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Abnormal stock market returns to announcements if M&A banking deals in Greece 1996-2013

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Abstract. *This study has undertaken a comprehensive empirical analysis of the wealth effects of bank M&A in Greece over the period 1996-2013 and it reports insignificant abnormal gains for acquiring banks, significant positive abnormal returns at 7,44% for acquired banks, and 2,91% positive abnormal returns for the combined entity, in the event window [-10; +1]. The findings indicate that, on average, the Greek bank mergers neither create nor destroy shareholder wealth. This result is consistent with the findings of other Greek event studies, and the bulk of the US and European event studies on M&A wealth effects. On average, acquired firm shareholders gain at the expense of the acquiring firm and market value of the combined entity appears to have little improvement around the announcement of the transaction. Yet, mergers continue so there is scope to investigate other motives that drive M&As in the banking sector.*

Keywords: *stock market returns; M&A banking; Greece.*

Introduction

Deregulation, globalization, advances in transaction and information technologies (technological progress), geographic shifts in growth opportunities, diversification of risks, economies of scale and scope, cost reduction, financial synergies, tax advantages, the introduction of the euro and increased competition as well as, technological progress, fast expansion of client requirements, risk diversification, regulatory policy, managerial hubris have all been broad well-known drivers for

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consolidation in the banking sector (Amel et al., 2004; Ayadi, 2007; Beitel et al., 2004; Campa & Hernando, 2005; Chen et al., 2006; DeYoung et al., 2009; Demsetz & Strahan, 2007; Focarelli & Pozzolo, 2010; Hannan & Pillof, 2009; Hendricks, 2007). The question whether or not M&As have contributed or not to improve banks' efficiency and profitability has not yet been convincingly answered in the literature given the restricted consensus on the impact of consolidation on banks' performance. Up to present, the Greek banking sector has not been studied adequately due to data deficiencies (Pasiouras & Zopounidis, 2008). This paper thus fills a research gap and it reviews the rationale behind banking consolidation in Greece and it uses market data to perform an event study on the stock market valuation of M&As in the Greek banking sector for 1996-2013. Therefore, the research hypothesis can be formulated as follows: *A bank M&A has a significant positive impact on the stock market price of both the acquirer and target.*

Literature review on the effects of bank M&As

Research literature on the effects of consolidation can be classified: dynamic efficiency studies, operating performance studies and event studies. This paper follows the event study approach. The basic idea of bank consolidation event studies is to determine if there are any value gains in the share prices of the bidders and/or of the targets, and/or of the combined entities around the announcement of a M&A. In general, findings are not consistent across event studies, as demonstrated in the review article by Beitel and Schiereck (2000). The bulk of empirical research shows no evidence of value gains from bank mergers or from increased bank size per se beyond a small size. DeLong (2001), Becher (2000), Kane (2000), Beitel and Schiereck (2001), Hart and Apilado (2002), Campa and Hernando (2006), Becher (2006), Asimakopoulos and Athanasoglou (2009), and Intrisano (2012) studied abnormal returns of acquirers and they found that average cumulative abnormal returns of acquirers were negative around the merger announcement date. Studies by Hatzigayos et al. (2000), Cybo-Ottone and Murgia (2000), Duso (2010), Liargovas and Repousis (2011), Dishad (2012), Goddard et al. (2012) present no significant value creation in the bidder share prices. Also of importance is the fact that only few studies offer statistically significant positive abnormal returns for acquiring banks as of Campa and Hernando

(2004) and Davidson and Ismail (2005). Analysis of merger gains examining stock price performance of the bidder and target firm around the announcement of a merger or acquisition indicate that overall wealth effects from bank mergers are positive over time (Pillof, 1996; Kwan & Eisenbeis, 1999; Beitel & Schierech, 2001; Becher, 2000; Hart & Apilado, 2002; Duso et al., 2010).

Although European research on bank efficiency has not matched the volume of the US studies this has began to change in recent years. There is some evidence that M&As in Europe increase combined value. A notable study of the European market is the recent work by Cybo-Ottone and Murgia (2000), who documented that there is a positive and significant increase in stock market value for the targets and the combined entity at the time of the deal announcement. It should be noted that the sample used also contained cross-product deals in which banks expand into insurance or investment banking, since regulations allow EU banks to offer both banking and insurance products. Beitel and Schiereck (2001), Hart and Apilado (2002), Campa and Hernando (2004), Davidson and Ismail (2005), and Duso et al. (2010) also studied value creation of European banking consolidation and reported positive findings for the combined entity and for the shareholders of the targets that earn considerable and significant positive abnormal returns. The results for the shareholders of the bidders are insignificantly negative. Tourani-Rad and Van Beek (1999) found that shareholders of the targets experience significantly positive returns while abnormal returns for the bidding banks are very modest and not statistically significant due to the relative small size of the target comparing to that of the bidder, while Dilshad (2012) report insignificant returns for both bidders and targets.

As far as M&As in the Greek banking sector as concerned, to our knowledge, Hatzigayos et al. (2000) is the first study that examines the consolidation of listed banks in the Greek market. The authors investigate 4 bank deals over the period 1998-99 when the first merger wave took place in Greece. The results point at insignificant negative abnormal returns for the bidding banks at a merger announcement mainly due to overpriced takeovers. Other studies on the shareholder value creation are that of Manasakis (2009), Mylonidis and Kelnikola (2005) and Asimakopoulos et al. (2005). Overall, these studies confirm considerable wealth gains for both bidders and targets except the study of Manasakis who reports negatively wealth gains. Relatively positive results to that of the aforementioned Greek studies are the outcomes offered by Vergos and Christopoulos (2011), whose focus is placed exclusively on the combined entity following the consolidation exercise.

Research setting: the Greek banking sector

In 2012, the Greek banking sectors consisted of 62 credit institutions with 4,005 branches and 63,400 employees (EFB, 2012). A particular feature of the Greek commercial banking system is the central role of a few large banks, having substantial market power (EFB, 2012). Starting in 1999 a series of smaller-sized bank M&As occurred. The leading role was held by Piraeus Bank, which acquired control of Chios Bank, founded in 1991. In addition, Piraeus Bank absorbed the branches of National Westminster Bank in Greece. Shortly thereafter, Piraeus Bank moved on to absorb the commercial banks of Macedonia-Thrace Bank and Chios respectively. In 1999, Egnatia Bank absorbs the Bank of Central Greece. In the 2000s, Egnatia Bank joins Cyprus Popular Bank to create the Marfin Popular Bank, which later was named Cyprus Popular Bank. In 1998, two more historic banks disappeared from the bank charter, when the National Bank merged by absorption with National Mortgage Bank (which had been the outcome from the merger of two former subsidiaries, the National Mortgage and National Housing Bank). In early 2002, Piraeus Bank acquired control ETBA bank, founded in 1964 with the main purpose to contribute to the industrial development of the country.

After a lengthy period of more or less a decade, historical changes in the domestic banking system had begun in 2012 and haven't stopped since the mid of 2013. Leading roles for Piraeus Bank and Alpha Bank once again. Specifically, in late July 2012, Piraeus Bank acquired the 'healthy' part of the Agricultural Bank. Three months later, Piraeus Bank signed an agreement with Societe Generale to obtain the overall turnout (99%) of General Bank. In March 2013, Piraeus Bank also acquired the banking operations of Bank of Cyprus, Cyprus Popular Bank and Bank of the Greek in Greece and later acquired the Millennium Bank too. All banks acquired by Piraeus Bank will be fully absorbed by the end of 2013. In February 2013, Alpha Bank acquired all the shares of Emporiki Bank and in late June of the same year the acquisition was completed. The New Proton Bank is also acquired by Eurobank, while in May 2013 the FBBank passed to NBG (Lidorikis, 2013).

Methodology

Event studies

The event study methodology is widely used to investigate possible gains that are derived from stock prices of the consolidated institutions involved prior and following the announcement of an M&A (Dilshad, 2012). The first step in an event study is to define the event under examination and the timing of the event, hence, *the event date*. In addition, it is necessary to identify the period over which the stock price performance will be investigated, *the event window*. Following the identification of the timing of the event, the event window should be determined $[t_1;t_2]$, in other words, the time period surrounding the announcement date, over which the firm's stock price performance is under examination. We follow Warner and Brown (1985) in order to investigate market reactions to bank mergers taking place in Greece during 1997-2013, where differences in the stock returns between acquiring banks or target banks and the market are used as estimates of abnormal or excess returns for a 12-day window [-10;+1] around the merger announcement date, using the following model:

$$AR_{it} = R_{it} - (a_i + b_i R_{mt}) \qquad \text{(equation 1)}$$

where

AR_{it}= abnormal returns to bank stock *i* at time *t*

R_u= actual returns to bank stock *i* at time *t*

a_i= ordinary least squares (OLS) estimate of the intercept of the estimated market model

b_i= OLS estimate of the market model slope coefficient reflecting change in the market return relative to the return for bank *i*

R_{mt}= actual returns to a market portfolio of bank stocks at time *t*, as proxied by, for example, the value-weighted index of bank stocks from the ASE.

