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## *EXECUTIVE SUMMARY*

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**Doctoral candidate:  
Gabriela MIHAILOVICI**

Bucharest, 2015



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# Banking culture: research, European synchronisation and public perception

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# TABLE of CONTENTS

<b>INTRODUCTION</b> .....	5
<b>CHAPTER 1: Banking culture and the scientific research.</b>	
<b>The concept of the central bank, as the driven pillar of the banking culture</b> .....	10
1.1. Historical perspective and issues of European modernity .....	11
1.2. Sole primary objective, secondary objectives and functions .....	19
1.3. Central bank independence – why is it still important in the 21 <sup>st</sup> century.....	22
1.4. Central bank Europeanization-European imitation and synchronization.....	24
<b>CHAPTER 2: Banking culture and public perception</b> .....	33
2.1. Central bank credibility.....	34
2.2. How does the central bank manage the public perception .....	37
2.3. Public perception about collective accountability of the central bank .....	41
2.4. Improving public perception: the role of culture and education .....	44
<b>CHAPTER 3: Banking culture and European synchronization.</b>	
<b>Case study: Romania’s institutional preparatory work for the euro adoption - - a national project of European synchronization</b> .....	48
3.1. The euro adoption – implications on the banking institutional culture.....	49
3.2. Planning institutional reconstruction - synchronizing political commitment.....	54
3.3. Coordination through institutional cooperation - synchronizing institutions and political actors to implement political consensus.....	59
3.4. Taking and distributing institutional accountability; the institutional role of Banca Națională a României.....	62
<b>CONCLUSIONS</b> .....	68
<b>BIBLIOGRAPHY</b> .....	71

## **EXECUTIVE SUMMARY**

On January 1<sup>st</sup>, 2007 Romania joined the European Union (EU). Accession to the EU was not only a change of legal status from a nation state to a member state - with political geopolitical, economic, financial, social and cultural consequences - but, at the same time, a change in approaching the new dimensions of the EU integration process. If up to accession the EU integration was identified with a national objective, after accession, the EU integration conveyed a strong message about the commitment to assume new responsibilities in response to the new rights received, in seeking to achieve a pan-European spirit of shared values without dividing lines, and in keeping with the community of values shared by the EU.

The construct of European spirit is placed in the context of different layers of economic, social and cultural affinity to the EU values, involving more Europeanization which, in our opinion, is seen workable through three channels which interact synergistically: (i) the legal channel, which means the obligation to transpose, harmonize, synchronize and implement in the national legislation of the EU legal, policy and instruments framework, (ii) the institutional channel, which is the interactive „meeting point” between national and European people and institutions and (iii) the cultural channel, which addresses to the beliefs, expectations and willingness of the individuals, feeding political will to adopt European norms of business, politics and civil society and thus, to mutually converge toward an European spirit.

We consider that the most-deep rooted evidence of Europeanization in Romania is noticed at the level of banking and financial sectors, as a result of both rapid internalization of its early exposure to the western European institutional culture in the very first years of the ‘90th, and an effective capture of the benefits of internal transformations and changes recorded during the pre-accession period. In the current EU context Europeanization of the Romanian banking system (the national central bank and commercial banks after privatization) has become an interactive process whose immediate concrete results have been visible in the form of a set of rules that transposed, harmonized and synchronized the EU specific legislation regarding policies and instruments as well as principles of organization and management, behavior and strategy in the national banking sector (The Deloitte Bank Survey, 2013, p. 4).

How these new changes and challenges for synchronization occurred through Europeanization have affected the banking institutional culture and how they have changed the relationship between Banca Națională a României (BNR) and other institutional actors in

Romania? How BNR has evolved as a leading institution in the Romanian society, what is the public perception about the central bank and why is it important for BNR to continue the process of deepening into the European integration? These are some of the questions addressed by the Scientific Report in support of Doctoral Research with the title "Banking culture: research, European synchronization and public perception" (in short, the Research Report).

The **methodological approach** of the Research Report attempts to discuss the issue of Europeanization and overall modernization of the Romanian banking culture through imitation, adaptation, synchronization, public perception in a wider historical context: (i) it embarks with elements of the theory of synchronism of Eugen Lovinescu<sup>1</sup> (1881-1943) which proposed, in the early of the 20<sup>th</sup> century, an European development and a synchronism (synchronization) with Western Europe according to „the spirit of the age” („spirit al veacului”) (Simion,1996; Bădescu, 2003) and (ii) advances with the following four working assumptions that have been established as pre-requisites, aimed at delineating the main landmarks of the work:

*The institutional working assumption* is necessary to secure the whole text coherence. Although the Research Report mainly refers to the banking culture, in fact the core subject of research is the central bank institutional culture, which refers to the academic concept of the national central bank (NCB) member of the European System of the Central Banks (ESCB), as it is the case of BNR. The literature defines NCB with a conservative central bank model of Rogoff type (Rogoff, 1985), featuring the following characteristics: \*a sole objective (price stability), \*principles of independence (financially, operationally, personally and institutionally), \*secondary objectives and tasks clearly defined and guaranteed by the Treaty of Functioning the European Union (TFEU), the Statute of the ESCB and the related legislation.

