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Monetary structures: evaluations and signification a comparative study Romania - France

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Abstract

The place of currency in the financial assets category, strictly speaking, is more difficult to establish in our days due to the approach between assets under the aspects of their monetary features. A special problem, specific to each country, is to define the structure of money stock in circulation. In our paper we make a comparative presentation of the monetary aggregates use in France, a state with financial tradition.

Keywords: financial assets, broad money, monetary aggregate, quasi-money, mean of payment, exchange securities, monetary aggregate in a transition economy

JEL : E51, E58, P43

1. Introduction

The legal or natural persons can use their incomes in different ways such as making an investment in fixed assets, making equity investments or small savings. All these operations could be classified in non-risky assets and assets with certain ranges of risk. The classification is depending on the possibility or impossibility to establish safe stable values for assets, defined on a long period.

Thus, all the fixed assets and most of the financial assets – exchange securities – are risky assets because their nominal value could fluctuate from a period to another, as was seen with the occasion of different financial and economic depressions, more precisely the occasion of stock exchange fluctuations, immovable crisis etc. Unlike these, money and some financial assets saved in bank accounts or in other similar instruments always conserve their nominal value and, as much as possible, their purchasing power. The risk of an asset value fluctuation is materialised in the moment when the asset is liquidated, when it is changed into real mean of payment, most of the time the exchange being accompanied by additional costs.

A clear classification of financial and monetary assets could be made by their liquidity, meaning the measure and the time in which these could be used in order to settle a certain transaction. A liquid asset has some basic specific features, such are:

- has not the risk of nominal value fluctuation;
- could be used straight as mean of payment or could be changed (safe and fast) into a payment instrument, without costs or with minimum expenses.

In the entire financial assets the place of the currency, strictly speaking, is more difficult to find. This could be explained by the essential approaches between assets, under the aspect of their monetary feature that has been seen in the last few years.

A different problem, specific to each country, is to find the structure of money stock in circulation. Until 1914 the gold or silver metallic currency was considered the only real currency, banknote or bank accounts had no value except the situations when these could be converted in good currency.

After the general abandonment of gold convertible currency it was obvious that the currency riches its

functions independent of material medium. The trust in the currency gave by the gold convertibility became the trust in the issue system, defining thus the concept of fiduciary note (paper money currency, non-convertible paper money).

Until the beginning of the 1960s the broad money had a relative simple structure: banknote and fractional coin in circulation, demand deposits, different time deposits accounts, known as “quasi-money”. The “quasi-money” must be exchanged into currency before any payment, with certain expenses caused by the transfer between accounts.

However, since then things have become huge complicated because of financial innovations initiated by banks, financial market or non-financial agents. More of these, the development of IT has reduced the costs of liquid assets transformation.

All these mutations have led to dilution or even to disappearance of some borders, borders that are meant to separate monetary assets from “quasi-money” or from those assets who have not the statute of money. In a situation like this, the measurement of broad money supposes the solution for defining “borders” between *financial assets* and *monetary and “quasi-money”* assets, depending on their

liquidity.

The statisticians have chosen to regroup the money stock in circulation in varied monetary aggregates. The monetary aggregate has a varied structure of liquid assets, established by the monetary authority who uses the aggregate, as against the rate of liquidity. Each of these aggregates, nominated by a mark, is an issue of convention and is different from a country to another, being at the same time the support and the result of the country monetary policy. In the analysis of the broad money structure it is used as grouping criterion for money supply components the *currency turnover rate*.

The financial innovation complicates the defining of monetary aggregates because the scale of liquid financial instruments has extended systematically. For this reason in some countries have been introduced new aggregates that regroup the existing aggregates or non-currency instruments of non-financial agents.

2. Romanian monetary structure evolution

The evaluation at monetary level starting in Romania with communist period had marked the major lacks of balance in economy, as results from the numbers presented in Table no.1.