Deducting $[a_i + b_i R_{mt}]$ from R_{it}, as shown in equation 1, neutralizes the effect of general market movements but does not neutralize firm-specific price variations caused by events other than the merger announcement. To neutralize these firm-specific price variations, the cross-sectional average of the abnormal returns for the total sample of bank stocks for each period is computed. For a sample of *n* bank stocks, the mean abnormal return for each day *t* is computed as:

$$MAR_t = \frac{1}{n}\sum_{i=1}^{n} AR_{it} \qquad \text{(equation 2)}$$

where t = -10,-9…0, +1. The cross-sectional average neutralizes firm-specific price variations that are unrelated to the merger announcements because each announcement did not occur at the same point in time for the *n* banks in the sample. Hence, the expected value of MAR_t is zero in the absence of abnormal returns due to merger announcements. The final calculation of abnormal returns is to compute cumulative average abnormal returns from day t=-10 to t=0 and from day t=-10 to t=+1 using the formula:

$$CAR(-10, t_1) = \sum_{t=-10}^{t_1} MAR_t \qquad \text{(equation 3)}$$

where t_1 = {0, +1}, and $CAR(-10, t_1)$ is the cumulative average abnormal return for the sample of *n* bank stocks over the event period intervals from t = -10 to $t = t_1$. The expected value of *CAR* is zero in the absence of abnormal returns.

Statistical analysis

To test the significance of MAR_t, the average standardized abnormal return is estimated using the following statistic, as described in Dodd and Warner (1983):

$$SAR_t = \frac{1}{n}\sum_{i=1}^{n}\frac{AR_{it}}{s_{it}} \qquad \text{(equation 4)}$$

where s_{it} is the estimated standard deviation of the abnormal returns for bank stock i in the event period t and is computed by:

$$s_{it} = \sqrt{Si^2[1+\frac{1}{T}+\frac{(Rmt-\overline{Rm})^2}{\sum_{k=1}^{T}(Rmk-\overline{Rm})^2}]} \qquad \text{(equation 5)}$$

where

s_i^2 = residual variance for security i from the market model regression

T = number of days in the estimation period (135)

R_{mt} = rate of return on the market index for day t of the event period

R_m = mean rate of return on the market index during the estimation period

R_{mk} = rate of return on the market index for the day k of the estimation period

As shown in equation 5, the standard error of the forecast for the event period, s_{it}, involves a slight adjustment from the standard error of the estimate, s_i. This adjustment reflects the deviations of the independent variables in the estimation period from the values employed in the original regression and are typically close to 1.

Statistical analysis of the combined entity

Most studies examine the abnormal returns of acquirers and targets separately, but several papers analyze the total change in shareholder wealth.

In such cases, the value-weighted sum of acquirer and target abnormal returns is the appropriate measure of overall gains stemming from merger and acquisition activity. This measure quantifies the value reaction that the market believes the merger will provide because false interpretations can be made when looking solely at the outcomes of the bidder or the target. Cumulative abnormal returns of the combined entity (bidder and target firms together) are calculated by following the method outline in Houston and Ryngaert (1994):

$$\text{Combined Cumulative Abnormal Returns} = \frac{(CAR_b V_b) + (V_t\, CAR_t}{(V_b + V_t)}$$

(equation 6)

where *Vi* is the value of the bank's stock –10 days before the merger announcement date for the bidder and target respectively over the 12-day window. To gauge statistical significance, a z-test and subsequent p-value are calculated from the mean assuming a normal distribution using the suggestions described in Dodd and Warner (1983).

M&A data sources and sample selection criteria

The population under investigation consists of all Greek financial institutions that announced a M&A activity between the first of January 1996 and the thirtieth of July 2013. This study relies on two data sources: The Athens Stock Exchange (ASE) and the Economic Bulletins of Commercial Bank. The ASE provides individual equity values (historical data for stock prices of banks involved in M&As), banking industry and market returns. The exact announcement dates of M&As are not readily available (the Economic Bulletins of Commercial Bank provides only yearly tables of M&As in Greek banks), thus a lot of additional research on Greek financial newspapers like Imerisia and Kathimerini was required. For the analysis of additional data (e.g. total assets, total equity) based on bank balance sheets and income statements, the study relies on financial statements of the Greek banking system provided by the Hellenic Bank Association (HBA).

There were 33 bank mergers during the period 1996-2013 in Greece, but 19 were eliminated from the sample, as they did not satisfy the following criteria:

- Both, the bidding and the target banks are publicly traded banking institutions listed on the Athens Stock Exchange (ASE) for at least 252 trading days (a full year) prior to the announcement and 20 days after the announcement of a merger transaction.
- The merger or acquisition must have occurred before 31/7/2013.
- Both of the merged banks must be healthy institutions at the time of the merger.
- The transaction has been closed – the deal status hence is "completed".
- The M&A deal is a full merger of the two banks or entails the transfer of control from the target to the acquiring bank.

In particular, in sixteen (16) cases the bidding or target banks were not publicly traded banking institutions, which means that there were no share prices to perform event study methodology and in three (3) cases, Greek banks involved in the take-over of network of foreign banks). So, following the elimination, the total number of deals left for analysis is fourteen (14). The final sample of the study is presented in Table 1.

Table 1. 1996-2013 Greek bank M&As

Year	Acquiring Bank	Target Bank	Announcement Date
1997	National Mortage	National Housing	31/01/1997
1998	Piraeus Bank	Macedonia-Thrace Bank	08/05/1998
	Piraeus Bank	Xiosbank	10/07/1998
	EFG Eurobank	Bank of Athens	16/06/1998
	Egnatia Bank	Bank of Central Greece	31/07/1998
	National Bank of Greece	National Mortage	27/05/1998
2011	Postal Savings Bank	Aspis Bank	09/0602011
2012	Piraeus Bank	Geniki Bank	19/10/2012
	Alpha Bank	Commercial Bank	16/10/2012
	Piraeus	Agricultural Bank	23/09/2012
2013	Piraeus Bank	Bank of Cyprus	03/03/2013
	Piraeus Bank	Laiki Bank	03/03/2013
	EFG Eurobank-Ergasias	Postal Savings Bank	14/07/2013
	EFG Eurobank-Ergasias	Proton Bank	19/07/2013

Results

Market responses to mergers

Following the methodology outlined in the previous section, several event windows are used to calculate abnormal returns ranging in size from twelve days, spanning days [t = -10, t = +1] to only two days [t = 0, +1]. Table 2 provides the cumulative abnormal returns for bidders. In general, prior to the merger announcement date, bidders experience positive returns. Over the 11-day window [-10;0], bidder CARs are accounted for +1,74%, while the 3-day window [-2;0] offers +2,54% gains for the shareholders of the acquiring firms. However, this trend seems to be altered exactly on the announcement date where bidder abnormal returns fall significantly. This is very clear in the 2-day event window [0; +1], where the losses for bidders reach –1,74%. Overall, this study finds positive and statistically insignificant abnormal returns to acquiring firms amounting to a twelve-day cumulative abnormal return of only +0,78%, a very modest average gain. One explanation for this slight increase in returns for acquiring banks is the fact that the considerable size of target banks in Greece along with their strong financial performance do not allow bidding firms to exploit any significant gains from efficiency increase and cost savings.

However, the results validate the results of Liagrovas and Repousis (2011) who also report insignificant bidder CARs for an event window [-30; +30] and are not seriously differentiated with these of an earlier event study by Hatzigayos et al. (2000). Their findings indicate that there is an insignificant negative reaction for shareholders of the acquiring firms around the announcement of a bank merger in Greece. The authors find a non-significant negative reaction of –0,3% on days –1 to +5 after the announcement date. Nevertheless, the sample used in their work is somewhat smaller than that used in this study and the authors computed abnormal returns only for the bidders. However, both studies of Mylonidis and Kelnikola (2005) and Asimakopoulos et al. (2005) disclose considerable wealth effects for bidders at 4,9% and 25,1% respectively over a 40-day window [-20;+20]. It is worth noticing that Asimakopoulos et al. (2005) is the only Greek study that shows significantly higher CARs for bidders as compared to the CARs of targets for a considerable period of time violating the efficient market hypothesis and giving space to rumor dispersion effect and or to abuse of inside information prior the announcement of merger event.

Table 2. Cummulative abnormal returns (CARs) of the acquiring banks in Greece between 1996-2013.

Bidders (N = 7) Event window	CAR in %[a]	Pos.	Neg.	Z-test	p-value
[-10;0]	1,74	4	4	0,01	0,25477
[-5;0]	1,88	3	5	0,03	0,19548
[-2;0]	2,54	5	3	0,04	0,20358
[-1;0]	0,08	4	4	0,25	0,22571
{0}	-0,78	2	6	0,50	0,11929
[-1;+1]	-0,88	4	4	0,22	0,11271
[0;+1]	-1,74	4	4	0,47	0,29943
[-10;+1]	0,78	3	5	0,31	0,33732

Note: This table presents the results for an event study examining 14 targets from Greek bank M&As. Abnormal returns were calculated using OLS-regression. OLS parameters have been estimated for a period of 135 trading days prior to the event window [-10;+1]. As market returns we applied ASE index (Athens Stock Exchange). Tests of significance are calculated from standardized abnormal returns employing the Dodd-Warner (1983) procedure.

[a] ****=significant at the 1 percent level, **=significant at the 5 percent level, *=significant at 10 percent level.*

Other previous European studies that look at the returns to bidders report insignificant findings for the shareholders of the acquiring firms. The results of Dishlad (2012), Goddard et al. (2012), Duso (2010), Cybo-Ottone and Murgia (2000), Beitel and Shierech (2004) and Tourani-Rad and Van Beek (1999) are basically the same. However, studies focusing on US M&As indicate significant negative cumulative abnormal returns. Becher (2006) and Hart and Apilado (2002) show -0,61% and –0,63% losses respectively for a one-day event window [0]. In addition, DeLong (2001) finds –1,70% return for a twelve-day window [-10;+1], while Houston et al. (2001) report –2,61% return for acquiring firms. European studies that also conclude to negative bidder CARs are that of Intrisano (2012) finding -3,7%, Asimakopoulos and Athanasoglou (2009) -0,79%, Campa and Hernando (2006) -2,37% The findings for the bidders in this study seem to contradict the findings of major US studies, while tend to confirm several studies conducted in European banking markets indicating neither success nor failure of wealth creation for the shareholders of acquiring banks.

