Macroeconomics and Monetary Economics

Romania's Financial Market and Foreign Trade Impaction

Gina Ioan[1], Catalin Angelo Ioan[2]

Abstract: In the actual economic crisis, the financial market and the balance of trade of Romania are sensible chapters of the economic policy. The paper analyses some aspects of the financial market and also the trends of exports and imports between Romania and the major partners, on global and also on groups of goods arriving at the conclusion that if Romania was on a good road till 2010, the actual tendency being to grow the deficit of the balance of trade.

Keywords: balance of trade; export; import

JEL Classification: G1

1. Romania's Financial Market Impaction

The existence of a diversified financial market represents an evolutionary process in which the money markets are the first to be developed in order to support capital market development. Recent researches were focused, with technological progress as the main engine of economic growth on the importance of financial institutions and capital markets.

A country with a developed capital market has more opportunities for development and rapid mobilization of investment in key sectors of the economy. Capital market also serves to effectively allocate capital to the highest return on investment.

Both experience and the literature shows that developed countries have exploited intensively two channels to mobilize resources positively influence economic growth and development: money market and capital market (Geert & Campbell, 1997).

[1] Assistant Professor, PhD in progress, Danubius University of Galati, Faculty of Economic Sciences, Romania, Address: 3 Galati Blvd, Galati, Romania, Tel.: +40372 361 102, Fax: +40372 361 290, e-mail: gina_ioan@univ-danubius.ro.
[2] Associate Professor, PhD, Danubius University of Galati, Faculty of Economic Sciences, Romania, Address: 3 Galati Blvd, Galati, Romania, Tel.: +40372 361 102, Fax: +40372 361 290, Corresponding author: catalin_angelo_ioan@univ-danubius.ro.

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The capital market development in Romania is not spectacular; it continues to be now in the process of development, characterized by a low degree of intermediation from developed countries.

An explanation of underdevelopment in terms of capital market in Romania is poor corporate governance and internal business orientation mainly to the banking system. An important role in the financial market is the stock market has perceived as the most active instrument of financing the economy. Companies listed on the stock exchange have multiple advantages: attracting investors with significant visibility among their, various development opportunities and, not least, real time assessment of the business. Although in his work, Bucharest Stock Exchange showed spectacular results reflected in increasing BET, especially in 2002 and 2004, however remaining a modest presence in international financial landscape. Compared to European countries, market liquidity remained low which prevented capital market to fulfill its main function to attract capital to growing companies.

Until 2007, the capital market in Romania has been a positive development, and from the first months of 2008, financial market instability and international macroeconomic imbalances had reduced market capitalization and operations.

BET – the benchmark index of the capital market, has recorded in 2008 a decrease of over 70%. Transposed data chart below highlights the sensitivity of the domestic capital market to international economic and financial developments. Once the effects of the financial crisis were felt in Romania, the capital market was characterized by high volatility. 2009 has recorded a positive development due to reduced risk aversion of investors on the stock market. Volatility was amplified again, however, and indexes fell as a result of the sovereign debt crisis started in Greece in 2010.

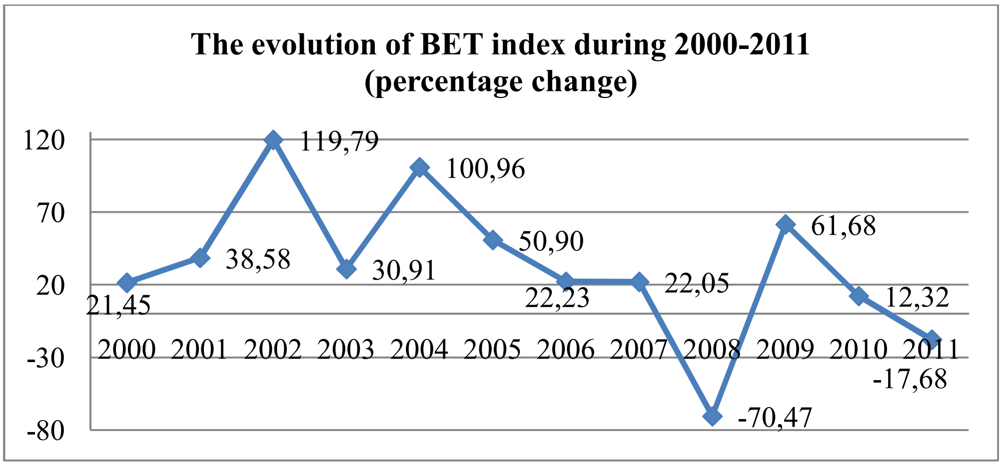


Figure 1.
Source: Bucharest Stock Exchange

The contraction of the capital market led to lower stock market liquidity, measured as the ratio of annual trading volume and market capitalization. Market capitalization peaked in 2007, about 24.6 billion euros and in 2008, under the financial turmoil that has seen a decrease of 52% to a low of 11.6 billion euros.

