

PERSPECTIVES OF THE EVOLUTION OF ROMANIAN FINANCIAL MARKET IN THE CONTEXT OF GLOBAL FINANCIAL MARKET

Dalia SIMION, Lect., PhD.
Daniel TOBĂ, Lect., PhD.
University of Craiova

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Abstract: Economical financial reality proves that, in time, globalisation has an impact not only on commodities economy but also on all financial domains, leading to remodelling of financial arrangement, increase of business opportunities but as well competition between financial institutions. Due to the expansion of financial markets, the consequences of globalisation processes converge to an efficiency of economic systems, through an increase of financing capacity and quick transformation of investment economies, but, in parallel with the apparition of some new risks.

Globalisation process is impelled by two phenomena with deep impact on the evolution of human society, namely technologic progress in the domain of circulation and processing information and the tendency of market liberalisation, especially capital market, thing that determines capital movements towards the areas that offer higher profits, thus creating a favourable frame of development of human society.

Analysts allege that in a world of globalisation characterised by increase of economic interdependences, physic borders of states become irrelevant, administration becoming the object of a so called “virtual state”. Such a state will bear the role of surveillance of observance of regulations, of accordance of necessary assistance in order to develop in good conditions the economic activity both on local plan as global plan.

Nowadays, extension of markets from local level to global level is still at the beginning, and the problems that appear in this process are far away of being solved. Also, There are not yet sure solutions for the disposal of obstacles, only more or less successful attempts. A single thing is certain: the sense that humanity, and implicitly economy, it is that of globalisation, of a single world characterised by a strong interdependence of all activities, even if today we cannot find a logic connection between these activities. Certainly, this process has positive aspects and will determine the development of the whole world, but at the same time negative aspect of globalisation must be quantified and as possible obviated.

Taking into account the above mentioned, we can draw the conclusion that, presently, within financial domain, a concentration tendency manifests, tendency that will lead to great financial corporations. The existence of such financial colossuses and necessity of existence of a regulation and control frame adequate to the new economy, there are two possible antonymous aspects, thus due to the fact that the great financial corporations do not want a strict regulation of financial sector, being interested in a higher openness of markets. Nevertheless, it is vital that central banks to exert a more rigorous surveillance of financial activity once with lowness of speculative capital

movements that can cause strong shocks when aligning to an immature market and with a fragile institutional environment.

International financial market is characterised by the existence of two great systems, namely financial system based on markets and financial system based on banks. In the United States of America, separation of the activities of commercial banks of that of investments banks is regularised by law, in Japan the same system has been adopted after Second World War, and in Great Britain the same systems works, but there is not a legal law that regularises this separation, this being a matter of tradition. But in Germany and in other European countries there is the tradition of universal banks that develops not only commercial activities, but also investments.

Financial system based on markets is characteristic to the countries that have a legislative system of common law (United States, Great Britain, Australia) and Japan, and the one based on based is characteristic to the countries that have a legislative system based on civil law (countries from Continental Europe and Asia). The fact that the system of common law offers a higher protection to investors through the regulations referring to information exposure determined the development of the financial system based on markets in these countries.

Each of these two systems proved in time their efficiency and their limits. The system based on banks has the advantage that within a stable economic environment it can finance long term projects, thus contributing to the durable development of economy, this thing being realised with intermediary low costs. But at the same time, new, innovating projects have very low chances to obtain financing. Also, transparency of information in this system is reduced due to the fact that in the majority of cases there is a single financial body.

Financial system based on markets is the one that allows, through the others, the financing of innovating projects with a higher degree of risk. In this system, intermediary costs are high and information transparency degree is high, because in this case there are many persons that take part to financing.

Financial system from the United States is the most representative financial system based on markets. As opposed to the situation from the United States of America presented above, European financial market is characterised by the existence of both the financial system based on markets (in Great Britain) that of financial system based on banks. (in the other countries).

Taking into consideration that European Union wished that until 1993 to create unique markets, a compromise solution has to be found for the regulation of the two systems.

This solution was based on three principles: the first is – maintenance of national authorities of regulation and surveillance, the second – realisation of a minim harmonisation at supranational level and the third - issuance of directives at the level of European Union referring to the activity of financial institutions (“Directives are the acts that establish only obligatory objectives for member states, leaving the election of the ways of accomplishment. The texts stipulates the date until which member states have to adopt the measurement of appliance of the respective directive. Directives are applied directly too on the territory of member states, but only after the expiration of appliance term”). Directives issued for regulation of financial markets took into consideration the exclusion of access barriers in the financial institutions of a member state on the markets of the other states from European Union, capital minim requests and guarantee of deposits.