Cumulative abnormal returns for targets across event windows are reported in Table 3. There is no much to say about target returns. Like previous European and US studies, target banks in Greece have positive wealth effects in all event windows. As can be noted observing p-value of the z-test, all measures of CARs are highly significant. This work finds a statistically significant cumulative return +7,44% for the event window [-10;+1].

Table 3. Cumulative abnormal returns (CARs) of targeted banks in Greece between 1996-2013.

Targets (N = 14) Event window	**CAR in %**[a]	**Pos.**	**Neg.**	**Z-test**	**p-value**
[-10;0]	5,43***	5	3	0,96	0,00000
[-5;0]	3,76***	4	*4*	0,86	0,00000
[-2;0]	4,54***	6	2	0,29	0,00000
[-1;0]	2,72***	4	4	0,39	0,00000
{0}	1,14***	3	5	0,50	0,00000
[-1;+1]	4,73***	3	5	0,72	0,00000
[0;+1]	3,15***	4	4	0,67	0,00000
[-10;+1]	7,44***	5	3	0,58	0,00000

Notes: This table presents the results for an event study examining 7 bidders from Greek bank M&As. Abnormal returns were calculated using OLS-regression. OLS parameters have been estimated for a period of 135 trading days prior to the event window [-10;+1]. As market returns we applied ASE index (Athens Stock Exchange). Tests of significance are calculated from standardized abnormal returns employing the Dodd-Warner (1983) procedure.

[a] ****=significant at the 1 percent level, **=significant at the 5 percent level, *=significant at 10 percent level.*

The results of the present study confirm the outcomes of similar Greek studies such as those of Mylonidis and Kelnikola (2005), as well as that of Asimakopoulos et al. (2005). According to Beitel and Schiereck (2004), in Europe, cumulative abnormal returns for targets account for +16,0% in a 41-day window [-20; +20]. The results of Intrisano (2012) represent

10.3% wealth creation for targets. Cybo-Ottone and Murgia (2000) also register significant positive returns +16,1% for target banks considering the period of 11 days around the announcement, while Tourani-Rad and Van Beek (1999) show +5,71% wealth increase in a 81-day event window [-40; +40]. The same results are found in all studies performed in USA too. Targets experience superior performance regardless of the days studied in the event windows (Hart & Apilado, 2002; DeLong, 2001). In other words, M&As in Europe and USA act in favor of target's shareholders. This outcome suggests that target management and shareholders may prefer to withdraw from deals where there are no significant opportunities to exploit merger gains.

The results of the event study for the combined entity are given in Table 4. Examining simultaneously both the acquiring and targeted banks, allows us to determine whether bank M&As create rather than transfer wealth. The market reaction for the combined entity to a merger announcement for several days surrounding the merger announcement shows a slight increase in the combined abnormal returns for 14 pairs of acquiring and targeted banks in sample. Table 4 indicates that over the 11-day window [-10;+1], cumulative abnormal returns to the combined entity are +2,91%. Positive returns to targets are essentially offset by insignificant returns to bidders. It is interesting to note, however, that this result is consistent with accounting-based studies that provide evidence for limited efficiency gains from bank mergers (Duso, 2010; Davinson & Ismail, 2005; Hart & Apilado, 2002; Kwan & Eisenbeis, 1999; Pillof, 1996). However, Mylonidis and Kelnikola (2005) register a quite big CAR +9,1% for the and combined entity similarly, Vergos and Christopoulos (2008) +6% respectively regarding Greek deals. When comparing the results of this study with those reported in Table 3.1, Cybo-Ottone and Murgia (2000) finds +4,0% increase in the market value for the combined entity in a sample of 46 European bank mergers.

Table 4. Combined cumulative abnormal returns (CARs) from bank takeovers in Greece between 1996-2013.

Combined entity (N = 14) Event window	CAR in %[a]	Pos.	Neg.	Z-test	p-value
[-10;0]	1,10***	5	3	0,30	0,00056
[-5;0]	0,24***	4	4	0,22	0,00099
[-2;0]	1,08***	6	2	0,04	0,00268
[-1;0]	0,85***	4	4	0,23	0,00044
{0}	***0,44****	3	5	0,50	0,00003
[-1;+1]	2,42***	3	5	0,42	0,00011
[0;+1]	1,15***	6	2	0,58	0,00005
[-10;+1]	2,91***	3	5	0,29	0,00413

Notes: This table presents the results for an event study examining 8 targets from Greek bank M&As. Abnormal returns were calculated using OLS-regression. OLS parameters have been estimated for a period of 135 trading days prior to the event window [-10;+1]. As market returns we applied ASE index (Athens Stock Exchange). Tests of significance are calculated from standardized abnormal returns employing the Dodd-Warner (1983) procedure.

[a] ****=significant at the 1 percent level, **=significant at the 5 percent level, *=significant at 10 percent level.*

Beitel and Schiereck (2004) also study mergers in Europe and show +1,29% increase in combined value. Studies on the wealth effects of the US bank M&As, such as those of Houston et al. (2001), Becher (2000), and Houston and Ryngaert (1994) find that mergers can create little value on a net and aggregate basis. According to the aforementioned studies, this work is consistent with actual measured performance gains and the bulk of European and US event studies. For a more complete picture of the CARs during the investigation period for the bidders, the targets as well as for the combined entity, see Figure 1.

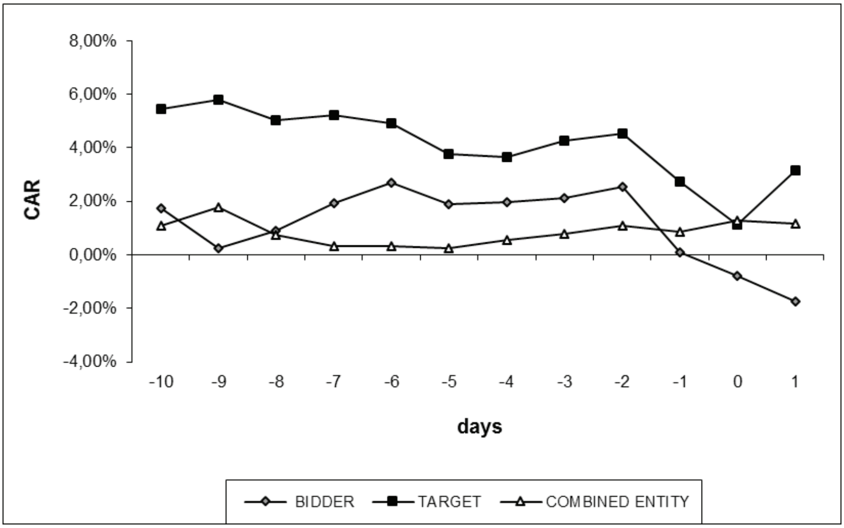

Figure 1. CARs for the whole sample

Conclusions

This study has undertaken a comprehensive empirical analysis of the wealth effects of bank M&As in Greece over the period 1996-2013 and it reports insignificant abnormal gains for acquiring banks, significant positive abnormal returns at 7,44% for acquired banks, and 2,91% positive abnormal returns for the combined entity, in the event window [-10;+1]. The findings indicate that, on average, the Greek bank mergers neither create nor destroy shareholder wealth. This result is consistent with the findings of other Greek event studies, and the bulk of US and European event studies on M&A wealth effects.

Empirical evidence seems to contradict the theoretical background on performance effects of bank consolidation, particularly especially when one compares compare banks with non-merging banks (Behr & Heid, 2011). On average, acquired firm shareholders gain at the expense of the acquiring firm and market value of the combined entity appears to have little improvement around the announcement of the transaction. Yet, mergers continue. Perhaps managers are experiencing a kind of self-delusion, as Doukas and Petmezas (2007) stress out that optimism and overconfidence on the managers side can lead to managerial 'hubris' that results in a misperceived ability that managers can improve the target.

In this case, bidders can end up overbidding, a fact that seriously affect the returns to acquired banks (Malmendier & Tate, 2004). However, it is still difficult to consider that a vast restructuring of the world financial structure is taking place simply because of a careless or thoughtless view of one's own managerial talent. Another possible explanation rested on the assumption that managers are unethical, informing the shareholders that their only purpose is the value creation nevertheless they only taking care to increase their own power base and compensation. Still, regarding this issue, someone must be really sceptical to claim that big banking institutions have undertaken considerable acquisition plans with the consent of shareholders that do not benefit from the exercise.

Limitations of the study

As with any methodological approach, shareholder value creation studies themselves are not perfect. A well-known weakness of accounting data studies is the definition of inputs and outputs of a banking firm, meaning that there is lack of consensus on the variables that entirely define bank output. Another significant drawback is the regular phenomenon of misleading manipulated accounting data (Liargovas & Repousis, 2011). Likewise, a drawback with event studies is that the origin of any value creation is not effortlessly traced, therefore, must be determined out of the data using a second-stage statistical procedure (for instance, positive abnormal returns could be interpreted as the outcome of either increased market power or improved efficiency or both. In other words, observed returns may be ascribed to expected bank performance or the actual result may be entirely unrelated to the surveyed merger transaction. Nonetheless, the event study methodology is not left without criticism. Becher (2006) claims that event windows are not easy to trace and are regularly stringently characterized as mergers are anticipated by the market before they are actually announced publicly.