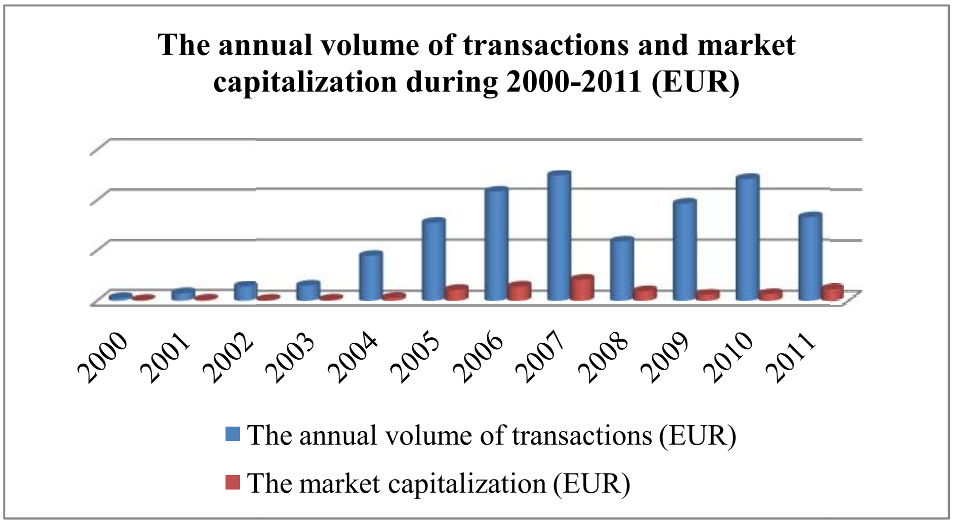


Figure 2.

Source: Bucharest Stock Exchange

The partial comeback in 2009, stagnation in 2010 and the decrease with 17.68% in 2011 are signs of market failure capital of Romania. Consolidation, together with the identification of an efficient management of the stock exchange, current issues remain to be resolved.

Capital market inefficiency in our country is reflected in the low level of activity in the primary market and the low volume of trading securities on the secondary market. The main problem is the low liquidity of the stock market driven by supply and demand of marketable instruments. Once solved this problem, the Bucharest Stock Exchange will become more attractive both for domestic private sector and for large foreign investors and capital markets can be an effective source of financing.

2. Romania's Foreign Trade Impaction

Along final consumption (private consumption and public consumption) and gross fixed capital formation, another component of domestic demand which offset the positive dynamics in a slightly declining domestic demand was net exports.

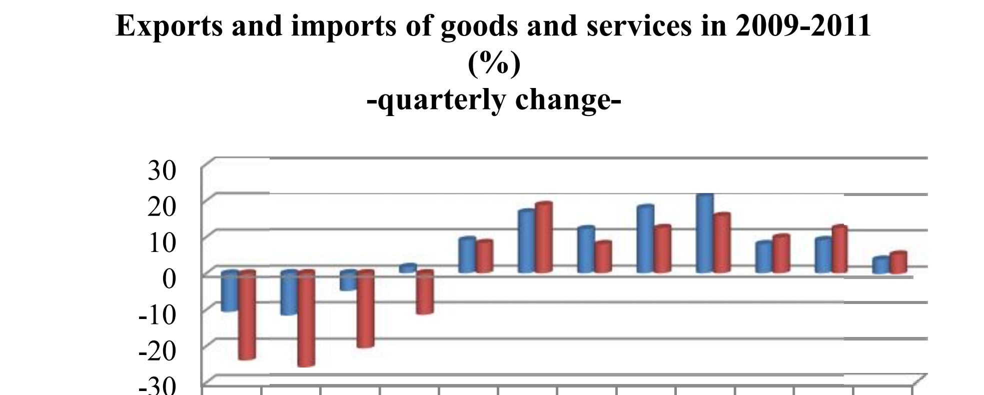
The positive dynamics of net exports of 14.1% in 2009 and 2.1% in 2010 was driven by lower exports of goods and services by 6.4% and imports by 20.5% in 2009 and growth in exports by 14% and imports by 11.9% in 2010.

We can say that in 2010, external demand was the engine of economic growth in Romania, following the recovery of the EU economy, the country's main trading partner.

