Dear Governor Isarescu,

Distinguished guests,

It is a great honor for me to be here at the celebration of a half of century since Romania became the first Warsaw Pact country to join the International Monetary Fund and the International Bank for Reconstruction and Development. I would like to commend the National Bank of Romania for this excellent initiative, and I am happy to accept this commemorative coin on behalf of the Dutch-Belgian Constituency. I see many friends in this room: Governor Mugur Isarescu, whom I met for the first time in 1991, many former Senior Advisors in our Constituency, such as Serban Matei, Mugur Tolici, Eugen Radulescu, Lucian Croitoru, Ion Dragulin, George Mucibabici as well as the current Senior Advisor, Liviu Voinea. I would like to thank all of you for your contribution to the development of our Constituency and to send a message of trust in the Romanian economy.

From the very beginning, Romania set foot into the Dutch Constituency, where it has always been a valued member. One might wonder why Romania chose our Constituency. At that time, in 1972, this Constituency was much smaller, comprising only five countries: Netherlands, Cyprus, Israel, Yugoslavia, plus Romania. What they had in common is that all of them were small open economies. Even in the early 70s', more than 30 percent of Romania's exports and almost 40 percent of Romania's imports went to, respectively came from, the developed Western economies. After the fall of communism, those percentages became overwhelming; and our Constituency grew to 16 members, becoming the largest European Constituency at the IMF in terms of voting power. But I might have found another thing twe had in common: in 1972 and 1973, when Ajax Amsterdam, which happens to be my favorite football team, won the European Champions Cup, it had a Romanian coach – Stefan Kovacs.

Football aside, **what brings us together is that we share the same values** of free trade and free movement of capital flows that represented the

foundation of the IMF and, together with the free movement of people, the foundation of the European Union.

I have personal memories from working with the National Bank of Romania and with Governor Isarescu personally since 1991, when I was one of the first IMF economists to advice on the supervision and development of market operations. More recently, I attended a few editions of the Financial Stability Seminar which is jointly organized by the NBR and the IMF in Sinaia every fall. I also worked at the De Nederlandsche Bank which offered twinning to the NBR towards enhancing central bank independence.

In fact, **central bank independence is a major issue in our Constituency and in our world nowadays.** On the one hand, central banks have been under pressure to do more than their mandate requested – by promoting economic growth and expanding their balance sheets to undertake quantitative easing, while being also affected by fiscal dominance – especially in emerging markets. On the other hand, central banks' mandates have been expanded from price stability to financial stability – especially since the Global Financial Crisis. Under these difficult circumstances, it is not enough to establish central bank independence by a law, or even by European treaties; it must be achieved and maintained through prudent monetary and exchange rate policies, enhanced supervision, state of the art macroprudential policies and strong leadership. Let me say that the National Bank of Romania has done a remarkable job under the leadership of Governor Isarescu – so good that it made the transition from a recipient to a provider of know-how, sharing its expertise to a number of central banks in the region, most notably to Moldova – which is also a member of our Constituency.

Romania is undoubtedly a success story in the region. Its euro-denominated GDP increased eight times in the last 20 years. Membership of the European Union in 2007 certainly contributed to that and in terms of income per capita, there has not been another country to converge faster

within the EU. The quality of growth has also improved, as the structure of the economy moved away from polluting industries and low value-added processing to higher value-added manufacturing and IT products and services.

The Romanian economy withstood well the recent multiple exogenous shocks: the pandemic, the Russian war in Ukraine, and the energy price hike – demonstrating not only a broadly adequate policy mix, but also structural resilience. Acknowledging its increased interconnectedness with the global financial system, the IMF has recently advanced Romania to the category of systemically important jurisdictions for the international financial system

Romania's development over all these years has been achieved in close cooperation with the international financial institutions, and with the IMF in particular. Since 1972, the IMF supported Romania through a number of 13 financing and precautionary programs, of which 10 in the last three decades. If we consider the last three successive programs, 2009-2015, many of the reforms implemented have passed the test of time, such as the eliminating local arrears, improving SOEs governance, building up a fiscal buffer, introducing an expenditure review and a mechanism for investment prioritization, to name just a few. Moreover, the Financial Sector Assessment Program undertaken in 2018 has been a landmark even for the IMF – some of the recommendations which were implemented by the NBR, such as the introduction of the debt service to income limit, being now replicated elsewhere. Moving to capacity development, last year alone the IMF approved 5 technical assistance projects for Romania's Ministry of Finance on public investment and taxation, of which 3 were concluded and 2 are on-going.

Looking forward, **Romania has a strong growth potential, provided that two conditions are met: a full absorption of European funds, and a gradual fiscal consolidation**. The Fund is highlighting the importance of a shift towards growth-enhancing policies, while keeping public finances in

order. Hence, it recommends that Romania should pursue a growth-friendly fiscal consolidation by making the tax system more equitable, reducing tax exemptions, broadening the tax base and tax reporting, and containing pressures on aggregate demand while protecting the most vulnerable. By doing so, fiscal policy would help monetary policy fight inflation and would reduce the current account deficit, which is a source of concern.

Last, but certainly not least, **I would also like to commend the Romanian authorities for their extensive support to Ukraine,** another important member of our Constituency, and to the millions of Ukrainian people who fled their country. Romania is a source of stability and economic development in the region, and from this position, it can help Ukraine and Moldova in their EU accession process.

Let me finish by expressing again my hope that Romania will continue to prosper and **that multilateralism, which served Romania well, will continue to represent the essence of the international financial system.**

Thank you very much!