ECONOMY

FOCUS: THE TALKS WITH THE IMF: SOME FOOD FOR THOUGHT

Daniel Daianu

The economy has continued its recovery and disinflation makes progress, as the data for the first quarter of this year show. But, ~~not~~ not unlike ~~its predecessors~~previous agreements, the current *~~s~~Stand~~-~~-by ~~a~~Agreement* with the IMF has met a series of obstacles in its implementation. Consequently, the release of the second ~~financial~~ tranche has been delayed and a supplementary letter of intent is in the offing. The main contending issues have been aired publicly and this invites examination, albeit one should be aware of the dangers posed by insufficient technical information in this respect.

Tax collection

Recently, Prime Minister Adrian Nastase announced an over~~a~~haul of fiscal policy. The reason is easy to detect: tax collection ~~seem~~continues to be the Achille's heel of the current agreement and of the~~-~~ budget policy. Since tax collection has not improved in 2001, a "sequestration" of capital expenditure was enforced late in the year, in order to meet the budget deficit target. There are several worr~~y~~~~ing~~some aspects in this regard. First and foremost is the very dynamic of tax collection, which determines the size of fiscal revenues. Quite unusually, at a time of swift economic recovery (GDP went up by ~~cca.~~approximately 5.3% in 2001, see graph 1), fiscal revenues have gone down as a share of GDP (tab~~e~~le 2). There is a need to ~~figure out~~understand the root causes of this situation and how to effectively tackle it ~~in a most effective way~~ – not simply by attempted quick-fixes, which can hardly work adequately over the longer run.

An explanation for the worsening tax collection can be linked ~~with~~to the ~~evolution~~increase of overall arrears in 2001, which, apparently, have gone beyond 40% of GDP (graph 1). Another cause can be associated with fiscal facilities granted to SMEs and to state-owned companies, some of which were privatized last year. But, in the latter case, one would have to calculate the offsetting positive influence of privatization revenues, which, presumably, entered the public purse. There is also the practice of tax deferral or cancellation for many state owned and~~,~~ even~~,~~ private companies, which is a feature of lax financial discipline. The bottom line is that the State has had a worse tax collection last year, and this bodes badly. Moreover, this situation has prompted the Government to seek additional ways to raise tax revenues in order to keep close to the budget deficit target of 3%; consequently, action is under way in order to increase excises for gasoline, alcohol~~,~~ and tobacco, and remove the VAT exemption for house construction. One can debate the merits of such plans – for instance, the adverse effects (increas~~ris~~ing tax evasion) of raising tobacco excises~~--~~ – ~~,~~but the focus should rather be on the bigger question~~:~~, namely why has tax collection been worse, and how can it be improved? ~~For instance, imagine how much intake the 19% VAT could bring in against the backdrop of a GDP of almost 40 Billion USD, even if the share of household economy (personal consumption) is deducted. Thence, there is need to mount an effort to improve tax collection, as an optimal means for running a better budget policy.~~

Another worr~~yi~~isome~~ng~~ feature has been the clamp down on capital expenditure, at a time of deep concerns about a precarious infrastructure and when private capital (whether domestic or foreign) does not seem to be capable (to a certain extent, it will never be!), or interested, to provide a substitute. If things do not improve in this regard, the long term~~s~~ effects will show up with a vengeance. Admittedly, a piece of good news is that both the domestic and the foreign investment ratios are on the rise, albeit, quite slowly; and EU assistance can help in this respect as well.

The Government has solid reasons to embark on both an over~~ra~~haul of tax policy and better tax collection. Actually, the latter could help reduce social security contributions, which are a ~~big~~ significant drag on enterprises (the ratio of social security contributions is the highest amongst ~~the~~ EU candidate countries – that is to say a~~bout~~round 57%). However, ~~But~~ tax policy overhaul is not an easy task and can be ~~pretty~~ disappointing ~~unless it is~~if not properly implemented ~~properly~~. There are examples in emerging countries where this kind of reform was not rewarding, ~~and this~~which should constitute a ~~should warn~~ warning to the Government in this respect.