Introduction of European unique coin meant a decisive step in realisation of integrated European financial market. Unique coin encourages competitions and extension of activities within financial domain, facilitating realisation of scale economies through elimination of exchange risk, thus contributing to the increase of efficiency of financial sector and to the economic development of the states of European Union.

On these lines of economic development of European Union, besides the introduction of unique coin, there existed other initiative that should support this objective. One of the initiatives was adaptation of Financial Services Action Plan (Financial Services Action Plan FSAP, elaborated in 1999) at the reunion of European Council from Lisbon in 2000, where the objective that European Union to become the most competitive economy based on knowledge until the year 2010 was established. An essential condition for the fulfilment of this objective is the realisation of a strong integrated financial market.

The measures foreseen by Financial Services Action Plan covered a great range of aspects of financial market: issuance and bargain of mobile values, accounts of operations with mobile values, insurances market, and activity of pension funds and of mutual funds, electronic transactions, rebutment of money laundering, surveillance of the activities of financial institutions, transparency. Although, initially the appliance of these measures has as term limit the end of the year 2005, some of the measures should become effective after this term (Directive referring to the instrument of financial market and the one referring to the offers of assumption from 2006 and directive referring to transparency from 2007).

Although very important progresses have been made in order to realise the integrated European financial market, we cannot affirm that presently Europe has such a market. Integration process is aggravated not only by the duration of the effort to find some solutions accepted by all member states, but also by the process of extension of European Union, that supposes inclusion in this structure of some countries with a low rate of development. But, taking into consideration the fact that there is an unity concerning the objective of realisation of integrated European financial market and the present stage, we can affirm that Europe will have an integrated financial market in the near future, a market that will assure an efficient assignments of financial resources, thus contributing to the durable development of the economies of member states.

When we talk about the degree of integration of financial market we have to take into consideration three main aspects, namely the ones referring to the regulation frame and institutions, the transactions on different compounds of market and infrastructure.

The biggest problem that has to be overcome in order to reach the stage of global financial market is the one of regulation towards risks management. It is obvious that if an unitary regulation of all the aspects connected to financial markets is tried, the changes to reach an universal available form, accepted by all the states are extremely short. That is why; we consider that the establishment of capital market from the United States can constitute the bases for global regulation of financial market. In our vision, the regulation of global financial market should be based on the following principles:

- a) Risk's management;
- b) Non enclosure of free competition;
- c) Promotion of ethic and correct behaviour of those that activate on financial market.

Thus, an efficient structure for the regulation of global financial market should comprise an international body – formed starting from the actual Committee from Basel

- that should include the representatives of unique authorities of regulation of national financial markets (authorities trained from central banks and authorities of regulation of capital markets and insurance markets) and whose main role will be that of establishing the minimum obligatory frame for participants on financial market. Beside this body, at national level a structure of bodies of regulation and unique surveillance of financial markets should exist, structure that will assure the uniform implementation of the rules established at global level.

Integration of European financial market is accelerated by the fusion and acquisition processes between financial institutions and member states also. During 2000-2007 466 fusions and acquisitions between financial institutions from the states of European Union took place, 321 (69%) of which have been internal, 118 (25%) intra-community and 27 (6%) between institutions from European Union and from countries outside the Union. These dates approve not only the tendency of integration of European financial market, but also the one of consolidation of financial institution and of creation of strong financial conglomerates with global activity.

Besides the tendency of integration of European financial market, an important characteristic of the market of European Union is the one of regionalisation, of concentration of financial activities in a few big centres (Clusters). Main European financial centres are London, Frankfurt and Paris. In these three centres there are concentrated above 29% from the working places from corporative financial domain, and as concerns the value volume of this domain their balance is of 41%. Also, work productivity registered within these financial centres is over the average registered in the economy of European Union. The analysis of the compounds of European financial market also shows the importance of these financial centres.