In 2011 there is a decrease in the contribution of net external demand to GDP formation, the overall effect of global economic slowdown, particularly in the euro zone.

In absolute, the reduction of exports of goods in 2009 was 4641 billion euros, 80% due to the decrease in volume and 20% lower foreign prices.

In the case of imports, the reduction of 16879 billion euros in 2009 was driven by lower volume in 88% and 12% of lower foreign prices.



	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1	2010 Q2	2010 Q3	2010 Q4	2011 Q1	2011 Q2	2011 Q3	2011 Q4
Exports	-11	-12	-4,9	1,7	9,1	16,7	12,1	17,9	21,1	8	9,1	4
Imports	-24	-26	-21	-11	8,3	18,7	8	12,4	15,7	9,8	12,4	5,4

Figure 3

Source: INSSE

An analysis of foreign trade in the period before the crisis in 2012, shows that the general trend foreign trade was one upward.

If the average FOB exports in Euros in Romania increased by 1.72% per month, the euro CIF imports decrease by 1.52%.

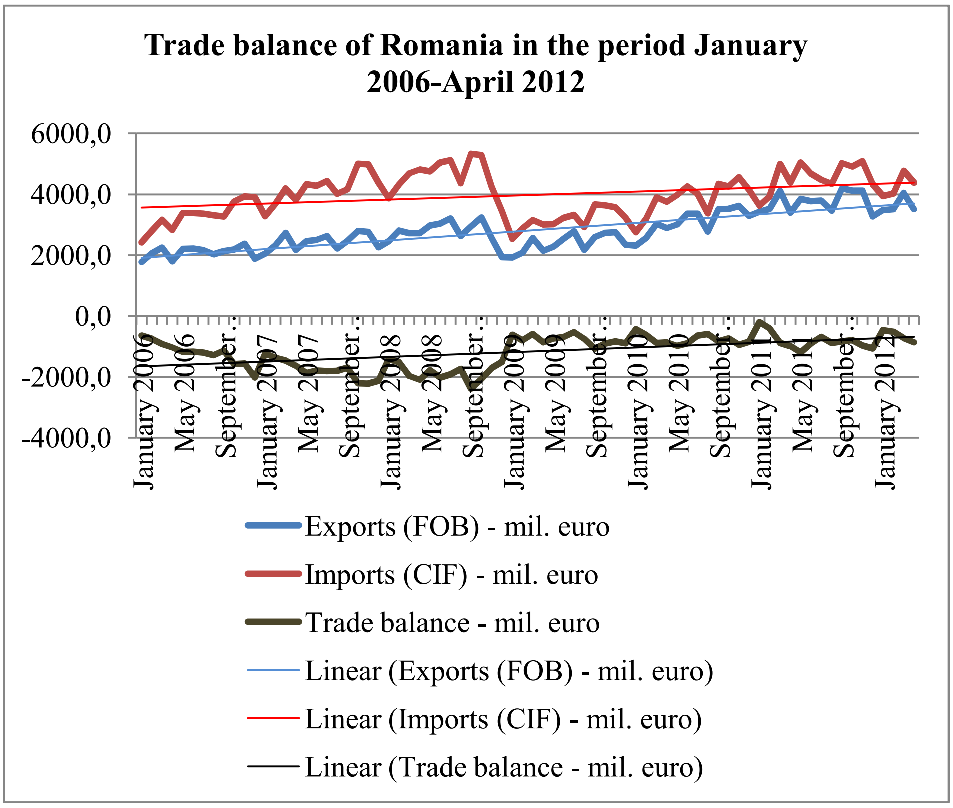


Figure 4

Source: INSSE

The analysis of the trend shows an actually good at first glance, namely that an increase in average monthly exports 23.741 million corresponds to an average increase in imports of 10.886 million monthly, therefore a tendency of the trade balance to reduce with an average 12.855 euros monthly.

On the other hand, the trade deficit of about 9 billion euro annually leads to the conclusion that progress is more than insignificant. Romania's main partner in foreign trade activity is the European Union with an average weight of 71.66% in the export and import – 71.55%.