The budget deficit

The Government has announced ~~the~~ its intention to revise the budget deficit upwards, which, clearly, would not please the IMF. In this ~~regard~~ context, it should be highlighted ~~I would say~~ that a 3% budget deficit ~~and~~accompanied by a higher quasi-fiscal deficit~~,~~ may be worse – on the ~~whole~~overall~~—~~ – than a 3.2% budget deficit ~~and~~ with a lesser~~a decline in the~~ quasi-fiscal deficit. ~~By saying~~ Having said this, ~~this I am~~ we ~~not~~do not argu~~ing~~e ~~in favor of~~for changing ~~the~~this year's budget deficit target ~~for this year~~; ~~instead~~rather, ~~I am~~we are cautioning against unproductive rigidity on both sides of~~at~~ the ~~discussion~~ negotiation~~table~~.

Arrears and inflation

There seems to be an underlying relationship between arrears and inflation. ~~Arguably,~~High inflation has become chronic in Romania and this is due to the congenital inability of major loss-making companies to pay their taxes, and to *moral hazard*, that is to say the benefits, which even profit-making companies have by not paying their dues (debtors always gain when high inflation erodes their debts). Equally, ~~T~~there are ~~also~~ powerful inflationary expectations at work, and wage indexation~~, too,~~ also plays a role in this respect. The fact is that inflation has become a *sui generis* means for the economy to keeping arrears stable, more or less, in real terms; otherwise, the economy would suffocate, as ~~for~~ companies would be increasingly unable to pay wages and procure basic inputs ~~owing to increasingly~~because of cash scarc~~e cash availabl~~ity. It is like saying that the economy is addicted to high inflation.

How can this perverse linkage be cut off, so that disinflation be successful? This is a major policy question for both the Government and the National Bank to respond to. What occurred in 2001, namely~~,~~ the ~~rise in~~increase of arrears – against the backdrop of a ~~decline of~~lower inflation (graph 1) ~~–,~~ – is wor~~r~~risome~~!~~. ~~It~~

~~may be that lower inflation has started to bite exceedingly, and the outcome is a rise in arrears.~~ Thise ~~rise~~increase of arrears can backfire and undermine disinflation, and this is why more financial discipline is a must. In 2002, disinflation has continued, with monthly rates of 2.3% in January and 1.2% in February~~.~~, ~~This a piece of~~which is good news. But this positive ~~evolution~~trend needs to be accompanied by ~~good results in~~ containing arrears. The Government needs to be more resolute in dealing with the worst tax-offenders. By doing ~~it~~this, it would shoot at two targets: ~~the~~ improv~~ement of tax~~ing collection~~,~~ (which would help the budget)~~;~~, and making~~e~~ disinflation sustainable.

Public utilities: finance, price policy, privatization

The issue of tax collection/arrears is closely linked ~~with~~to the financial health of major public utilities; their inability to ~~make good on their financial claims~~collect on their bills (Termoelectrica is the most notorious case) is of longer vintage and ~~reflects~~is due to several factors, such as the ~~relative~~ price of energy, highly obsolete technologies in use, the impoverishment of~~f a growing part of~~ the population, and, not least, the lack of financial discipline. ~~-~~An ~~rise~~increase in the ~~relative~~ price of electricity and heating is ~~not unsubstantiated~~ economically justified, ~~bearing in mind t~~given the ~~procurement~~ costs of raw energy ~~from abroad~~imports. There is, however, a critical issue here, ~~which is linked with~~namely the inability of ~~not a few~~many citizens to pay their electricity and heating bills, specially during the winter season~~term and not only~~. As ~~I~~the author has argued elsewhere[7], the steady rise of the price for heating and electricity should have been preceded by a mechanism for distributing the ~~new~~ financial burden over a longer period of time – as a device for alleviating the pain for poor households. It is good news ~~to see~~ that the Government envisages a mechanism along this line. Substantial energy savings can also be achieved by both households and industry, ~~by~~ through proper measurement of consumption. The longer term solution, however, involves heavy investment in energy infrastructure, which ~~demand~~requires capital inflows ~~as well~~ and, in this context, privatization.