We appreciate that globalised financial market will be created around banks, that will develop and create huge financial conglomerates with global activity. An argument favourable to this evolution is represented by the fact that the bank – commercial or of investments- has a positive image between the majority of the population of the globe and it is certainly the most known financial institution. Also, banks are financial institutions that have technique, human infrastructure and financial resources necessary to the development of global activity. The construction of financial conglomerates around banks does not mean that global financial system will be a system where financing will be assured mainly by banks, of the existent type in continental Europe nowadays. Transformation of banks in financial conglomerates will determine the intensification of activity on capital markets. It is true, that the financial system based on banks is the one that assures long term stability of the relations between financial institutions and the commercial ones, but at the same time it is a system that needs a strict regulation of all the aspects connected to transactions, to products and financial services and to institutions. It is also a rigid system, based on strict rating systems, aspects that limit the access to financial resources and does not encourage the innovation process. We consider that globalised financial market cannot be one similar to financial systems based on banks, mainly because of the fact that strict regulation of financial system of global level is not possible.

Within the context of globalisation, we appreciate that the financial system based on markets represents the proper solution due to the fact that it does not need a very detailed regulation of all the aspects connected to products and services and it offers more varied possibilities and facile access to financial resources.

Financial institutions that will dominate global financial market will be financial conglomerates, but, besides these, on relative short periods, very specialised financial societies will exist, societies that will offer new products and services as a consequence of innovation and development process. We mentioned that these societies will develop their activities on relative short periods of time, due to the fact that as the new products and services will develop and will prove their efficiency, financial conglomerates will undertake these societies.

From the point of view of global market, foreseen as the meeting place of supply and demand, we appreciate that in the future three main financial centres will exist: one in the United States (New York), one in Europe (London) and one in Asia (most probably in China, taking into consideration the dimension and development rhythm of this market). In these centres, the majority of international financial transactions will take place. It is possible to appear other specialised financial centres for the new financial products that will appear as a consequence of innovation process.

Naturally that global financial market, in order to function and to efficiently contribute to the development of global economy through efficient distribution of financial resources, will have to establish a global frame of regulation. Our appreciation is that the regulation of global national market will be realised by an international supranational authority that will appear through the development of the present Committee from Basel. At this level, regulations obligatory for all the participants to financial market will be adopted, regulations which main objective will be the assurance of the stability of global financial system. The legislative frame established at global level does not have to detail regularise each product or financial service, details concerning these aspects being left to the decision of the rules of the market. Besides the body of regulation from global level, there will be another regulation and surveillance level for each financial centre.

Therefore, we estimate that the importance of regulation and surveillance actual bodies will diminish at national level, their contribution to the assurance of the stability of global financial system being realised through active participation to the organisation of global regulations and organisations of regulation and surveillance of the markets formed in the big mentioned financial centres.

The infrastructure of global financial market will develop through development of existent informatics networks, especially through Internet. Informatics networks of global financial market will be networks with a high rate of security that will allow not only the progress of financial transactions from any geographic point from the globe, but also the access to pertinent and verified information. Transactions accounts will be realised through informatics systems of interconnected financial centres, thus forming a global system of accounts.

It is obvious the fact that when there will exist a global financial market we will not talk about national financial markets, nether of categories of consumers specific to different countries. Integration of Romanian financial market to global financial market will be realised through the integration in financial market of European Union, once with its development at global dimensions.

Analysing the actual situation of Romanian financial market from the perspective of the evolution of European financial market we can affirm that there exists a clear separation of the three main markets: banking market, capital market and insurance market, each of these being regularised and supervised by separate institutions. All three markets practically began functioning relatively late, after almost 10 years from

the change of politic communist regime, because of delayed reorganisation not only in the financial sector, but also of the whole economy, of incoherent and insufficient legislative frame and of intervention of state in the politics of lending of the banks. Main characteristic of Romanian financial market is that the banking sector holds the great majority of financial assets, financing of companies is assured mainly by banks, capital market having a reduced importance in this activity.

The main objective of Romania on short term was the integration in European Union. This object was reached at 01 January 2007 and due to the fact that Romanian financial market continued the process of adaptation to European standards began in 2000. Also, Romania made important progresses in the process of realisation of a consolidated financial market.

With reference to the regulation frame of financial market, during the following period it will continue finalisation of harmonising process of Romanian legislation with community stipulations, domains with a great impact in the creation of a strong financial market being: regulation of aspects referring to authorisation and surveillance of the activities of financial conglomerates, transposition and appliance of stipulation of II Basel Agreement. Besides the application of community acquis, in Romania the regulation of non-banking financial institutions is needed (leasing companies, institutions that grant consumer credits, microcredit, houses of reciprocal help) in order to establish the financial stability and efficient development of the activities of financial brokerage. Also, the restrictions concerning the development of universal financial activities by banks will not be in force anymore.