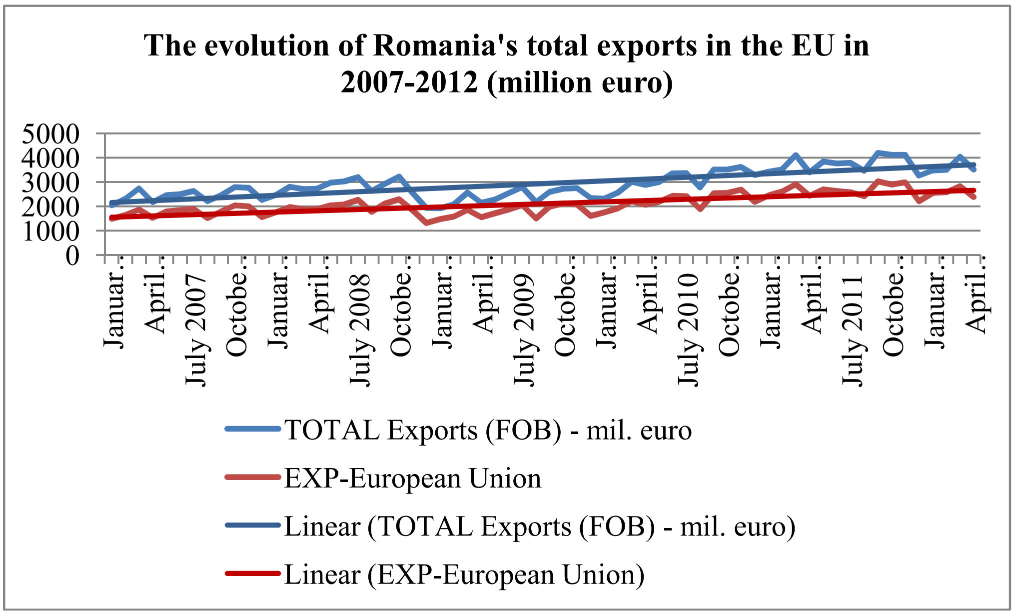


Figure 5

Source: INSSE

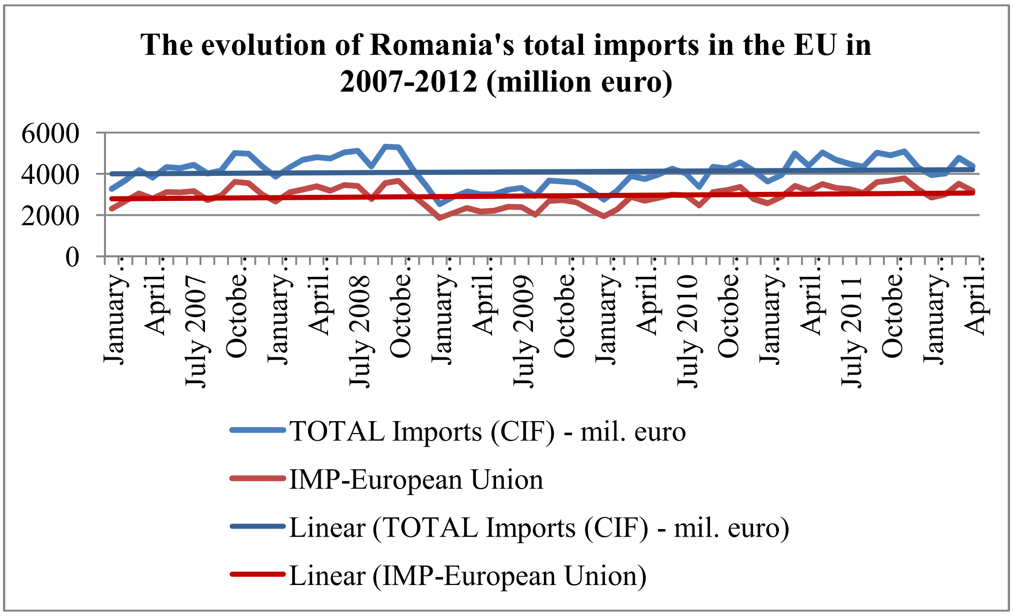


Figure 6

Source: INSSE

On continents, exports situation reveals an average weight of 6.97% to Asia, to Africa 2.56%, 2.74% to America and only 0.13% for Oceania. Relative to imports, Asia has an average share of 12.26%, Africa - 0.60%, America - 2.74%, Oceania - 0.12%.

Our main trading partners are located in somewhat different dynamic positions. Thus, in the case of Germany which has an average share of 25.79% of total exports and 33.67% of the total Romanian imports, statistical analysis revealed a trend of significant increase in export activity by an average of 5.777 million month respecting the previous month, while imports are increased compared to the previous month with only 0.682 million.