As a matter of fact, the IMF mentioned privatization as having been too slow in 2001. But privatization is not enough; proper structures of corporate governance

[7] See “Energy Policy Issues”, *Romania Libera*, February 1st., 2002, and *Economistul*

matter tremendously, and ~~that~~ competition policy and adequate regulations are essential in achieving good economic performance, as experience in other countries has shown.~~.~~ ~~And since the focus here is on the energy sector it does make sense to remind all sides involved (including the aid agencies) the experience worldwide, which shows that privatisation in the energy sector needs to be buttressed by well balanced contracts. Such contracts should reward the investors, but ,also, protect the local economy.~~ As the current financial plight of Argentina indicates, “sweetheart deals in questionable privatizations”[8] have allowed to charge extremely high rates. Arguably, the very high price of services has contributed significantly to the ~~declining~~ loss of competitiveness, together with the overvaluation of the local currency. In Hungary~~, too~~ as well, there are examples of a highly ~~inflamed~~ problematic relationship between foreign investors (owners) and the Government when it comes to the price of public utilities' ~~services~~. ~~At the same time, the pitfalls of deregulation in the energy markets –look at what happened in California— should also be a harbinger of the way to go with privatization in this field.~~

The Romanian Government needs to foster privatization, for this is a means to bring in badly needed capital and impose hard budget constraints. Nonetheless, privatization should be accompanied by a good (and effectively implemented) regulatory framework, which can deal with monopoly behavior, secure fair prices for consumers, and avoid external over-indebtedness. The ~~European Union (through the Phare Program), the World Bank, the EBRD and the EIB~~international organizations should assist the Romanian Government in ~~order to~~ formulat~~e~~ing and carrying out a proper strategy in this field. Quick~~-~~ fixes do not last, and do not help solve the problem fundamentally.

External equilibrium and controlling domestic credit

Economic recovery in 2001 has also been helped ~~also~~ by the ease with which Romania has managed to finance~~d~~ its current account deficit; this ~~ease~~ has allowed~~helped~~ replenishing the foreign exchange reserves of the NBR at more than 3.5 billion USD by the end of the year. But there ~~could~~may also be~~, among others,~~ a downside effect to this financing, which is related with the real appreciation of the local currency at a time when the interest rate differential is

[8] As Financial Times put it, 15 February, 2002 (p.2)

~~quite~~ attractive to foreign investors. Not surprisingly, the foreign currency denominated loans extended by local banks have increased~~gone up~~ (in relative terms), which illustrates~~, quite likely,~~, in all likelihood, capital inflows attracted by the combination of real appreciation of the ~~Leu~~ ROL and the ~~attractive~~ interest rate differential. Unless the Romanian economy ~~can~~ maintains its steady growth and the current account deficit is kept under control, two dangers are looming. One is linked to~~with~~ a possible overexposure of banks to companies, which are not well hedged against the exchange rate risk. Secondly, shocks which may hit the Romanian economy ~~may~~ could trigger a sudden reversal of capital flows, which may cause pressure on the fore~~x~~ign exchange markets and a real depreciation of the ROL~~Leu~~. This would be bad for disinflation and macroeconomic stabilization, in general. In this context, t~~It seems that t~~he NBR would ~~do~~be well advised to impose higher reserve requirements on foreign currency denominated domestic credit; and it may also be ~~also~~ good to impose ceilings on banks' short-term borrowing~~s~~ from abroad.