Table 1 Romanian monetary structure between 1985 – 1989

Indicators	billion ROL, at the end of the period				
	1985	1986	1987	1988	1989
Net foreign assets	-92370	-76939	-61808	10981	58999
Net internal assets	411167	420925	421013	384961	361915
Domestic credit	467048	461953	460591	455103	497212
Credit to non-government	675908	696951	773645	813105	810405
Credit to government	-208860	-234998	-313054	-358002	-313193
Other assets net	-55881	-41028	-39578	-70142	-135297
Broad Money (M2)	318798	343985	359106	395942	420914
M1	161829	172504	177214	205848	215196
Cash	54580	59743	60244	64638	74339
Quasi-money	156968	171481	181992	190094	205718
Population saving deposits	153189	167327	176497	185554	201740
<u>Memorandum Item</u>					
Gross National Product	817346	838561	845165	856979	800000
The Money Turnover					
(GNP/M2) or	2,6	2,4	2,3	2,2	1,9
(cash + saving deposits)/GNP	0,25	0,27	0,28	0,29	0,35
(cash + saving deposits)/M2	0,65	0,66	0,66	0,63	0,66

Source: The National Bank of Romania

The main evolution of Romanian monetary situation recorded between 1985-1989 refers to external situation. In the last four years before 1989 had returned external debts, amounting to almost US \$7 billion and had increased the foreign currency stock with more than U.S \$1 billion. This accelerated dynamic was favourable only in appearance: being by forced and even before deadline, the debt redemption was made with the price of resources destroyer, suppressing access to westerner technology.

The artificial character of this evolution has been emphasis starting from 1990, when the trend was inverted.

On national level, was continuing the accumulation of surplus in government accounts, without a correspondent in economic reality. In 1989, the covering of some debts to banks of insolvent enterprises had caused the decrease of government accounts balance. The same year was the one of the fastest increase of total internal credit which pointed out on the one hand the emphasis of economic lack of balance and, on the other hand, the rigid mechanism of credit granting.

In all presented period the broad money had increased in a rhythm that had overtake the Gross National Product, which reflects the underground accumulation of inflationary tensions.

The communist system allowed money accumulation on the population disposal and the creation of the rich illusion, without correspondent in goods and services volume on the market. In 1985, the population money accumulations (cash and saving

deposits) represented 25% of national product and 65% of total broad money. In 1989, values of the same indicator were 35%, respective 66%.

Transposing this situation in the terms of balance equation between supply and demand of money ($M = \frac{PY}{V}$), it is easy to see that the money turnover is artificially slowing. In fact., it is not about an increase of money demand, but a forced saving process in the context of goods crisis.

All these facts have made heavier to adopt decisions in order to establish monetary balance after 1989. In the present, statistics present the next structure of broad money:

- M1 – includes currency outside banks and demand deposits.
- M2 or “quasi-money” - includes M1 plus population saving deposits and forex deposits of residents.

The relative simple structure of Romanian broad money emphasis the small progresses recorded in the last years as far as concerned the using of account currency and modern instruments for its mobilization, the development of money and financial markets. It is an obvious reality which results from a compare analyse, as structure and value, between the Romanian state of facts and the situation in France, a country with financial tradition.

3. Romanian monetary structure compared with French monetary aggregates

According to reports of National Bank of France, in 1995 the monetary aggregates in France have the value and the structure presented in Table no.2.

Table 2 The monetary aggregates in France - 1995

billion French Franc

Indicators	Value	Comments
Banknote	237,6	M1 contain only the assets that could be used directly as instruments of payment.
Fractional coin	18,2	
Demand deposits	1566,1	
M1	18220	
M2-M1	1116	The M2 aggregate includes the relative liquid assets (available as means of payment) which could not be used directly as payment instruments.
Accounts on savings bank book	1011,4	
People's savings bank book	100,4	
Accounts for industrial development	192,8	
Saving accounts for dwelling places	141,4	
M2	3268	

Indicators	Value	Comments
M3-M2	2231	Monetary market securities issued by financial institutions are included in M3
Term instruments	668,1	
Deposits and debentures negotiable in exchange currency	100,2	
Negotiable securities (deposit titles, financial institutions bills etc.)	373	
Monetary short/time titles of OPCVM	1065,8	
Other titles	23,9	
M3	5499	
M4-M3	107,7	Monetary market securities issued by non-financial institutions and by Treasury are included in M3
Negotiable credit titles (treasury stocks and treasury bonds)	107,7	
M4 (L)	5606,7	