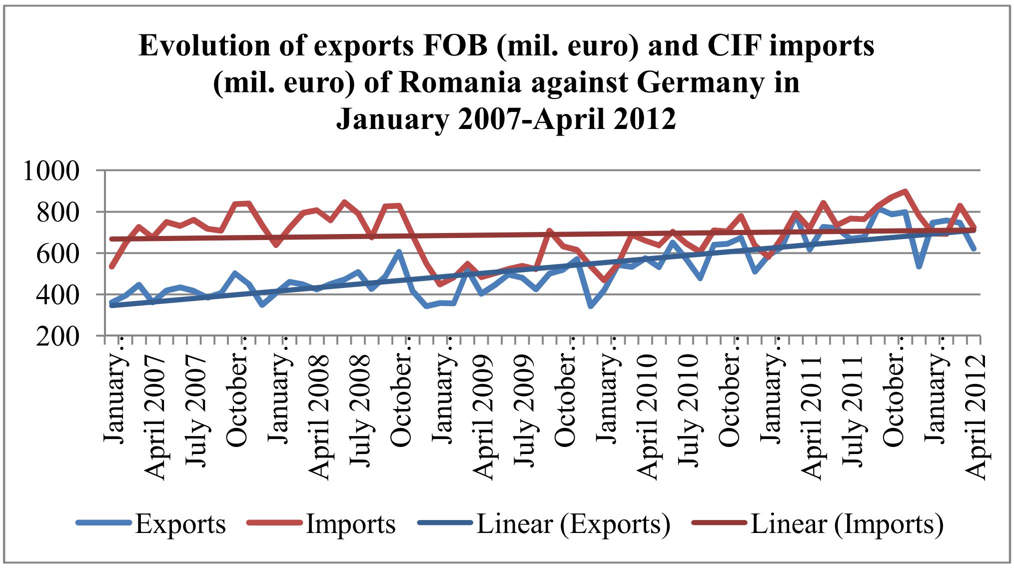


Figure 7

Source: INSSE

For the second trading partner - Italy, there is a monthly increase of exports of 0.988 million at an average share in total 20.79%, while imports decrease monthly 0.667 million (share in Romania's total imports of 23.38%).

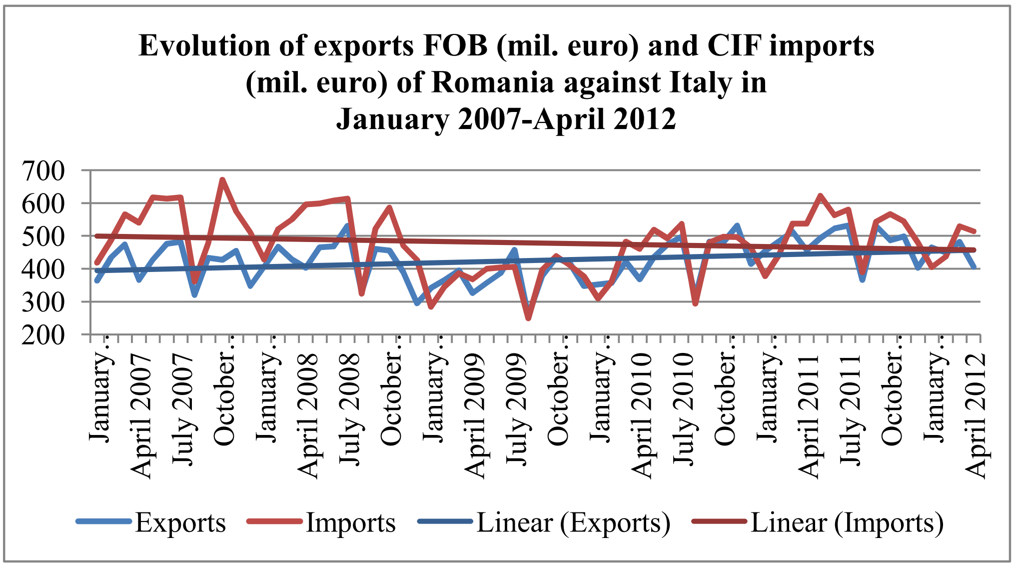


Figure 8

Source: INSSE

Relative to the other major trading partners of Romania, one can observe an upward trend higher (France, Turkey, Hungary, United Kingdom, Bulgaria, Russian Federation) or less (Austria, USA, China) pronounced exports, but also of imports, exceptions are given by France, Austria, USA (very small decreases) and Turkey and the Russian Federation (with a massive reduction of imports). A massive increase in imports can be seen from China, recorded an average monthly rate of 2.28% compared to the previous month.

Relative to product categories, there is a tendency to increase exports in relation to imports at the category "Food and Live Animals" and a dynamics particularly encouraging to "Beverages and Tobacco".