Fig. 1. GDP, Inflation, Arrears evolution :1999-2002

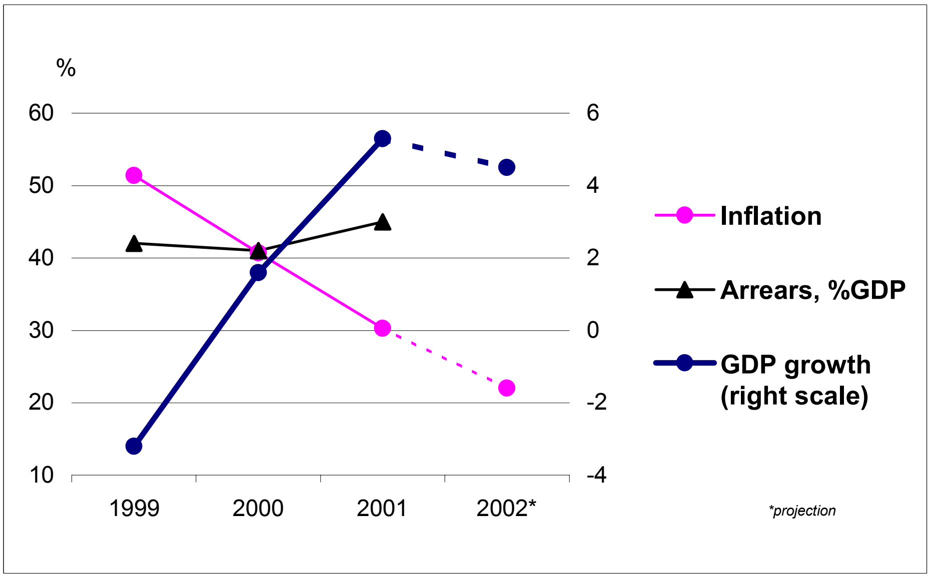


Fig. 2. Consolidated budget revenues and expenditure (% of GDP)

	2000	2001	2002 (forecast)
Revenues	31.5	32.7	31.8
Fiscal	29.5	30.5	30.0
Non-fiscal	1.9	2.1	1.8
Ex penditure	35.5	36.2	34.8

FOCUS: PRIVATIZATION. SPEEDING UP WITH LIMITED FUEL

Liviu Voinea

The Government recently ~~undertook~~ assumed responsibility in Parliament for a “Law regarding certain measures for speeding up privatization” (Law 137/2002). Whilst~~e~~ giving credit to the Government ~~credit~~ for enhancing its privatization efforts, the comment below highlights ~~law~~certain provisions of the law that may generate~~incur~~ moral hazard, and ~~are advisable to~~which should be redressed by means of an emergency ordinance, rather than by methodological norms.

This is not the first time when a law on speeding up privatization is enacted. As early as ~~in~~ August 1994, the “Law on speeding up the privatization process” led to adverse effects: less privatization deals were concluded between September and December of that year, than in July 1994 alone.

Moreover, this is not the first time when the idea of a symbolic price appears. Privatization ‘for 1 DEM’ was experimented in the re-unified Germany, until the head of their privatization authority was shot dead; privatization ‘for 1 FFR’ was also tried in France, but it didn’t last long, as the defense industry producer Thompson was re-nationalized from Daewoo. In 1997, the then Romanian Government tried to sell the ‘1 US~~D~~$ privatization’ idea to the public, but strong opposition emerged~~appeared~~ at that time from its nowadays promoters.

One should also remark that a law on speeding up privatization indirectly sends the message that privatization was~~ent~~ too slow~~wly~~ ~~in~~during the previous period. As we mentioned in the Annual EWR 2001, only 121 privatization deals were ~~record~~signed last year; budget revenues from privatization only reached 0.7% of GDP (as compared to 1.8% in 1998), and they were forecasted at 0.2% of GDP in 2002.

This new law should be praised, for introducing a specific administration procedure to prevent asset depletion during privatization, and for the willingness to trade short-term revenues for medium and long term benefits. However, although this road is paved with good intentions, moral hazard may also appear, as a number of issues are~~, in my opinion,~~ subject to interpretation.