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The role of banking loans in the management of local development

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Abstract. *Looking from a European perspective and considering historic evolutions, for Romania local economic development is a challenge that must be succeeded by valuing any available resource at its best. Local resources are not always enough for financing the development needs of communities. For progressing, they must be completed with borrowed sources. The banking loan, although it includes collateral costs and risks, represents a resource that must be kept in view and fructified accordingly, for not losing the development opportunities. Having in mind the big variety of lending products offered by credit institutions, the financing needs - of the local public authorities and also of the economic agents and population - can be covered. The capital insertion on the local market by baking loan generates economic increase, social development and can offer new working places to the local community members. Good knowledge of the lending needs, of the advantages, of the costs but also of the associated risks of the lending activity are essential for fully benefiting of such a resource in the local and regional economic and social development processes. Developing a partnership between the lending institutions and all the involved factors, local public authorities, economic agents and individuals, represents a measure that must not only be sustained by the state authorities in charge, but also implemented. An efficient management of the development needs of local communities has offered opportunities for development to the ones that access loans. It also offers possibilities to the lending institutions that grant the loans, to obtain additional profit and restart the lending activity. In the present work, we present the way in which the banking loans may represent a viable option for an efficient management of development process of local communities in Romania and also the ways and means for a responsible management of financial resources.*

Keywords: *banking loan; local community; economic development; local financial resources; insurance against non-reimbursement risk; Romania.*

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Introduction

In Romania, the financing resources available for local development have, each of them, both advantages and certain limitations. While the European funds are limited from the value's point of view and also from the destination's they are granted for, the direct foreign investments are sensitive to the economic crisis, political instability, CDS value, as well as to the lack of predictability of the business environment.

Under the crisis's effect, the bond market reflects the investors' lack of trust in the public sector, especially on a long term. In the public-private partnership, as a result of the diversity of the economic interests, delays in making decisions can occur and also an excessive bureaucracy, fact that limits the investors' appetite. All these mentioned aspects entitle us to affirm that, for the local economic development, the banking loan plays an important role, even if it is considered as a more expensive resource. This financing resource is available both for local public authorities and for entrepreneurs and population, each of them bringing a contribution by their own welfare to the overall local development. By contrary, the recent reality gives us many solid arguments for the fact that the lack of financial resources for regional and local development can hold in place the local communities' progress and welfare. The only opportunity for progressing remains an active and efficient management of the existing (insufficient) resources and identifying attracted and borrowed sources.

The conclusion that derives is that, in this moment, the partnership between local communities and banks is a benefic one, the former as loans requesters and users and the later, as suppliers of financing sources. The action and the proactive solutions are always welcomed rather than the inaction and appealing to motives and difficulties that might hinder evolution.

In the current paper we aim to analyze the actual context and to propose viable solutions for accommodating the strong need for financing of local communities with the need of banks to restart lending on healthy bases and by orienting the financial flows in correct directions, namely where the real economy needs them: investments and sustainable development.

The need for lending in the local economy

The general purpose of this paper is to evidence the impact of banking loan upon local economic development process in Romania. The local economic development varies from a region to another, from a county to another and even from a village to another. This aspect is, of course, found also in other countries, the difference being that, in Romania, the discrepancies between the advanced or medium levels of development and the ones that were left behind are very big, For the later, the existence of financing resources remains vital, being the ”oxygen” source that allows them to survive. Except the allocations from the budget, the public authorities have alternatives to finance the investments of public interest and also the activities that may have as a result economic and social development of the local community, from sources such as: local incomes, structural funds and of cohesion, instruments of public debt, direct foreign investments, etc.

In this context, *the working hypothesis,* we started the research from, is represented by the limited character and the pre-set destination of the resources, other than loans. The offer of the commercial banks, the banking loans and the letters of guarantee are financing alternatives for the investments or for certain activities, both for local public authorities and for entrepreneurs and individuals in any local community in Romania. They are, in fact, limited only by the capacity of reimbursing the loans, as proven by the forecasted cash flow and by the collaterals the borrowers can offer.

The National Bank of Romania, through the interest rate, manages the expansion of the credit and of the scriptural currency. This is why we can state that the interest rate is a fundamental instrument for the monetary policy. The interest is used, with certain limitations, for influencing the inflation and the deflation, for gathering the temporary available savings and for determining the level of investments.

Looking also from the economic perspective, the level of the applied *interest rate* is one of the decisive factors that influence the investments. When the interest rate increases consumption and investments, which have the loan as financing source, decrease and also the investments (fixed assets of long use goods), as a result of the credit cost increase. In these conditions, for observing if the authorities create favorable conditions for encouraging the lending activity, we analyzed the evolution of two of the relevant macroeconomic indicators. The analysis of the situation of the main macroeconomic indicators monitored in the lending activity, respectively the reference interest rate and the inflation rate, reflects their good management as led by Central Bank, even in crisis conditions. The situation of these indicators, on the analyzed interval, 2008-2013, is as follows:

Table 1. The level of the reference interest rate and of the inflation rate between 2008 and 2013 (% per year)

Year / Indicator	2008	2009	2010	2011	2012	2013
The Reference interest rate (% per year)	10.25	8.00	6.25	6.00	5.25	4.00
The average inflation rate	6.30	4.74	7.96	3.14	4.95	1.55

Source: NBR – Monthly Report (December 2008-2013).
The data reflect the situation by at the end of the period.

Within the period 2008 – 2013, the reference interest rate followed a different evolution compared to the average inflation rate. In this time interval, the maximum level (10,25% p.y.) of the reference interest rate was reached in 2008 - the year when the financial crisis started, after that, following a descendent trend year by year, reaching 4,00%, in 2013. It is more than obvious that Central Bank - as the financial-monetary authority - decided, by its implemented policies, to give a clear sign to the market, of cheapening the loans and orienting them towards the real economy. More sensitive to the consequences and the effects of the economic crisis, the inflation rate - although all along the analyzed time interval had a general descending trend: from 6,30%, in 2008 to 1,55% in 2013 – registered in 2010 a maximum level of 7,96% and also registered an increase in 2012 of 4,95% compared to the previous year. In its graphic representation, the evolution of the two indicators shows as follows:

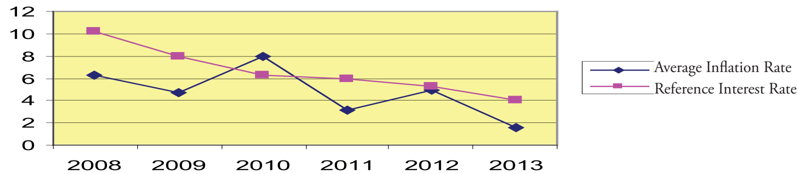

Figure 1. The Average Inflation Rate and the Reference Interest Rate between 2008-2013

Source: NBR – Monthly Report (December 2008-2013).

The data reflect the situation by at the end of the period

The curves of both indicators have a descendent trend, but for the reference interest rate we observe a better control and the lack of peaks, as registered in 2010 and 2012 for the inflation rate.

Despite all this descending trend of the two macroeconomic indicators, we consider that, the level to which the engines of the economy can start and the investments get the appropriate importance has not been reached yet. The level of the banking interests is still too high. Our opinion is also sustained by a recent measure taken by European Central Bank (ECB), that, in June 2014, reduced the monetary policy interest, namely the interest for the refinancing operations, from 0,25% valid for November last year, to 0,15%. They also reduced the interest for deposits from 0% to -0,1%, for the first time passing to the negative side. Banks must understand this signal given by ECB as the end of speculative operations and financial placements and as an immediate orientation towards lending SMEs and making investments in infrastructure, regional development and in real economy. ECB will grant banks an amount of 400 billion euro, for a price with only 10 b.p. higher than the refinancing interest, that is now 0,15%. Just that, this time, banks will not be allowed to use the ECB funds for buying governmental bonds but only for financing SMEs and investments in local economy.

From the performed analysis upon the clear signals from the European Banking Authority, we can state that, also the national authorities in charge placed efforts and created favorable conditions for reviving the lending activity. Yet, this signal must continue, namely for cheapening the loans that had to suffer all along the analyzed time interval (2008-2013) and does not offer real signs of recovery further on. This is why, we consider that, creating partnership bridges between the ones in need of financing sources and the ones that need to find safe and healthy placements destinations, to be very important for re-launching lending. In the following pages, we will come back with scientific arguments for sustaining the fact that banks need as much to re-launch the lending activity and to find viable and serious clients, with a good reimbursement capacity, as local communities need the banks' money. Like in any partnership, for completing the business, it is necessary to apply the win-win principle, for finding a middle way on which, further on, each of the two involved parties to be able to go on. The loans requesters, regardless how much they need the resources, cannot and must not accept just any price/interest conditions, as such an approach will come back to them as a boomerang, when not being able to pay their debts and interests. Such an unwanted situation would affect not only the borrower, but it is known that, it would also affect the banks' financial results that thus have to record non-performance loans (the so-called NPLs). In this paper, we also aim to review the extremely delicate aspect of the huge NPL level, of approximately 22% within the total non-governmental loans granted by the banks activating in Romania. The expenses with the specific risk provisions and the burdened financial statements with non-performance loans are the biggest worry for banks and also for prudential supervision authority currently have. The later is trying and apparently succeeding to identify measures for coming back to normal. Consequently, we explained the need to find an equilibrium level in what the lending cost concerns - expressed mainly as the interest rate level – to be supported by the debtor and thus to allow the lender to go forwards. In what the average active interests' rate applied by the commercial banks in Romania concerns, the situation is presented in the Table 2.