Source: National Bank of France

**Table 3 The situation of broad money components in France - 1995
(weight overall)**

%

Indicators	Weight on proper aggregate	Weight on whole broad money
Banknote and fractional coin	14	4,6
Demand deposits	86	27,9
M1	100	32,5
M2-M1	100	
Accounts on savings bank book	69,9	
People's savings bank book	7	
Accounts for industrial development	13,3	
Saving accounts for dwelling places	9,8	
M2	100	25,8
M3-M2	100	
Time instruments	30	
Deposits and debentures negotiable in exchange currency	4,5	
Negotiable securities (deposit titles, financial institutions bills etc.)	16,7	
Monetary short/time titles of OPCVM	47,8	
Other titles	1	
M3	100	39,8
M4-M3	100	
Negotiable credit titles (treasury stocks and treasury bonds)	100	
M4 (L)	100	1,9

The weight of money supply components overall in France at the end of 1995 are presented in the Table no. 3.

In France have been defined three supplementary monetary aggregates, depending on their proper features and approaching of currency, which in 1995 presented the next structure:

- P1 – includes different forms of contractual savings administrate by banks, and capitalisation bills;
.....value in 1995 = 639,9 bill.FRF;
- P2 – contains the whole bonds and shares of SICAV, in the shape of bonds owned by non-financial agents, and ensuring reserves;
.....value in 1995 = 3352,2 bill.FRF;
- P3 – includes stock and shares of SICAV in the shape of stocks owned by non/financial agents;
.....value in 1995 = 14664,6 bill.FRF

TOTAL medium and long term instruments in 1995
.....= 19653,7 bill.FRF

This structure of broad money in France is the result

of a permanent evolution that marks developed countries and world space.

In 1950s and 1960s both industrial and developing countries had relative close growing trends of monetary aggregates, based on moderate economic increase. At the beginning of 1970s the growth rate had been intensified, followed by more and more differences between monetary growth rates of these two different types of economies.

In the present, transitional economies, not very developed, are conscious of the efforts which have to be concentrated for modernisation by diversification of their financial structure.

In Romania, in the last decade, broad money has recorded small evolutions from the quality point of view. These aspects are presented in the Table no. 4. In addition, if we analyse the weight of any broad money component overall, we find the next comparative situation, presented in Table no.5.

Table 4 Evolution of broad money, in structure – Romania

billion ROL

Year	Total	M1			M2			
		Total	Currency outside banks	Demand deposits	Total	Saving deposits	ROL term and restricted deposits	Forex deposits of residents
1989	420,9	215,2	74,3	140,9	205,7	201,7	X	4
1990	514,4	250	92,4	157,6	264,4	249,1	X	15,3
1991	1033,3	696,6	176,5	520,1	336,7	261,8	34,5	40,4
1992	1856,1	1028,2	41,15	616,7	827,8	409,2	86,5	332,2
1993	4472,4	2231,3	1048,7	1182,6	2241,1	645,8	298,8	1296,5
1994	10648,7	4534,2	2200,6	2333,6	6114,5	2727,6	1028,7	2358,1
1995	18278,1	7083,2	3760,5	3322,7	11194,9	5136,4	1926,5	4132
1996	30334,6	11173,4	5382,7	5790,6	19161,3	8808,1	3267,5	7085,6
1997	62150,4	18731,1	9200,1	9531,1	43419,3	20165,5	5576,5	17686,3

Table 5 Evolution of broad money components weight in the whole – Romania

%

Year	Total	M1			M2			
		Total	Currency outside banks	Demand deposits	Total	Saving deposits	ROL term and restricted deposits	Forex deposits of residents
1989	100	51,1	17,6	33,5	48,9	47,9	x	1
		100	34,5	65,5	100	98,1	x	1,9