- According to the law (art 5.1), the public institution involved (the administrator of the state assets undergoing privatization) is the only authority competent to decide on the opportunity of concluding the privatization deal. The law stipulates that neither judicial Courts, nor arbitrage institutions can rule on the opportunity of the transaction; they can only rule on its legality. The basis for the opportunity decision (in terms of price, jobs, capital~~ – in privatization deals one cannot speak about job creation, but, at the best, about job preservation~~) lays, however, in methodological norms that are still in the making. Opportunity is not defined, opportunity cost is not considered as a benchmark, and thus the decision-maker is exonerated ~~of~~from responsibility. If opportunity is not defined, how can we know what "legality" remains to cover?

- The law (art 5.3) prevents the participation in the privatization process of persons and firms who had already entered a privatization contract and a final and irrevocable Court decision ruled that they did not fulfill it. This, however, does not limit the access of persons and firms who are known to have failed fulfilling their contractual obligations, but a final and irrevocable court decision hasn't yet been reached (there are currently 3,885 cases on trial, in which APAPS took investors to Court).

- During the special administration procedures (art 16.5.b), state creditors will temporarily exonerate from debts all assets to be privatized, and they will recover the money later on, from privatization revenues. What if the companies temporarily ~~debt~~ exonerated from debt ~~companies~~ are sold for 1 E~~URO~~uro (or in the vicinity of this sum)?

- The law (art 18) ~~offers~~provides the legal framework for total or partial tax holidays, forgiveness, roll-overs, etc., all with the purpose of making a company more attractive; no mention is made, however, with regard to implementation criteria, and the case-by-case decision is left in the hands of the public institution involved. Tax arrears are written off for selected companies. This is unfair to the other companies, and it also increases the fiscal deficit. Moreover, such a measure runs the risk of being considered state aid under EU competition legislation.

- The law (art 12) requires companies to ~~raise~~increase their social capital with the value of the land that they own, in case this hasn't already been done. If this occurs after privatization, the added social capital is transferred into shares that become the property of the public institution involved. Thus, ~~T~~the new owner may be put in the ridiculous situation, in which he will have bought 100% of a company, and ~~then he~~would subsequently still ha~~s~~ve to buy ~~some more~~additional shares in order to secure control over the company purchased. ~~If the new owner refuses to purchase these shares separately, he may even end up in a minority position, depending on the value of the land.~~

Recommendations

~~Having in mind the above mentioned remarks~~In the above context, we believe the Government ~~must want to~~should reconsider some aspects of the law:

- define what "opportunity" means (it would be advisable to offer a formula for calculating the opportunity cost).
- clearly stipulate that, in case of 1 Euro~~URO~~ deals, assets can not be separately resold in a certain number of years after privatization, and the company can not be closed down ~~in~~during a certain period after privatization – subject to severe penalties; one idea could be to create a guarantee (equal to the assets' value, or to the amount of non-rescheduled debts), deposited in an account with a Romanian bank.
- do not permit s~~tate~~ocial capital increases ~~by~~through land evaluation after privatization; operat~~a~~e ~~these~~such increases, if necessary, prior to privatization, and stipulate them to investors in an early stage.
- clearly fix a set of selection criteria (based on points scale) applicable to all deals, and include amongst them the performance of businesses already run in Romania by the potential investors (if applicable).
- limit, to only very specific cases, subject to Government decisions based on a clear set of criteria, the total/partial writing off of tax arrears. After all,

the basic idea of the 1 E~~URO~~uro privatization is that the investor assumes existing debts, in exchange ~~o~~for a symbolic acquisition price.