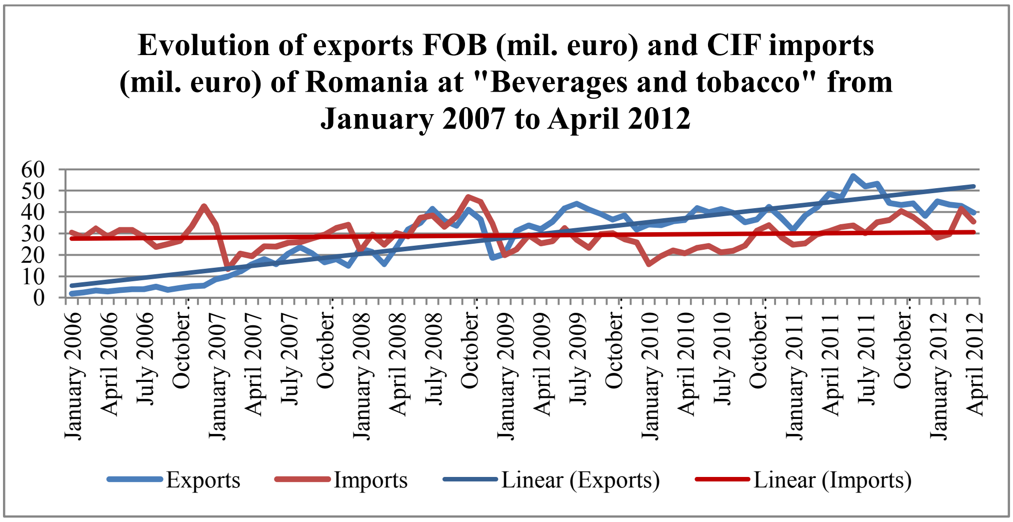


Figure 9
Source: INSSE

While in the "Crude materials, inedible, except fuels" and „Processed products mainly classified by raw material" trade balance is positive and the trend is clearly exports than imports, the category "Mineral fuels, lubricants and related materials" is characterized by a relatively constant both export and import. The situation is particularly encouraging is the category "Machinery and transport equipment" where the trade balance became positive in recent months, the trend of net exports outpacing imports.

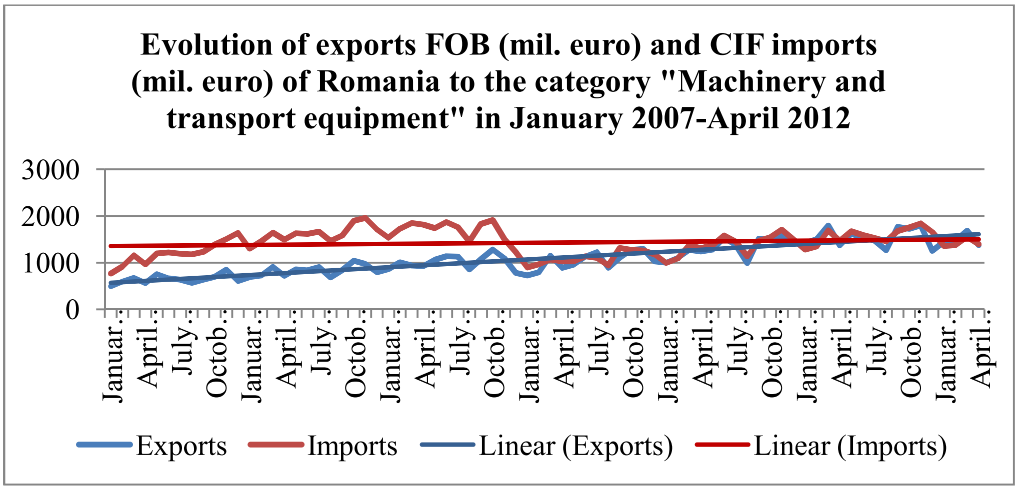


Figure 10
Source: INSSE

Relative to the dependence of exports for foreign exchange (Appendix 1), the regression analysis performed shows a relationship of the form:

Exports=6360.7561·Exchange Rate-3629.5051

with a correlation coefficient of 0.756 and an R^2 value of 0.5715. Therefore, the above equation explains the dependence of exports for foreign exchange rate of 57.15%, the rest being due to other factors.

From the above relationship, is inferred that an increase of 0.01 of the rate leu-euro, the export volume increased by 6360.7561·0.01=63.6 million lei.