Year	Total	M1			M2			
		Total	Currency outside banks	Demand deposits	Total	Saving deposits	ROL term and restricted deposits	Forex deposits of residents
1990	100	48,6	18	30,6	51,4	48,4	x	3
		100	37	63	100	94,3	x	5,7
1991	100	67,4	17,1	50,3	32,6	25,3	3,3	4
		100	25,3	74,7	100	77,8	10,2	12
1992	100	55,4	22,2	33,2	44,6	22	4,7	17,9
		100	40	60	100	49,4	10,5	40,1
1993	100	49,9	23,4	26,5	50,1	14,4	6,7	29
		100	47	53	100	28,8	13,3	57,9
1994	100	42,6	20,7	21,9	57,4	25,6	9,7	22,1
		100	48,5	51,5	100	44,6	16,8	38,6
1995	100	38,7	20,5	18,2	61,3	28,2	10,5	22,6
		100	53,1	46,9	100	45,9	17,2	36,9
1996	100	36,8	17,7	19,1	63,2	29	10,8	23,4
		100	48,2	51,8	100	46	17	37
1997	100	30,1	14,8	15,3	69,9	32,5	9	28,5
		100	49,1	50,9	100	46,4	12,8	40,8

4. Conclusion

Based on the effectuated analysis, we identified the next evolution in time of broad money in Romania or comparative with the existing situation in financial developed countries, such France:

- An important weight of M1 aggregate in whole broad money at the beginning of the transition period have decreased starting 1994. The decrease weight of M1 aggregate have been mostly due to drawback of demand deposits weight, which is a consequence of liquidity diminution of economic agents in real terms, because of rate of profit diminution and an accentuated phenomenon of non-saving.
- The current coin maintains an important weight in structure, over 50% in the proper aggregate, face to only 14% in France, and almost 15% in the whole broad money, comparing with only 4,5% in France. The high weight of currency outside banks reflects the insufficient supply of modern and varied goods and services from the banking area, and the lost of the credibility in banks also. On the other hand, it is intensified an underground developed economy that uses the cash payments.
- A relative simple component of broad money, and especially the absence of negotiable credit titles, that have a special importance in broad money structure in developed countries, reflects the absence of a real financial market mechanism and a legislation to encourage the financial instruments using. On the other hand, it is noticed the lost of credibility, the emphasis of false and corruption in economy and in banking system.
- Lack of some saving forms with special destination, of some special accounts to respond to people or economic agents-demand (for dwelling places, for industrial development etc.) points out a low diversification of banking system, goods and service supply, in the context of a weak competition.
- People's savings have an important place in M2 aggregate and in broad money structure, a result of insurance of future conception by classic ways, but also because of the stimulation of interest rate offered by Finance Ministry for public securities.

- In absolute value, the broad money have recorded an increase about more 200 time than 1989, most of this because of the inflation rate growth and of the national currency devaluation, and only in a little measure due to economic growth. The massive liquidation of saving deposits from banks which failed or restructured their activities leads to expansion of monetary base. This phenomenon was tempered by the diminution of banks' available current accounts at Central Bank, the redirection of some of these sums to another banks or to public securities instruments, as well as by the increase of goods demand.
- The weight of ROL deposits has continually decreased while the foreign currency savings have increased from a period to another due to a strong and continues depreciation of national currency. Weak countries have included in M1 aggregate more means of payment than industrial countries, in contradiction with the general trend to reduce the M1 content.

If until 1985 the “whole liquidity” was limited on M3 contents, after 1986 the financial developed countries inserted, between exchange securities and traditional liquid investments, new short-time “products” negotiable in secondary market, comparable with short-term bonds, respective with deposits certificate, treasury bills, treasury notes and other public or private funds. Thus, limits are extended but any product in this area must answer to the essential functions which define the currency: intermediary of changes and purchasing power reserve< monetary aggregates include all the means of payment and short-term financial assets endorse by financial institutes. Financial institutes are the only in measure to guarantee, under any condition, the conversion of investments in means of payment.

The quasi-money assets have become the competitive of currency, being very present on the market under the shape of different financial products, which are fast and easy exchanged into means of payment. More and more performed and sophisticated but with the currency similar functions, the quasi-money assets have disturbed the strictly border between currency and financial investments and leads to inefficiency of quantitative monetary policies, characterised by the adjustment of broad money in circulation into goods and services available in economy.

The liquidity of an asset and the absence of risks do

not represent the only determinants in selection of one asset or another as solution to invest or to save.

The assets productivity represents a very important element, in the circumstances that an attractive financial investment means most of the times funds immobilisation and some risk, associate with a supplementary discounted income. As a consequence, in the last time the correlation between high performances (productivity) and satisfactory liquidity – a minimum risk of losing capital in case of reselling the title on the stock exchange – is made through specialised institutions which operate between market and investor.

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