Table 2. The average active interest rate applied by the banks in Romania between 2008 and 2013 (% per year)

Year		2008	2009	2010	2011	2012	2013
Interest (%)	RON	18,01	16,10	11,14	10,84	10,40	7,79
	EUR	7,73	6,13	5,75	5,84	4,84	4,78
Average Rate	RON/ EUR	3,68	4,24	4,21	4,24	4,46	4,42
Interest in Foreign Currency (%)	Equiv. RON	4,89	3,8	2,65	2,56	2,33	1,76
Interest Report (%)	RON/ EUR	2,33	2,63	1,94	1,86	2,15	1,63

Source: NBR – Data Series (2008-2013). Data processed by the authors.

For the time interval 2008-2013, both for the granted loans in RON and for the foreign currency ones, the average interest rate applied by the commercial banks had an obvious descending trend, respectively, for RON, from 18,01% p.a. in 2008 to 7,79% p.a. in 2013, while for euro, from 7,73% p.a. in 2008 to 4,78% p.a. in 2013.

From the presented data, there results that, in Romania, the average level of the applied interest rate for the loans in RON is, for the analyzed time interval, on average, approximately twice higher than the level applied to the euro loans, considering the fact that, the average exchange rate RON/EUR registered a constant increase, from 3,68 RON/EUR in 2008 to 4,42 RON/EUR, in 2013.

The difference between the applied interest rate, for the loans in RON towards the level applied for the loans in EUR, explains the Romanians' tendency to contract loans in EUR, forgetting, in general, about the exchange rate risk and about the fact that the borrowers' incomes are not obtained in EUR. This way, we reached a negative conclusion: due to the yet too high level of the banking interest rates applied by the commercial banks, and having in view the still low background in the respect of financial-banking culture some of the banks' clients have - these do not protect themselves towards the negative effects of the interest rate risk and of the foreign currency risk, that eventually turn into non-reimbursement risk. Due to the two identified root causes (high interest levels and the still reduced level of finance-banking culture), part of the bank's clients take these risks ignoring the negative financial effects they are exposing themselves to.

The identified risks are dangerous and we propose ourselves to transmit a warning signal and, if possible, to also offer solutions for mitigating these risks. For example, one of the solutions for diminishing these risks might be assuring these risks with an assurance-reassurance company, that to undertake part of the negative financial effects if these risks produce effects.

Measuring the benefits brought by lending

By attracting banking loans, the financing beneficiaries can develop their activities and, implicitly, can contribute to the increase of the employment degree. On the other hand, the development of the economic agents' activity generates working places – more or better paid – so that, the employed individuals can increase their degree of satisfying personal needs. This way, the production or services are encouraged, also the needs for intellectual and, implicitly, professional development (payments for studies, for some qualification and specialization courses) or the personal investments (purchasing or renovating houses, cars acquisitions or some other long usage goods).

Starting from this conclusion, we demonstrate that the income input brought by the capital insertion coming from a lending institution into the economic activity of a community can be analyzed and measured at local level, by the functional relation of consumption - as a dependent variable towards the local budget income - as an independent variable (Velicu, 2012, p. 256).

As a methodology of research, we started our analysis from the functional relation:

$$C = 800+0,8 \times LI,$$

where:

C represents the consumption, and

LI represents the income to the local budget brought by the collected tax per profit.

As other researchers in the field also argue (Popescu, 2008, p. 17), according to a mathematical relation as the one presented above, if the income increases with one monetary unit, the consumption will increase with 0,8 monetary units.

In an algebraically expression, $C = 800 + 0,8 \times LI$, represents the equation of the functional relation of the consumption - as a dependent variable, towards the income to the local budget - as an independent variable.

$$\Delta C = C_2 – C_1 \text{ or } \Delta C = 0,8\ (LI_2 –LI_1)$$

By applying this mathematic formula we obtain results that entitle us to affirm that the variation of the consumption (ΔC) is of c' times equal with the variation of the income (ΔLI), respectively:

$$\Delta C =\Delta c' \times \Delta LI$$

The report between the variation of the dependent variable of consumption (ΔC) and the variation of the independent variable of the income (ΔLI) is equal with c'.

In the analyzed example, considering the source for LI to the local budget, we can state as follows:

The capital insertion in local economic activity, by banking loan, contributes the more to financing the social activities, the lower the interest rate applied *by the lending institution is. The higher the capital insertion is, the more the local consumption (*ΔC*) may increase, and based on this, the local income will increase (*ΔLI), from the taxes collected in relation with the salary income paid by the lent SMEs, with the additional profits achieved, with the purchased real estate's properties, etc.

As we stated all along this paper, both partners in the credit transactions should develop an efficient activity. If until this point, we analyzed which are the benefits for those who borrow, in the following part, we will analyze the reasons banks are interested to restart lending.

In what *the lending institution* concerns, we will analyze the economic profitableness of the placement into the granted loan, by using the calculation formula for assets profitableness (ROA – Return On Assets), according to the well-known formula (Treapăt, 2011, p.101), as follows:

ROA = (NET PROFIT /TOTAL ASSETS) x 100

This indicator evidences best the capacity of the financial resources of the lending institution to generate profit.

Simplifying the example, in a working hypothesis, we considered the total assets as equal with the value of the placement made in a loan (RON 1,000,000 in equivalent currency), and, for the net annual profit we considered exclusively the value of the cashed-in interest and the tax per profit (16%) related to this income. In this context, by performing the respective calculations, in a systemized manner, the results are presented as follows:

Table 3. The calculation of the economic profitableness (ROA) of a placement into a loan

Credit Value	Interest Level	Total value of the cashed-in interest (RON)	Tax on income (16%) (RON)	Total net profit (RON)	ROA (%)	Currency rate (RON/EUR)
1,000,000 RON	10,08	306,600	49,056	257,544	25,75	4,4
227,273 EUR	5,46	166,074	26,572	139,502	13,95	
227,273 EUR	3,00	91,252	14,600	76,652	7,67	

The authors succeeded in demonstrating that, for any of these lending options presented above, the ROA indicator calculated for the made placement is higher than 1, fact that evidences the capacity of the lending institution to generate profit by placing RON 1,000,000.00 in equivalent currency, even in price conditions considered to be favorable for the economic agents (Velicu, 2012, pp. 257-258). Moreover, the calculations made by the authors demonstrate that, even if the bank reduces the interest rate with 45%, namely from 5,46% to 3% per year, the profitability reserves would still exist for the banks. For an interest rate of 5,46% per year for EUR, there resulted a ROA indicator of over 13,95%, that, in our opinion is exaggerated. For a reasonable interest rate, of 3% per year for EUR, there resulted an indicator with a very good level of 7,67%. The working hypothesis, subject to analysis and afterwards demonstrated by the authors by calculations in the Table 3, indicated the capacity of both partners (the lender and the debtor) to make a profitable transaction for each of them, a guarantee for success in business.

The collateral – burden or risk mitigation factor?

The collaterals that have to be constituted in the lending institution's favor, at lending, represent an aspect that must not be neglected in the lending activity. From the perspective of the banking loan applicants, the collaterals are very sensitive points, especially for the economic agents in the start-up category, but not only. On one hand, developing a prosperous business - in absence of capital of own contribution and collaterals - is not possible. On the other hand, attracting, by banking loan, some useful resources for developing the business requires the existence of some collaterals. Particularly, when starting the business, few are the entrepreneurs that have the necessary collaterals for obtaining financing from the lending institutions. This is why, there must be identified a sustainable equilibrium between the capital provided by the borrower, the material collaterals and the capital offered as a loan by the creditor.

The authors of the present work made a research upon the entire banking market in Romania, for providing comprehensive information to interested persons about the complete range of guarantees accepted by banks for the offered loans. From prudency reasons, the commercial banks request to their clients, according to the concrete situation of every loan requester, to bring one or more collaterals, as a mix of guarantees. We analyzed, for several banks in Romania, which are the most frequent types of collaterals they use in the relation with their clients. In the following part, we will present information about the most commonly used ones, respectively: guarantees (LG's), the banking deposit (collateral cash), the assurance for financial risk, pledge, cession of receivables, mortgage, etc.

Some authors (Treapăt, 2013, pp. 65-69) brought the necessary arguments for showing that, for being accepted by the bank, the collaterals must fulfill the following cumulative conditions:

- to have the markets or the potential buyers for the goods proposed as collaterals;
- to be easily turned into cash;
- to be materialized as a title or an authentic document, etc.;
- the goods to be the property of the requester and not to be affected by any receivables;
- the owner of the goods to have the capacity of bringing them as a guarantee.

In the banks where we analyzed this issue, we acknowledged that, not fulfilling these criteria or not identifying further collaterals leads to the impossibility of granting the requested loan. We would like to underline that the loan requests cannot be approved based only on the fact that the goods offered as collaterals by the requesters' can be easily transformed into cash. If, from the financial analysis and of the business plan results that the loan reimbursement and of the corresponding interest are not sure to come mostly from the liquidities generated by the developed economic activity - this being the main source for reimbursement while the collateral a secondary one - the loans are not eventually granted.