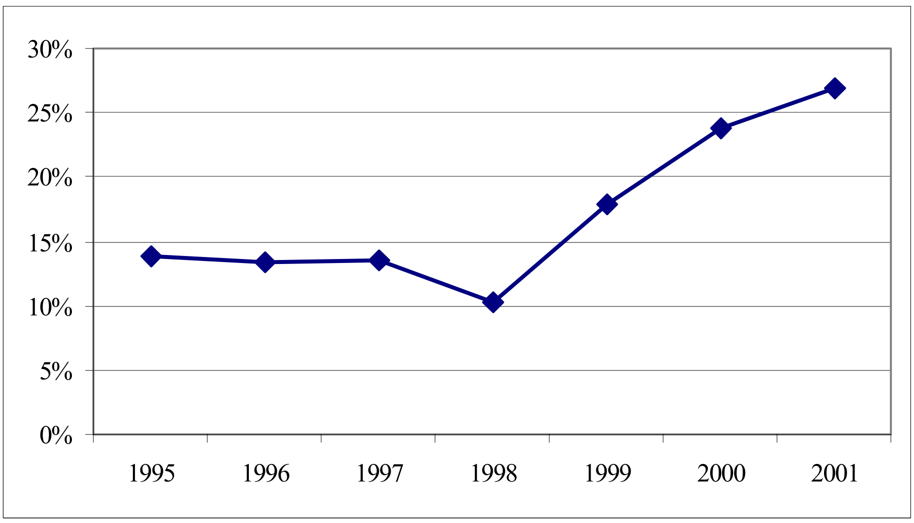
- since~~as~~ the~~se~~ above issues ~~are~~represent more than just procedural clarifications, they should not be addressed in the form of methodological norms, but in a separate emergency ordinance.

WARNING: CARE NEEDED IN RESHAPING THE FINANCIAL SECTOR

The rules of the game are rapidly changing in the banking system, and~~as well as~~ on the capital market. Recent regulations adopted, or being currently considered by the National Bank~~, respectively~~ and the National Securities Commission, aim at reducing ~~various~~ risks and vulnerabilities. This article examines ~~We discuss here~~ what these changes are, where they could lead~~ us~~, and how they fit with the ~~existing nature~~current system of supervision and competition i~~i~~n the Romanian banking and financial sector.

Over the last years, the banking system has shown signs of recovery, as it became more prudent, if not more consolidated. Foreign private capital holds 58% of total assets, solvency ratio (figure 1) has ~~strongly~~significantly increased, and 95.1% of total credits (by the end of 2001) were classified as standard.

Figure 1. Solvency ratio in the Romanian banking sector



Source: NBR

Such an image should, however, not deceive us. Improved overall credit performance is linked to the scarcity of credit (line 5 in table 1) and, when credit is granted, to the wide~~-~~spread practice of rolling it over (old credit is paid with new credit).

Furthermore, recent banking scandals (such as BRS, BID, Unirea) still keep newspapers' front pages, ~~and~~ leaving~~e~~ the impression that, while performing better, the system remains neither adequate for financial stability (line 3 in table 1), nor properly supervised.

It is fair to say that the capacity of the National Bank to supervise the functioning of the banking system has been affected by a number of factors, for example:

- the incomplete legal basis for action;
- the National Bank's shyness to exercise its functions, given the changing local environment and various political pressures;
- the existence of a hard-to-control area of financial operations, which is a common fact in ~~foreign environments~~other countries as well.

The legal ~~basis for action~~issue is being addressed by current initiatives of the National Bank[9], on three directions: introducing the "know your customer" rule; raising social capital requirements to approximately 8 million~~.~~ E~~URO~~uro; strengthening the conditions that must be fulfilled by banks' top management personnel. These measures try to protect the banking system through increasing entry barriers (the entr~~z~~y conditions are currently~~is~~ too ~~easz right now~~permissive – see line 1 in table 1).

~~Following the same risk-averse approach~~Additionally, the National Bank ~~faces double~~is under ~~foreign~~external pressure, from the Basel Committee of the Banks of International Settlements, and from the IMF, to harden the ~~provisions requirement~~constraints associated with commercial banks' credit operations. An obvious warning to issue in this context, is that~~A powerful warning that we hereby~~

[9] To eliminate a confusion, in a matter indirectly related to the core of our discussion, ~~we~~ it should be mentioned that NBR does not intend to replace the Sibiu Exchange with its own market for derivative instruments.

