosperous) economies. The answer here is that EU accession is seen in a multifold perspective. Aside from the "Return to Europe" rhetoric there is a historical opportunity to overcome economic and social backwardness. For such reasons Romania was so keen to start negotiations (which she did in 1999), though its preparedness was clearly at a far distance of what is deemed as adequate. Even now, there are major loopholes and weaknesses. But the major bet is that it would be better to tackle them from within than from outside the EU.

Up to what degree is the fiscal policy of a state defining the relations with the EU? Up to what level is justified the union to be allowed to shape the financial ministries agendas?

There are several lenses for examining this issue. One is the fiscal policy sovereignty of a EU member state; this means that, although the Commission makes judgments on policy stances in various member states and there is a Stabilization Pact (based on the Maastricht Criteria) governments are free to formulate their policies as they seem fit. This said, however, peer pressure and the need to coordinate fiscal policy with monetary policy do constrain the room of maneuver of governments. I would add here

that the EU puts additional burden on fiscal policies once monetary policy is common. Accession (candidate) countries have also to cope with pressures on their budgets that stem from complying with the Acquis. That can involve additional budget expenditure that easily can mount to 4-5% of GDP. Unless fiscal policy is forward looking and wise budget deficits can get out of control (see the experience in Hungary) and cripple economic equilibria. Finally, foresight and proper budget policy are a must in an increasingly global economy, where the rise of Asia, demographics, the strained welfare systems, the price of basic commodities, etc. make up a cluster of adverse factors.

Which are, according to your personal view, the cornerstone achievements of the last two governments of Romania in the financial sphere and how much the actions and activities of each of them contradict or "communicate" with each other? Prime Minister Tariceanu, some say, "had the courage" to discontinue preliminary the relations with the International Monetary Fund last year. The relations of Bulgaria with the IMF end in September, this year and our country, with small exclusions, keep "going on their whistle".

In ideal circumstances it is good to be on excellent terms with the IMF, conceptually and operationally. This IFI has great experts and their pieces of advice are, frequently, a very useful reality check. This said, however, even their advice can be less adequate. For instance, about a decade ago the IMF recommended to Romania to open the capital account. At that time I was the Chief economist of the Central Bank and I opposed this policy suggestion. The crisis in the South East Asia and around the world proved me right and fortunately, Romania did not open the capital account prematurely. My country was forced to do it as a condition for joining the EU and, ironically, the IMF considered this move as a risky one. This time, I concurred with their view for interest rate differentials are still high, inflation is still high and the depth of financial markets is low. Prime Minister Tariceanu's fiscal policy is very different of SDP's policy for a very simple reason: the introduction of a 16% flat tax. The IMF was not against the flat tax per se, but it saw its timing as highly inappropriate for the economy was roaring and was driven by consumption in the main. This brought the relationship to an operational end. The big challenge for the Romanian government is to run a fiscal policy that would not allow budget deficits to get out of control (after EU accession) while the expansion of non-governmental credit is very rapid. For Romania a big dilemma is how to reconcile the monetarist logic of disinflation with a Keynesian logic of budget policy - the latter being forced by the Acquis to raise expenditure one way or another.

Which are the financial institutions that have to control spending of the money from the structural and the cohesion funds of the EU?

It is estimated that Romania is about to receive nearly 30 million euro in the controversial period 2007-2013? What is the current status of those institutions? Ultimately, it is the Ministry of Public Finance that is entrusted with this responsibility. But. Clearly, each line ministry has to do a good job.

Are "asymmetric shocks" expected after the EU integration of Bulgaria and Romania, on the long term?

The intensity of "asymmetric shocks" hinges on nominal and real convergence. Unless we develop financial markets properly, run prudent budget deficits and sustain growth the probability of powerful asymmetric shocks goes up.

Do you think that raising the excise taxes rates for the cigarettes and the alcohol will increase the smuggling of those products, therefore encouraging the organized crime, as some manufacturers declare?

It is a sensible assumption, however much I am inclined toward adopting measures that diminish

smoking and alcohol consumption.

Do you think that the budgetary deficit for 2007 will increase unexpectedly, following the taxes and contributions of the Romanian state to the EU and the decision of Minister Vladescu to raise its rate to 2,5 percent for 2006?

I consider the rise in the budget deficit to 2,5%, for this year, as imprudent. Unless tax collection improves considerably and there is a restructuring of expenditure the budget deficit could go up to 4% of GDP in 2007 and even higher in subsequent years - in view of EU budget contribution, co-financing needs and obligations that are linked with the implementation of the Acquis.

Romania already implemented the flat tax in the beginning of 2005 with a rate of 16 percents, Bulgaria yet did not. What are the minuses of this kind of tax and what effect it will have on investments? Do you advice Bulgaria to follow your example?

I do not favor a particular type of taxation. Fiscal fundamentalism is bad, as all kind of policy fundamentalism is dangerous. I view the introduction of the 16% flat tax in Romania in the framework of fiscal competition in Europe. The management of its introduction could have been better and its level could also have been more optimal. The flat tax has pluses and minuses; one minus, in Romania, is that it has fuelled consumption at a time of its strong expansion, with external deficits bulging. In Bulgaria you need to be open minded and pragmatic. See what can help you raise more budget revenues for the sake of dealing with the EU related obligations and of producing more badly needed public goods.

Observing similar processes in our two countries, I cannot seize myself from asking you about your opinion on the contract, which was revised and renovated by the Romanian government, concerning the construction of the so called "Transylvania" highway, just before last Christmas, given to the American consortium Bechtel. Just to mention that the saga with the Bulgarian equivalent, the highway "Thrakia" is still in the court folders, after Cassation prosecutors' office objected the deal with the Portuguese for the main reason that it was given without a competition.

I was critical in the media about the way that contract was awarded to Bechtel. It appears that even the American embassy intimated to the Romanian Government that good procedures should be observed. The bottom line is that we need to care more about the use of public money. High politics and "geo-political interests" are not sufficient for making highly controversial deals to the public palatable. Another bad deal is the way Petrom was privatized; the royalties the Romanian government gets following this deal (privatization) are obnoxiously low in view of the rising price of oil. I wonder what the international consultant (Credit Suisse) advised the Romanian government to do, when it was clear that the price tendency is upwards.

It is expected that the budgetary surplus for 2006 in Bulgaria to be around 800 million leva, or over 400 million euro. There are serious argues among the professional and governmental groups what this money can be used for and how good is to have such a surplus in the first place. What is your comment on this fiscal phenomenon?

You are running a budget surplus at the advice of the IMF for the sake of containing the current account deficit. This is a policy tool that has quite limited efficacy since, when the capital account is open international credit easily substitutes domestic credit. You have a big advantage over Romania when it comes to budget revenues for the latter are about 5-6% of GDP higher in your country (one explanation is that agriculture makes a much more substantial contribution to the budget and the central bank does not incur heavy sterilization costs that eat up its profits). This advantage means that you can spend

considerably more on essential public goods: infrastructure, education, health care. But, be cautious about future pressures on the budget in view of the EU obligations. This is why this current surplus has to be used not for current expenditure. I suppose that the pension system reform is also an item on your public policy agenda.