A principle met in the banks where we studied this subject requires that the loans granted by the bank and the corresponding interests must be fully covered with collaterals. The value taken into consideration for the tangible and non-tangible assets accepted as collaterals by the banks is calculated by applying a variable margin, according to the dimension of the risk involved by their recovery, as presented below:

Table 4. Types of collaterals admitted by the banks

The Collateral Type	The Estimated Value (%)	The Value Accepted as Guarantee (%)
Non-conditional guarantees (LG's) received from the Government	100	100
Irrevocable banking guarantees, received from 1st rank banks from the European Union	100	100
The banking deposit (the collateral cash)	100	100
The assurance contract against the risk of not paying the loan installments and the corresponding interest (financial risk assurance)	100	Up to 100 *)
The mortgage	100	Up to 80 **)
The cession of receivables (in RON and FX)	100	75
The real estate guarantees, out of which:		
- with dispossession	100	Up to 70 **)
- without dispossession	100	Up to 80 **)
The personal pledges (surety ship guarantee)	100	Up to 100**)
The company pledges	100	Up to 75 cash flow ***)
The business plan	100	½ cash flow ****)
Other collaterals	-	-

Source: The information's at this Table were issued upon the information sources (norms, procedures, reports) in the banks where the research was done.

Table 4 Explanations:

*) The value accepted by the bank for the assurance contract for non paying the loan installments and the interest (financial risk assurance) is according to the clauses of risk coverage stipulated in the lending contract and it may vary between 80 - 100%.

**) These values are upper limit, they usually having lower values keeping in mind the risk of recovery estimated by the bank.

***) The company guarantee is based on the firm engagement from the debtor's side, under authentic or private signature, to wind up the cash flow from its current activity through the bank's cash offices. This is, in fact, a cession of receivables that is not necessary to be legally formalized. The value accepted by the bank is according to the company's financial standing, to the turnover run through the bank's offices, to the company's name and fame within the business community and may reach 75% of the total cash flow run through the bank's cash offices.

****) The business plan may be brought as a guarantee for loans, especially for the SMEs that do not have other types of guarantees available. The bank may admit as a guarantee for the loans maximum 50% from the cash-flow resulting from the business plan, under the condition that, according to the plan, the incomes to be higher than the expenses.

Considering the different liquidity of the various collaterals and the real possibilities the debtors have to issue these collaterals, our opinion is that the most recommendable solution is to use a mix of collaterals, namely, to request the debtors to issue collaterals in various forms and in different shares (e.g. 25% collateral cash, 50% cession of receivables, 25% mortgage, etc.). The banks can accept as collaterals for the granted loans also letters of guarantee issued by other banks and the insurance policies for the loans (the financial risk insurances) issued by the assurance-reassurance companies agreed by the lending bank.

Our aim in making this research upon the banking market in Romania for identifying the complete list of guarantees, is for being able to offer the convenient options of collaterals both to the debtors (as can be seen, the value accepted by the bank is of minimum 75% from the estimated value on the market), and for the bank - this aiming to accept only sure and safe collaterals.

Assuring the lending risk, a financial stability factor both for the creditor and for the debtor

The actual banking reality shows us that granting loans that afterwards may become non-performance represents the main disturbing factor in banks' activity. For reducing the loses from the non-performance loans, the persons that are involved in the lending activity of a bank must action responsibly when evaluating the risks involved by granting loans and make all the necessary efforts for cashing-in at tenor, fact that, in the last few years became more and more difficult. In this context, the assurance against the non-reimbursement risk for the granted loans protects the banks towards the risk of not cashing-in the due amounts from the bank's debtors, this way preserving the bank's cash flow, its liquidity and profitability. But, in the same time, this measure for reducing the credit risk also protects the debtor in trouble, as this will not be forcefully executed and will not find himself in the situation of remaining without patrimonial elements, so necessary for developing the activity.

This way, the assurance against the non-reimbursement risk for a loan, actions as a factor of financial stability. In this case, loans assurance actions as a particular assurance, whose scope is different towards the other types of assurances. This assurance implies, for the lending bank, the protection against two major types of risks: the financial risk - related to solvability, liquidity and the requester's good will and the life risk - related to the possibility that, in the requester's life, a major event to occur such as death or permanent invalidity, putting him in the impossibility to generate further incomes necessary for paying the loan back. In what the financial risk concerns, the banks own instruments and policies for appreciating and monitoring, verified by a long previous experience, but, in what the life risk concerns, the actuarial experience of the assurers is considerably superior. This is the reason why the banking international practice in the lending field requires the loan requester to sign a life insurance policy transferred in the lending bank's favour, thus offering the guarantee of paying the borrowed amounts back, even in the situation in which the debtor finds himself in an objective impossibility to obtain the necessary incomes.

The life insurances assigned to the loans portfolios are much more advantageous if offered in a bank assurance partnership (Brophy, 2013). On one hand, the lending institutions obtain incomes from selling insurance products commissions, but also achieve a significant cost reduction related to the loan administration and also the possibility to immediately and easily recover the loan assured this way, without following the specific steps of hard collections. On the other hand, the assurance companies have a relatively controlled market for selling their products. This partnership arrangement can be profitable for all the involved parties. Banks can earn additional revenue by selling the insurance products, while insurance companies are able to expand their customer base without having to expand their sales forces or pay commissions to insurance brokers. For the clients, the advantages the life insurance has are both of an economic nature and also subjective. These have the possibility to obtain at reduced costs the guarantee that, if the assured event occurs, the balance of the contracted credit will be paid by the assurer to the lending company. This way, the goods objects to the collateral for the contracted loan remain unexecuted.

The assured risks must be controllable. This way, the insurer requests and the lending institution obliges itself to perform the financial analysis for the loans requesters, at high standards. The simple accept to pay the cost of such a financial non-payment risk insurance, does not qualify the requesters for obtaining the loan if the economic and financial analysis performed by the lending institution does not conclude with the accepted values for the targeted financial indicators (Treapăt, 2011, pp. 252-256).

The international commercial exchanges, the enlargement of the economic and financial cooperation among the states contributes to the local economic and social development. Using the credit for exports can facilitate these exchanges. Performing exports by means of credits engages risks both for the exporter and for the financing lending institution. The risks assigned to the export activity, by their nature, can be grouped in: commercial risks, risks due to natural disasters or other acts of God, political risks and foreign currency risks. For assuring and guaranteeing the loans for export, The Exports and Imports Bank of Romania (EXIMBANK) operates in the market similar to the other banks and assurance companies within the European Union. As Treapăt (2011) argues, EXIMBANK is not the only institution that supports the borrowers to obtain loans from banks, having collaterals offered by third parties. Assuring the loans against the non-reimbursement risk can be performed by specialized institutions, such as National Loan Guarantee Fund, Rural Loan Guarantee Fund and other assurance-reassurance companies agreed by the bank (Treapăt, 2011, p. 30). Where the classical assurance cannot take the risks over, the state interferes by its specific instruments and leverages (Văcărel & Bercea, 2007, p. 284).

Conclusions and solutions for optimizing the partnership based on loan

We appreciate that the banks should be interested in developing the community they are part of and, because of that, in our opinion, they should keep a balance between their own objective concerning the risk dispersion and the general interest, that aims the development of the area and of the region they are part of. They must prevalently sustain some branches considered to be strategic or potentially competitive on the external and internal market and must avoid concentrating the credit risk in sectors of activity that do not have development perspectives… (Treapăt, 2011, p. 29). The actions of Corporate Social Responsibility – CSR (Wood, 1991) of those banks that have such an approach, represent a major benefit that we identify as a result of the cooperation between the two business partners, the bank as a lender and the local authorities, as loans beneficiaries. However, the banks may support the economic and social development at a local level, both by financing public interest investments belonging to the local administration and by supporting the current activity of the local entities by CSR actions.

The investments made in production objectives or in the services area must be significantly stimulated, so that their weights in economy become obvious. Such accomplishments can be supported by optimizing measures we promote:

- increasing the entrepreneurial culture by programs of specialized studies, with strong applicability;

- increasing the banking culture among the individual producers so that the partnership with the banks stop representing a "force majeure" only, but a current practice;

- developing specialty consultancy activities in the field of investments, sustained by governmental

programs, for stimulating the investments among the individual producers;

-improving the lending activity by creating the lending products, with including some flexible components in what the costs (interests/ commissions) concerns;

-paying the lending costs with an active involvement from the lending institutions' side, by granting some convenient and encouraging grace periods to the debtors and by offering them some instruments for assuring and guaranteeing, of the types previously presented in the current work;

-increasing the efficiency of the lending activity, by involving the lending institutions in the development of their clients' businesses, cooperating with the local decision factors for identifying the investments areas that have to be stimulated, for assuring a good correlation and prioritization for the investment loans with the local priorities (e.g. investments in areas that create working places so that, after the investment is done, the occupied population also to access loans or other banking operations);

-the banks have to give up on the immediate temptation to primarily look at the cost of the credit that was and is still high in Romania.

The banks' priority must become, in our opinion, the quality of their loan portfolio, knowing the fact that, the profit cannot occur from non-performance loans and either restarting the lending activity cannot be done with high interest rates and also big amounts of bad loans.

The banks' problems usually reflect the economy's health. The weight of the non-performance loans (NPL) in the total loans has permanently increased in Romania, starting with the crisis debut and reaching, in the moment of writing the current paper, an alarming level of approximately 22%. We cannot remain careless just thinking that NPL indicator reached a level of 32% in Greece and of almost 28% in Ireland. A reason for which we wrote the current work is, among the rest, because the bankers in Romania have constantly complained during the crisis times, about the lack of demand for loans. In the same time, they avoided to take too big risks in the economy, after the lending exuberance in the economic boom period was over and presented a big amount of non-performance loans and risk provisions that push on the incomes and profitability. The non-performance loans reached, by the end of the second Semester of 2014, little over 22% from the total banking loans portfolio. We support the new Central Bank regulation to be applied, so that to allow banks to write-off the non-performance loans, that were fully provisioned and amounting EUR 1,3 billion equivalent, out the balance-sheet. Due to this measure, the non-performance rate would decrease with approximately 17%, and will allow banks to accelerate the lending activity.