~~issue is that~~ this will further restrict access to loans, by making banks even more reluctant to ~~extend~~provide credit~~s~~, and will undoubtedly increase the cost of ~~making~~ doing business in Romania.

Table 1. Indicators ~~assessing~~ on the s~~tate~~ituation of the Romanian banking and financial system in the global context

	Indicator for Romania	Global ~~mean value~~average	Romania's ranking (positions from 1-best performing to 75-worst performing)
	(values from 1-lowest to 7-highest)		
1. Entry into banking industry	5.8	4.5	5
2. Foreign access to local capital markets	6.8	6.2	7
3. Financial regulation and supervision	2.9	4.7	70
4. Financial market sophistication	2.3	4.2	71
5. Ease of access to loans	1.5	3.2	75

Source: Global Competitiveness Report 2001-2002, World Economic Forum, Geneva, 2002

~~The second set of problems faced by the PCM Government is economical. While this is undeniably rooted in the legacy of previous Governments, the PCM program made its best to turn it worse. Last year Moldova joined the Russia-Belarus union and applied to join a newly created common market (CEEA), made precisely of those post-Soviet states which failed in the attempt to reform their economies and remained close to Russia. It also moved to create a department for price control, stalled privatization, increased wages in the public sector and announced its intention to create worker-owned 'people's enterprises'. The IMF assistance was put on hold due to this type of policies and the amount of external debt the Government has to pay this year amounts to 75% of its total yearly revenues. Following three years of practical technical insolvency, when money to repay loans was found, as a rule, in the last moment, Moldova is heading towards bankruptcy. Its total foreign debt of 1.9 billion dollars amounts to 154% of GDP, a few times higher than the average 35% of developing countries.~~

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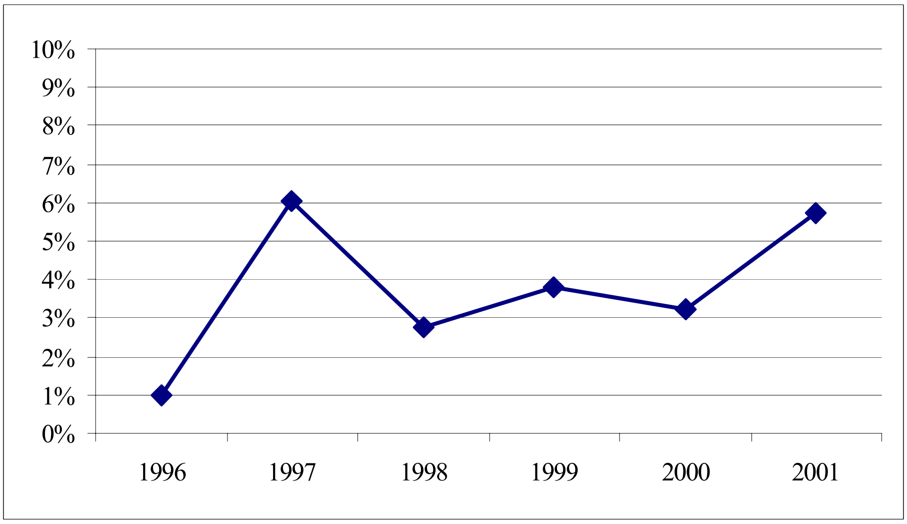
Figure 2. Market capitalization, BSE + Rasdaq, % GDP



Source: authors' calculation, based on NBR data

Sorting out the capital market problems

The wind of change is blowing on the capital market as well. Although aggregated market capitalization (Bucharest Stock Exchange plus Rasdaq) increased in 2001 (fig. 2), it remains way below the average ~~level for~~of Central and East European economies (which is of around 18% of GDP). Top five listed companies account for two thirds of market capitalization, the shares of about one half of Rasdaq listed companies were never traded during one entire year, and more than 60% of

BSE listed companies are owned by portfolio investors, who are therefore put in the inappropriate situation to act as direct investors[10].