From the point of view of the institutions of regulations and surveillance, the cooperation between the three authorities – Romanian National Bank, National Commission of Mobile Values and Commission of Surveillance of Insurances- started in 2002 by signing the cooperation agreement in the domain of surveillance of financial market will continue.

We estimate that on medium term the first concrete steps towards the realisation of a surveillance system of Romanian financial market will be realised through surveillance of capital market and banking market by a unique authority (most probably Romanian National Bank, through taking over the attributions of National Commission of Mobile Values). So far the position of the Commission of Surveillance of Insurance is not for consolidated surveillance, concerning distinct surveillance of insurances market as a guarantor of its development. But as financial conglomerates will develop in Romania too and the structure of Romanian financial market will be dominated by such institutions, the existence of a unique institution of regulation and surveillance will be needed. Besides the collaboration between these institutions, they will have an active role in the establishment and appliance of European rules through collaboration with similar institutions from member states of European Union within different committees.

Concerning the structure of banking system, on short term, through privatisation of the Deposit Bank (CEC) and of EXIMBANK and their taking over by foreign financial groups with international activity, foreign capital will end up to hold over 90% from Romanian banking market, from this point of view meaning that the integration of Romanian banking market to global market will be finalised.

Even if on short term two major tendencies will be manifested on Romanian banking market: that of concentration through acquisitions and fusions (for example fusion between HVB Bank Romania and Tiriac Bank) and one of apparition of specialised banks (Porsche bank – in the domain of credits for cars, ProCredit Bank – in

order to finance small and medium enterprises) we appreciate that on medium term the number of banks will diminish, and the remaining ones will extend.

Presently, on capital market, the tendency of consolidation of existent market is an obvious one. On short term, a single market will be created, a market where mobile values will be bargained and this will be Bucharest Stock Market. The fusion process between stock Market and RASDAQ Market finalised in 2006 and discussion concerning the fusion with Financial Monetary and Commodities Market, Sibiu started. This consolidation process represents the single solution so that Romanian capital market to be visible on European plan. Also, apparition of a consolidated capital market within Balkan area, through the fusion of stock markets from this area after Euronext model can be considered a viable solution for the integration of the markets of these countries on international financial market.

On the Romanian market of insurances, on medium term, clearly will be differentiated the two categories of insurances – life and non-life. Also, the offer of insurance products with investment compound will be diversified. We appreciate that consolidation activity through fusions and acquisitions will manifest on this market too. Insurance market will be dominated by financial conglomerates through elimination of legislative restrictions and through the development of bank assurance partnerships in Romania.

Integrated financial market cannot be realised without an adequate structure that should assure not only the interconnection of different intern entities, but also the connection with international infrastructure. On medium term, a unique payments electronic system will be realised for financial transactions having as base the system of Romanian National Bank.

Taking into consideration that the greatest financial institutions that develops their activity in Romania are institution with foreign capital and are part of financial groups with international activity, and the banks with Romanian capital will be as well overtaken by international financial groups and analysing the development and restructuration rhythm of Romanian economy in order to adapt to the realities and exigencies of developed economies, we consider that there is not the possibility that in the future a financial institution with Romanian capital to become a great financial group that should activate on global financial market. Most probably, the Romania's integration to global financial market will be realised through participation of capital market, through Bucharest Stock Market (which will form a single entity that should include RASDAQ Market and Financial Monetary and Commodities Market, Sibiu) to the creation of a regional capital market.

In our opinion, the only alternative so that Romanian financial market to be visible and to have an important role in the context of globalisation is that a specialised market for a completely new financial product to be created in Romania, a product that will efficiently correspond to the necessities of global consumers of such products, resulted as a consequence of an innovation process.

No matter the situation, investments in infrastructure are an essential condition for the participation as well on financial market of European Union and on the future global financial market. This thing will be realised mainly through the investment of international financial groups that activate in Romania, but it is absolutely necessary to implicate the Romanian state in the development of infrastructure.

Regulation and surveillance institutions from Romania will follow a consolidation process, and in the future Romanian National Bank will represent the authority that will

realise the consolidated surveillance of financial market in Romania. This will have as main purpose the surveillance of the appliance of international regulations in Romania and active participation to the realisation of regulations with the international institution that will take care of this aspect at global level.

Taking into consideration these aspects we can confirm that from institutional point of view, Romanian banking market is prepared for integration within European financial market. But because a market cannot function without consumers, the question is if Romanian consumers are ready for the changes of financial market brought by the integration in the European Union?

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