*The temporal working assumption* is necessary to give analysis a long-term perspective and to anchor it in the time space. Central banks today are largely different from those of 100 years or 200 years ago; but knowing their historical descriptions may better explain the context of certain central banking decisions and developments. "The study of history is not a textbook with instructions that can be applied immediately. History teaches us through analogies" (Kissinger, 2010, p. 24). Therefore, one of the key purposes of this paper is the focus on the aspects of modernity of the 20th century and early 21st century that marked the central banking, without, however, ignoring the historical evolution of central bank from its origins until now.

*The functional working assumption* is necessary to highlight the importance of integrated features with which central banks operate on daily basis; following the information technology theory and the theory of the concept of management, an integrated system is defined as a well-rounded entity, consisting of all the sub-systems and processes of an organization gathered in a

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<sup>1</sup> In analyzing the context of political and cultural Romanian civilization, Lovinescu advocated the systematic adaptation of Western models in order to fill the lingering gaps Romanian culture and help realign it with contemporary standards

complete framework, which allows their synergy and functioning as a single unit with shared objectives, and, where each function is linked to the achievement of the desired final objective (Gilkey, 1960, p. 60). We adopt this type of approach to better facilitate the analysis of the link between the central bank objectives and functions, as well as to highlight the importance of different stages of Europeanization.

*The contextual working assumption* is necessary to emphasize the importance of constructing and enhancing a European spirit through reaching a special type of European cultural affinity in order to complete the full Europeanization process. At the level of the Romanian banking system, Europeanization is to be carried out in a continuous dynamic but at multiple speeds and stages: it had once started with accession to the EU through imitation and adaptation, then it tempered slightly after accession, and have deepened in the aftermath of crisis in a necessary endeavor for a more rapid synchronizing path towards implementing the ongoing EU reform. We planned our scientific research within this given gradual context of Europeanization with the main purpose of acceptance of an exchange of values that encourages modernity, not in the sense of servile imitation and adaptation, but for a deep synchronization and a full integration of the Romanian banking system in the most emancipated institutional settings (ESCB and Eurosystem, when Romania will adopt the euro eventually).

Based on the above considerations, **the overall objective** of the Research Report is the analysis of the impact of the ongoing EU reform (we call it „the spirit of the age” or „spiritul veacului”) on the central bank institutional culture in relation with the public audience. In order to achieve this objective, we have structured the work on three chapters, each chapter with distinctive objectives, as follows:

**Chapter 1** examines, at the theoretical level, the key concept that makes up the scientific research domain of the Research Report: the concept of the central bank, in conjunction with the ongoing process of Europeanization, as a primary source of central bank modernity, with the purpose of investigating changes that occurred in the central bank institutional culture in different phases of Europeanization: imitation - impossible to be avoided in the early stage of integration, synchronization – inevitable with the accession membership and with deeper integration into EU and innovation - required in the last stage of full EU integration. Starting from investigating the origin of central banks and central banking, the analyzes goes further to the evolution and development of objectives, functions and instruments in the hands of central bankers and finally concludes with the idea that today a central bank represents an institutional fully integrated system. The objective of this chapter is to highlight the importance of conceptual and historical knowledge of the central bank, as the fundamental pillar of the banking institutional culture mainly defined by its most valuable features: its independence and its sole price stability-oriented mandate. The result of research leads to the idea that deepening the

Europeanization at the level of central banks seems to be the unique opportunity to achieve a fair amount of synchronization, whereas loosening the speed of Europeanization would be extremely costly in terms of internal and external credibility of the central bank: this direct and positive correlation remains robust as long as politicians understand to respect and to follow the rule of law, which guarantees the independence and the power of all NCBs members of the ESCB.

**Chapter 2** presents the author's personal contribution to the field of scientific research, having regard, as an element of originality, the reinterpretation of the manner in which a central bank outside the euro area manages its relationship with the public. The objective of this chapter is to conduct analysis on two fronts: exercising public function of the central bank versus public perception about the central bank, and the outcome is measurable with the same tool: the degree of credibility. The results of the research will lead to the idea that, the credibility refers to both perceptions and expectations, meaning the qualitative side of the central bank messages („what the central banks says is what the central bank does or contrary, does not” (Blinder, 1999, p. 4)) - issues discussed in the first part of the chapter . The second part analyzes some of the credibility features, i.e. the competence of decision makers (through the task of collective accountability) and the competence of decision takers (through a central banker career path).

**Chapter 3**, and the last, focuses on a case study regarding the public perception about BNR involvement in implementing the biggest European project after EU accession: preparing for the changeover to the euro. The case study is aimed at describing three phases of the process of institutional preparatory work for the euro adoption: \*the planning and construction phase, \*the institutional implementation phase and, \*the delivery process phase, seen here as a process of permanent delivering of intermediate and final outcomes related to each phase. The research results take the form of practical suggestions given on each phase, including a discussion regarding the role of BNR in the process of institutional preparation for the euro adoption.

The key conclusion of this Research Report is the following: Europeanization is more than EU-ization since it may be understood to embrace a broad range of multi-tier dimensions of banking culture. A central bank is the main institutional driven pillar that could generate a culture of stability and credibility in the long term as long as it is based on a coherent and consistent behavior of its decision makers; otherwise, it may enter into a vicious spiral effect of instability and uncertainty that can affect the overall stability and credibility of the country. Therefore, in this report we suggest dealing with Europeanization and the modernity of the banking culture in a very pragmatically way, as a spirit, a vision, and a long term process.