The problems of ~~i~~li~~i~~quidity, concentration, transparency and corporate governance have been addressed ~~in~~through new regulations put forward by the National Securities Commission, with respect to ~~undertakings for~~ collective investment, securities, financial investment services and regulated markets.

These regulations define market players, their actions and even the organization of the market itself. Amongst ~~prominent~~the effects of these measures, the following are noteworthy:

- The so-called SIFs (former Private Property Funds) will have to limit their ~~holdings~~ portfolio to 5% of ~~all~~ any traded compan~~ies~~y. This measure offers an exit opportunity for millions of Romanians who are SIF shareholders without even knowing it[11].

- The collective undertakings in transferable securities will ~~hold~~be limited to financial investments ~~representing a stock~~ of maximum 10% of a company. This measure will offer an exit window for portfolio investors trapped in the position of direct investor (where they ~~got by~~found themselves trying to ~~avoid~~by-pass the lack of legislation protecting minority shareholders).

- The investors who own more than 90% of a company will be able to de-list their companies from the Stock Exchange. This measure will offer an exit opportunity for trapped minority stakeholders~~,~~ (because the majority owner will have to make a public offer at a fair price).

- The other speculative investors, who want to ~~get~~become involved in the management of the companies where they hold a stake, will have to organize themselves as venture capital or close-end funds. This measure

[10] See Daniel Daianu, Liviu Voinea, *Foreign Capital Flows in Romania*, International Center for Economic Growth Occasional Paper, 2001.

[11] Apart from a number of ~~two-three hundred thousand~~200-300,000 persons who invested in buying SIF shares, many became SIF shareholders when companies with SIF participation distributed SIF shares as dividends.

will limit speculative capital involvement in firm management to specialized funds.

- Only open companies will stay on the Rasdaq market. This measure will address the ~~illiquidity~~ problem of lack of liquidity for companies that ~~got~~were listed somehow against their will.

- The market itself needs to reorganize as joint stock companies (including Rasdaq ~~inclusive~~) owned by listed companies, with all profits reinvested in market facilities.

These measures are welcome and they indeed deal with many of the existing problems of the capital market. However, offering an exit opportunity does not automatically mean that ~~that~~ such an opportunity can be seized. In the case of SIFs' and collective undertakings~~'~~' disinvestment from stakes currently above 5%, respectively 10%, the question is who will buy them, and at what price. In the same line of reasoning, market de-capitalization may ~~appear~~occur, at least in the first phase of applying the~~se~~ above measures.

In view of the above considerations, ~~Regarding these recent evolutions in the banking and financial sector,~~ the following recommendations ~~can be issued~~are suggested:

- Keep the legislation simple and enforceable. Do not regulate more than ~~you~~ can be enforced~~,~~ (it is impossible ~~since you can not~~ anyway to regulate everything).

- Do not increase the cost of making business in Romania (~~by~~through new regulation ~~on enhancing~~restricting ~~provisions for~~ loans ~~granted~~). ~~Even if the responsibility of designing loans provisions' regulation will be left at the commercial banks' level, but with a prior approval of NBR, the banking system will not be able to finally play the role of promoter of endogenous growth for the real sector.~~ If ~~this~~such a regulation is ~~nevertheless~~ implemented under external pressure, it ~~co~~should be counterbalanced, e.g. ~~by~~through a sharp cut in compulsory reserves requirements ~~– which is what we suggestion~~.

- Protecting the banking and financial system should be interpreted as protecting customers, not competitors. Therefore, the transparency of the supervis~~ing~~on mechanism and of financial transactions must be further promoted~~implemented, while competitors should be able to protect themselves, by strengthening the role of their professional organizations~~.

- On the capital market, the exit ~~window~~opportunities must be complemented ~~by~~with information campaigns and ~~by~~ with efforts to secure a fair price.

- Problems of ~~l~~lack of liquidity and concentration ~~problems~~ should not be solved at the expense of corporate governance principles. Professional associations should seek to enforce corporate governance principles as a prerequisite for membership.