A solution of optimizing and stimulate the benefic partnerships based on loans is, in our opinion, the loans securitization. The Romanian banking system misses the loans securitization. In conditions in which the banking loan represents 97% from the financing resources, the difference of 3% (extremely small) being represented by the stock exchange and investment funds, the securitization would have transformed the loans in instruments for transitioning, fact that would determine an increase at the Stock Exchange level. The securitization of the mortgage loans, by mortgage bonds issuing aims to sell the value papers to various investors, this way the banks obtaining additional funds for granting new loans and, in the same time, trying to achieve a corresponding dispersion of the risks assigned to every category assets.

And, at last, while being aware that we currently are in the 3rd millennium, we consider that the banks must turn to operations digitalization, virtual branches development and changing the way they interact with their clients. We believe that the banks have the moral obligation to be prepared to face the Y generation's requirements that is an exponent of the digital natives (Dumitrescu, 2013) and the nursery for tomorrow's banking clients, the ones that will technologically dominate the future of our country. Equally, the banks also owe something to those who want to physically enter the branches, to ask a councilor about the problems they are concerned about, and also to those who are not well familiar with the high speed internet, the 4G technology and with using the cloud data storage systems, technologies that push the elder clients off the new trends.

We appreciate that, the highest risk we seem to have reached is the fact that the financial and the lending products became so complicated that, the most of the clients cannot understand them anymore (Treapăt, 2011, p. 364). Besides this, there are more and more opinions according to which the change is not only necessary but also mandatory (Bridges, 2004), a change must overlap another one, and from end to end, everything has to be a continuous change.

We, the authors of this paper, consider that, the mirage of the change just for the sake of profits must not be pushed to hazard, that the morality, the correct partnership between the bank and its clients and the presence of the equilibrium in all the actions and decisions, must remain the most important challenge for the transactions with banking loans. And this is why we elaborated this paper.

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Transformation of banking resources

Yurii PASICHNYK[1]

Abstract. *This article deals with the current issue – the transformation of banking resources. The role of the banking system in the functioning of the economy is shown. The need to consider the "golden rule" in the activity of banks is proved. This rule provides that the amount and timing of financial borrowing in the bank should be equal to the volume and timing of its obligations. Strengthening the financial base of banks is recommended for better banking functioning. For this purpose it is reasonable to introduce theoretical and professional work of bank managers towards the transformation of banking resources. Certain formulas used in the practice of French and Russian banks are presented. These formulas allow calculate the rates of short-term resources into the long-term ones. The scheme of banking resources transformation is related to relationship between conditionally permanent part of banking current liabilities, urgent deposits and indicators, obligatory payments, reserves, profits of banks. Particular attention is paid to the role and place of transformation processes of demand deposits. In particular, the views of scientists on the peculiarities of this banking operation are presented; positive and negative characteristics are revealed. The problem of banking resources transformation in their variable part of current liabilities is analyzed in detail. Some common problems in the transformation of banking resources in the banks of Ukraine are singled out. Influence of the processes of banking resources transformation on economic growth is analyzed. It is determined that banking resources are formed in open financial system, interact with securities markets, labor markets, resources, market of production. Supply and demand that determine the dynamics of economic growth are formed in view of the relations between the banking system and these markets. Mechanisms for balancing of supply and demand in consumer crediting of domestic products are graphically depicted. A procedure of taking concrete steps to improve the performance of banks – both Ukrainian and foreign – in the implementation process of banking resources transformation is offered. In developing these measures, feasibility of providing banking security is taken into account, as well as necessity for continuous monitoring of transformation processes that are influenced by adverse environmental factors, compliance with agreements under "Basel 3", and personnel completing of banks with qualified professionals.*

Keywords: *assets; bank resources; demand deposits; transformation; Ukraine.*

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Introduction

The peculiarities of banking resources transformation are presented in this article. The bank loan use analysis is done. Definitions of foreign and Ukrainian scientists on transformation of banking resources are presented. The influence of banking resources on economic growth is shown. Recommendations on the effective operation of banks are developed.

Theoretical approach

The global financial crisis has made significant adjustments in the functioning of national banking systems. Today it is a necessary to form significant reserves for banking security. National banking system is a guarantee for social and economic development, and therefore an important aspect of banking stability is the effective management of banking resources. Professionals working in the banking sector also share this opinion. The French economist Jean Matoukou (1994) expresses the thought that the banking institution is obliged to fulfill its debt obligations in full and in the due time; to pay the cash removed from the accounts through the office; to return deposits in agreed terms and to be responsible for possible extra-balance obligations.

American economists E. Reed, R. Cotter and E. Hill (1991) believe that the amount of cash and other liquid liabilities, as well as the possibility of rapid mobilization of funds from other assets should be sufficient for the timely redemption of government and finance commitment. This point of view is also shared by the German economist B. Buchwald (2002), who evaluates the liquidity of the bank using the term "Liguiditat"; accordingly, the assets should be easily convertible into cash for fast implementation of commitments and payments of the bank.

According to "the golden banking rule", the volume and timing of bank financial savings must be equal to the volume and timing of its obligations. However, such banking practice is rare. Maintaining a constant balance of assets and liabilities provides ensuring compliance of the "golden rule" with the practice.

In this context, the securitization of assets is of great importance. According to A. Nechaev (2009), the mechanism of securitization was first introduced over 30 years ago in the U.S. and completely revolutionized the banking and financial sectors. Today it is often called one of the main innovations of the twentieth century, which gave impetus to the development of financial markets. In this case, the current situation on the financial market shows us the other side of the drastic process of securitization. The increase of overdue loans and low liquidity have reduced the risk group of most securitized papers. Accordingly, a great negative revaluation of bank assets took place. As a result, banks specializing in investment operations suffered heavy losses and were devastated. In September 2008, one of the largest U.S. banks, Leman Brothers, bankrupted. Also in September 2008, U.S. authorities took control of Washington Mutual (WaMu), the third largest in assets U.S. bank. By results of the agreement, according to which the government acted as an intermediary, financial company JPMorgan acquired most of its business for $ 1.9 billion. The acquisition of WaMu transformed JPMorgan into the largest depositary institutions in the country of customer deposits a total of over $ 900 billion. The bankruptcy affected the British banks, too. The eighth-largest asset and the fifth largest mortgage portfolio bank Northern Rock, went bankrupt in early 2008 and was nationalized by the power. Unlike most banks that finance their business with clients' deposits, the business model of Northern Rock was built around mortgages. Most of the funds were received in the wholesale bank credit market selling the debts in the form of bonds. The demand for mortgage bonds (CDO) in the U.S. has led to problems in the financing of the bank.

As noted by Z. Gerasymchuk (2010), this case raises the issue of economic security banking, i.e. the condition for economic development and stability of the bank, guaranteed protection of its financial and material resources, the ability to adequately and economically respond to changes of internal and external situations. It should be noted that the particular importance of economic security in the system of bank security is conditioned by the desire of market entities to increase profits, intense competition, the diversity of interests within business banking market, market entities desire to increase profits, unstable economic situation and so on. Thus, the current terms of banking services and the level of influence of factors threatening internal and external environment require of banking institutions to raise security measures.

A. Vovchak (2009) analyzes the problem of providing banking services in some countries and compares the corresponding situation with Ukraine, stating: “Accordingly, it is possible to conclude about significant difference in the level of providing banking services across the country. The relevance of this problem is compounded by the fact that, as the experience and statistics show, the better developed banking system in the region is, the better its business develops. Accordingly, economic processes are stimulated, which further leads to improved living standards. The economy of some regions is not supported by the banking system, which adversely affects the socio-economic processes taking place there. And the least developed banking infrastructure is in regions with low socio-economic development.

As the studies show, Ukraine has neither policy, nor clear strategy for regional development of the banking system. Moreover, there is no clear legal and regulatory framework of the functioning of regional banks. Therefore, there is a need to review the strategic goals and objectives of the banking system of Ukraine, its organizational structure and functional orientation on the way of joining the global and national regional processes. Among these tasks a special place should occupy regional banking system development, its goals and directions.

The essence of the process of regionalization is in the transfer of powers from the center to the regions. A vivid example of this process is the situation in the European Community. The most important focus of policy here is the institutional and economic support to the regions, there was even a slogan proclaimed: “From the union of countries, to the union of regions.”

What place in the processes of regionalization in Ukraine does the banking system take and what are the dominant trends in its development? Having examined its organizational aspect, it can be argued that most Ukrainian banks position themselves as nationwide and carry out or intend to carry out its activities in several parts of the country. Regional banks are quite a few and they do not really affect the development of the whole economy and the regions where they are located. There is no segment of specialized banks in Ukraine, which would be involved in implementation of similar types of services; cooperative banks are absent, either" (Vovchak, 2009, p. 23).

To strengthen the activities of banks, it is advisable to strengthen the capital base of banks, which is an efficient vector orientation of banks in the sector of resources transformation. Let's consider some views of scientists on the problem of transforming banking resources.

German scientist J. Stein (1991) notes "An important task is the transformation of banks ... terms. Since the majority of depositors prefer binding equity for the short term, and funding for investment in the economy mostly requires long terms, banks should ensure coordination between the different views on the timing of binding capital. The task of transforming banks is also adapting to different values to each other. It is based on the fact that a substantial number of small deposits opposed to a small number of large loans. Transforming risks, terms and values is the central function of banks in the economy." (1991, p. 7).