The dependence of imports for foreign exchange (Appendix 2), explained by the regression analysis shows a relationship of the form:

Imports=-49726.5201·Exchange Rate +28559.3272

with a correlation coefficient of 0.431 and an R^2 value of 0.1857. Therefore, the above equation explains the dependence of imports for foreign exchange rate only in 18.57%, the rest being due to other factors.

For this reason, it can be concluded that if exports take account of economic regularities, a high current currency involving a larger volume of exports, in the case of imports this depends very weakly. The model of economic growth based on domestic absorption is reflected in the openness of the Romanian economy (measured by (imports+exports)/GDP·100), lower compared to other countries in the region, members of the Eurozone. For a country like Romania with insufficient internal market, reported at the production capacity, the openness of the economy should be higher, such as the Czech Republic, Slovakia and Hungary. Another factor is the unfavorable contribution to a lesser extent exports to openness.

Table 1. Indicators of foreign trade activity

	2009	2010	2011
%			
Share of exports in GDP	30,47	35,49	38,07
Share of imports in GDP	36,97	41,68	43,87
Openness of the economy	67,45	77,16	81,94
Coverage of imports by exports	82,42	85,14	86,78
Penetration of imports on the domestic market	34,72	39,25	41,46

Trade deficit	**6,50**	**6,19**	**5,8**
% of total exports/imports			
Exports EU	74,3	72,2	72,5
Imports EU	73,3	72,5	72,6

Source: Own calculations based on INSSE, NBR

In 2009-2011, the openness of the Romanian economy has decreased due to lower share of trade in GDP compared to previous years. During the analyzed time series (2000-2011), the openness minimum was reached in 2009 (67.45%) and its maximum was 86.95% in 2005. Coverage of imports through exports (Exports/Imports·100) has increased in the past three years, which means an improvement in the trade balance on the basis of a lower trade activity (to a greater extent in imports in 2009) or on increasing of exports respecting imports (2010 with 2.1%).

Another indicator that reflects the efficiency of foreign trade is the import penetration on internal market (Imports/GDP+(Imports-Exports)·100) and shows what proportion of domestic demand is met by imports. The maximum value of this indicator was reached during the economic boom, while imports have provided over 44% of domestic demand (44.22% in 2005 and 44.10% in 2007), while the minimum was recorded in 2009 with the 34.72%, once with the demand reduction because the internal economic crisis.

Empirical researches show that small countries have a high import penetration (Hungary, Czech Republic, Slovakia, Estonia over 70%, Luxembourg – 218%) and large countries have a lower rate (US – 16.4%, Japan – 16.2%). In Romania, in the analyzed period, the growth of this indicator was not accompanied by an equivalent increase in the export market, particularly during the economic boom, which shows deterioration in competitiveness.

3. Conclusions

For sustainable growth and competitiveness, boost exports strategy must consider tradable goods incorporating with an innovative technology and hence high value added. The current strategy is based on exports less competitive and more at cheaper prices compared to Western Europe and the depreciation of the national currency. A country with competitive exports and real domestic production capacity is less vulnerable to external shocks.

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Appendix 1

FOB exports, Exchange rate LEI/EUR in the period January 2006-April 2012

Data	Exports (FOB) mil. lei	Exchange rate leu/euro	Data	Exports (FOB) mil. lei	Exchange rate leu/euro
January 2006	6491.4	3.6445	March 2009	11106.1	4.2821
February 2006	7498.3	3.5404	April 2009	9132.3	4.1954
March 2006	8191.3	3.5074	May 2009	9674.9	4.1689
April 2006	6564.1	3.4911	June 2009	10778.5	4.2126
May 2006	8062.5	3.507	July 2009	11843.7	4.2168
June 2006	8072.6	3.5482	August 2009	9324.1	4.2185
July 2006	7884	3.5723	September 2009	11066.1	4.2389
August 2006	7412.2	3.5277	October 2009	11744.7	4.2848
September 2006	7786.5	3.527	November 2009	11835.3	4.2881
October 2006	7981.7	3.5192	December 2009	9928.1	4.2248
November 2006	8677.3	3.4954	January 2010	9616.7	4.1409
December 2006	6849.8	3.414	February 2010	10557	4.1179
January 2007	7056.9	3.3937	March 2010	12395.8	4.0879
February 2007	7832.7	3.3824	April 2010	11906.2	4.1285
March 2007	8872.4	3.3694	May 2010	12515.1	4.1743
April 2007	7310.1	3.3349	June 2010	14200.7	4.2396
May 2007	8148	3.285	July 2010	14397	4.2611
June 2007	8114	3.2264	August 2010	11830.4	4.2389
July 2007	8333.6	3.1337	September 2010	14981.5	4.2642
August 2007	7157.7	3.2237	October 2010	15053.2	4.2798
September 2007	8273.8	3.3466	November 2010	15553.2	4.2931
October 2007	9473.5	3.3525	December 2010	14143.5	4.2925
November 2007	9518.4	3.4707	January 2011	14631	4.2622

