Discussing Glexit, Growth & Melancholy with one of Europe's Top Central Bankers

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by Rachel Pether

Two months before the historic Brexit vote in June 2016, the Romanian Central bank published a paper warning against the systemic risk of the United Kingdom leaving the EU and the knock-on effects to financial stability.

18 months later, Romania is the fastest-growing economy in Europe, growing at 8.6% year-on-year and attracting major multi-nationals to set up operations in the country.

I was lucky enough to sit down with Liviu Voinea, Deputy Governor of the Central Bank of Romania, to talk about the country's impressive growth since joining the EU, the impact of Brexit, and what saddens him about the international move away from globalization.

PETHER: The growth of the Romanian economy in the past decade has certainly been noteworthy – the economy grew 8.6% year-on-year in Q3 of 2017, making it the fastest growing in Europe. Talk to me about what is driving this growth.

VOINEA: Our growth story really started with the fall of communism at the end of 1989. GDP is now four times higher than it was 20 years ago, and two times higher than it was when we entered the EU in 2007. This has largely been driven by foreign direct investment.

In the last 27 years Romania has had about 3 million people permanently emigrate. While this is a loss of potential GDP, our services sector is rapidly expanding, along with exports and manufacturing.

Major global companies such as Renault, Siemens, Ford and Bosch have set up or expanded operations in Romania to take advantage of the existing tech talent, built on a communist-era legacy of educational excellence in STEM (science, technology, engineering and mathematics) subjects. Additionally, it has the fifth fastest broadband

Internet speed in the world (behind Singapore, Hong Kong, South Korea and Iceland). Anecdotally, the former U.S. Democratic candidate Bernie Sanders tweeted "Today, people living in Bucharest, Romania have access to much faster Internet than most of the US. That's unacceptable and must change." This provoked an interesting array of responses on social media.

Since joining the EU in 2007, government economic measures have also aided growth. In 2015, the government cut taxation for consumption, from 24% to its current rate of 19%. Private consumption hit a nine-year high in 2016, and increased a further 8% in the first half of 2017.

PETHER: How will the Romanian economy benefit from Brexit? Who do you think will be the biggest beneficiaries?

VOINEA: Romania and other Eastern European countries are certainly not beneficiaries of this development. The UK has been – and still is – a very important strategic and economic partner for us. When Romania joined the EU, we opened the economic gates to free movement of capital, free movement of labour, and this had a positive impact on our economy. Romania will be a short-term loser from this anti-globalization movement.

In terms of human capital movement, there are 3.4 million Romanians living outside Romania. The largest Romanian migrant communities are in Italy (1.1 million), Spain (684,000), and Germany (657,000).

Indirectly, the overall uncertainty created by Brexit acts as a risk to financial stability – uncertainty for investments, uncertainty for future budgets, uncertainty for trade.

PETHER: You mention both financial capital and human capital. What is the true price of Brexit in economic terms and also European identity?

VOINEA: In economic terms it's lose-lose… at least in the short and medium term.

As for European identity… When Romania joined NATO in 2004, this acted as an anchor for our development. We support NATO's role as a stability provider, and also the development of NATO's partnerships with the EU and the United Nations. With Brexit there's now division within the EU, which threatens our anchors for development and stability.

PETHER: There seems to be a certain melancholy to your tone when discussing Brexit … what saddens you most about it?

VOINEA: A trusted and important partner for us is leaving the Union. It also represents part of a larger global phenomenon that I like to call Glexit. There is just so much uncertainty, and with uncertainty comes the ramifications such as increased cost of financing and investments are put on hold.

PETHER: Let’s talk more about Glexit. What does this mean? What are the drivers?

VOINEA: Glexit is exit from globalization. There’s a new paradigm with the rise of nationalist movements replacing the free trade and liberalization trend known as the Washington Consensus. The Washington Consensus encompasses policies in such areas as fiscal policy discipline, macroeconomic stabilization, economic opening with respect to both trade and investment, and the expansion of market forces within the domestic economy.

Glexit shows a withdrawal of commitment from the benefits of globalization. The pattern of the last 20 years is being threatened.

Personally, I hope it will not get full speed. But you have to appreciate that Glexit is based on underlying discontent of large parts of the society. The macro situation paints a very positive growth story, but the benefits of globalization and growth have not been well distributed. At a micro level there are tensions almost everywhere in the world.

In order for movements such as Glexit to run out of steam, we need more inclusive, more balanced growth. A fairer distribution of growth – and the wealth that comes with it – would help reduce the force of Glexit. Unless more people see growth benefits at a micro level, the discontent will remain.