December 2007	8091.6	3.5289	February 2011	14973.5	4.2472
January 2008	9241.1	3.693	March 2011	17220	4.1646
February 2008	10563.7	3.6528	April 2011	13954.9	4.0992
March 2008	10175.7	3.7218	May 2011	15810.9	4.112
April 2008	10170.5	3.6426	June 2011	15738.7	4.1929
May 2008	11017.5	3.6594	July 2011	16107.5	4.2405
June 2008	11230.1	3.6557	August 2011	14714.6	4.2501
July 2008	11717.9	3.5792	September 2011	17944	4.282
August 2008	9404.2	3.5268	October 2011	17780.9	4.3238
September 2008	10662.7	3.6254	November 2011	17910.8	4.3536
October 2008	12152.1	3.7454	December 2011	14190.5	4.3267
November 2008	9587.4	3.7753	January 2012	15061.5	4.3428
December 2008	7612.8	3.9153	February 2012	15264	4.3506
January 2009	8096.8	4.2327	March 2012	17656.2	4.3652
February 2009	8948	4.2839	April 2012	15374.5	4.376

Appendix 2

CIF Imports, Exchange rate LEI/EUR for the period January 2006-April 2012

Data	Imports (CIF) mil. lei	Exchange rate leu/euro	Data	Imports (CIF) mil. lei	Exchange rate leu/euro
January 2006	8818.2	0.2744	March 2009	13972.9	0.2335
February 2006	10202.8	0.2825	April 2009	13005.8	0.2384
March 2006	11522.4	0.2851	May 2009	12955.1	0.2399
April 2006	10319.3	0.2864	June 2009	13957.0	0.2374
May 2006	12343.5	0.2851	July 2009	14175.3	0.2371
June 2006	12325.5	0.2818	August 2009	12510.2	0.2371

July 2006	12246.3	0.2799	September 2009	15899.6	0.2359
August 2006	12085.5	0.2835	October 2009	15651.8	0.2334
September 2006	11930.2	0.2835	November 2009	15449.4	0.2332
October 2006	13729.7	0.2842	December 2009	13712.2	0.2367
November 2006	14348.2	0.2861	January 2010	11579.2	0.2415
December 2006	14215.6	0.2929	February 2010	13226.7	0.2428
January 2007	11743.4	0.2947	March 2010	16199.2	0.2446
February 2007	12583.1	0.2956	April 2010	15535.3	0.2422
March 2007	14315.2	0.2968	May 2010	16678.5	0.2396
April 2007	12791.5	0.2999	June 2010	18208.3	0.2359
May 2007	14328.5	0.3044	July 2010	17186.5	0.2347
June 2007	13922.9	0.3099	August 2010	14461.0	0.2359
July 2007	14026.6	0.3191	September 2010	18545.8	0.2345
August 2007	12933.9	0.3102	October 2010	18204.0	0.2337
September 2007	13906.1	0.2988	November 2010	19616.5	0.2329
October 2007	16887.3	0.2983	December 2010	17765.5	0.233
November 2007	17276.6	0.2881	January 2011	15483.9	0.2346
December 2007	15927.3	0.2834	February 2011	16729.8	0.2354
January 2008	14547.8	0.2708	March 2011	20952.1	0.2401
February 2008	16329.6	0.2738	April 2011	18024.7	0.244
March 2008	17872.5	0.2687	May 2011	20709.6	0.2432
April 2008	18149.4	0.2745	June 2011	19526.5	0.2385
May 2008	17662.2	0.2733	July 2011	19008.2	0.2358
June 2008	18867.0	0.2735	August 2011	18466.7	0.2353
July 2008	18810.4	0.2794	September 2011	21470.2	0.2335
August 2008	15689.7	0.2835	October 2011	21167.7	0.2313

September 2008	19476.8	0.2758	November 2011	22040.1	0.2297
October 2008	20034.1	0.267	December 2011	18763.0	0.2311
November 2008	15982.8	0.2649	January 2012	17067.4	0.2303
December 2008	13728.7	0.2554	February 2012	17514.3	0.2299
January 2009	10983.7	0.2363	March 2012	20834.8	0.2291
February 2009	12656.5	0.2334	April 2012	19166.1	0.2285