The transformation processes are quite reasonably justified by M. Savluk, A. Moroz and M. Puhovkina (2001), who have discovered that transformation depends on variations in quality characteristics of the cash flows that pass through banks. Changing quality means that the set of "short" money changes to "long" resources, and the set of minor deposits transforms into a significant amount of resources able to meet customer needs in necessary capital to make required investment. The essence of the transformation process is to stabilize the bank mobilized funds (Money and credit, 2001, p. 450).

E. Shirinska (1995) considers the problem of resources transformation not on the balance of some current accounts, but on current liabilities as a combination of the bank deposits. "The basis of the bank's funding base consists on attracted remedies which stability is one of the liquidity factors. By fixing terms, attracted resources are divided into two groups: managed resources and current liabilities. The first group includes term deposits attracted by banks and interbank loans. The second group includes the remains of the settlement, current accounts, correspondent loro accounts, and payables. Each group of liabilities should match its type of assets in terms of size and location. So, managed liabilities form the basis for targeted, program loans and current liabilities are the basis for market operations with “short” money.” (1995, p. 41).

Some authors distinguish between different types of transformation. Thus, M. Savluk, A. Moroz and M. Puhovkina (2001) indicate: “The transformation of capital means that mobilizing large amounts of small contributions, the banks are able to accumulate large masses of capital to implement large-scale projects.” “Transforming the risk lies in the fact that banks whose activities are associated with high risk can reduce these risks to their investors and shareholders to a minimum by taking appropriate measures.” “The space transformation means that banks can accumulate resources from many regions ... and send them to finance projects in one region ... Thereby, the geographical scope of money market expands...”(Money and credit, 2001, pp. 450–451).

Vozhzhov A. (2006) summarizes the views of scientists: “Transformation of banking resources is the process converting accumulated assets in a condition that meets the requirements for placing them in the assets, i.e. the process of converting the accumulated funds in the form required for their transformation into resources and bank capital. The processes of transformation are provided by a qualitative change of settings from the accumulated bank assets and bringing them into conformity with the requirements of lending, investment banking and maintaining the required liquidity. As a result, options of the entire set of the means being at its disposal are taken in accordance with the settings of all the profitable bank assets in each present moment.”(2006, p. 35).

Deep analysis of the articles on issues of banking resources transformation has revealed different approaches of the scientists reflecting the economic relationships in a particular country, peculiarities of the banking system and the relationship “bank-client”. According to A. Vozhzhov (2006, p. 21), transformation here refers to the set of methods and means of the combination of short-term deposits and loans when a significant part of the total volume forms a permanent, stable, or irreducible balance.

Let’s consider some calculation methods of banking resources transformation made by the scientists from different countries.

Here are the examples of French banks practice given by P. Konyukhovsky and O. Lavrushin (2001):

$$K = \frac{R - S}{S} * 100\% \qquad (1)$$

with K as transformation ratio of short-term resources in long-term ones (used by French banks); R as short-term resources; S as short-term loans and capital investments (2001, p. 390; p. 30).

P. Konyukhovsky (2001) takes it in relation to the Russian banks in such a way:

$$K_T = 1 - \frac{\ddot{A}_{\breve{I}}}{\hat{E}_{\breve{I}}} \qquad (2)$$

with K_T as transformation ratio of short-term resources in long-term ones (offered for the calculation by Russian banks); $Д_{ОБ}$ as debit turnover on issued short-term loans and other short-term deposits (up to one year’s term); $К_{ОБ}$ as the credit turnover of capital inflows on savings accounts (up to 1 year’s term) (2001, p. 31).

Accordingly, the scientific community has developed a theoretical and methodological support with specific analytical apparatus essential for the transformation of banking resources.

Taking into account the views of scholars, it is possible to depict the processes of transformation of banking resources (Figure 1).

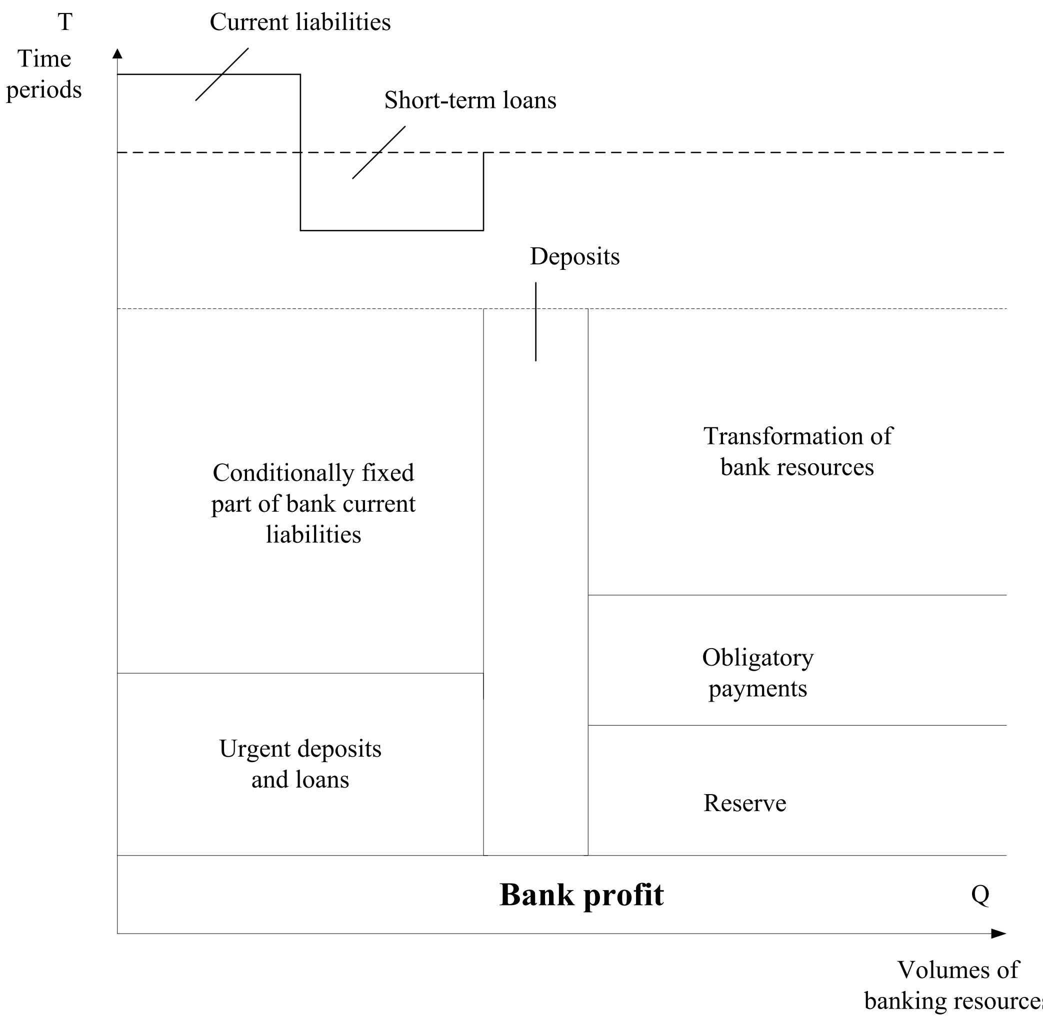


Figure 1. Transformation of banking resources

As this scheme shows, by the effective management of inclusion and using bank resources in the process of transformation, the efficiency of banks is achieved.

It is necessary to explain the transformation peculiarities of the individual components of bank resources. Let's start with the demand deposits. A. Vozhzhov (2006) mentions: "Bank provides essential work to build-up the volume of assets for individuals. Now in this section important role belongs to the introduction of "salary", "pension" and other card designs. With small amounts of residues for each of the accounts, together they form significant current liabilities. An important feature of current liabilities is that they are essentially the only cheap resource that allows you to receive significant interest margin." (2006, p. 70).

P. Rose (1995) states that "... demand deposits are the most volatile and least stipulated sources of funds provided by the bank, with the lowest potential terms ..." (2006, p. 361).

E. Zhukov (1997) says: "The availability of customer accounts balances is related to settling funds for passive accounts in commercial banks during the period of time which is almost impossible to establish at the moment of revenues to the account... Payments by request are basically volatile, which limits the scope of their usage by commercial banks. For this reason, account holders are paid low or no interest at all." (Banks and Banking, 1997, pp. 199-200).

O. Lavrushin (2000) has the opinion that the demand deposits are relatively cheap for the bank and "at the same time they are the least stable of the resources, banks need to have the higher operational reserve to maintain liquidity. Therefore, the best proportion of these funds in the bank's resources is up to 30-36%." (Banking, p. 361).

D. Oliynyk (2001) on the basis of empirical studies has come to definite conclusions on the possibility of placing demand deposits. "Exploring the dynamics of current accounts "on demand", we can conclude that the total balances in such accounts has surprisingly high level of relative stability. The obtained practical results of the study come in certain conflict with the theoretical assumptions which characterize this group of bank liabilities. Results of empirical studies ... have shown that during the calendar year a significant amount of balances "on demand" was not reduced below that level. This situation actually makes it possible to include a significant portion of current accounts of bank clients to medium and long term credit. This means that the bank can afford to invest some part of balances “on demand” in the medium and long-term assets with no threat to its liquidity. The main objective of the bank manager in this case is to determine the optimal investment horizons, namely, what part of the balances “on demand” and for how long the bank can invest with minimal risk to its liquidity.” (2001, p. 31).

Thus, many scientific assertions consider that demand deposits play an important role in the transformation of banking resources. These processes are mutually beneficial for both the bank and the client, as reported by A. Vozhzhov (2006): “Clients work with “reserve funds”, their accounts regularly form balances which dynamics indicates vigorous client activity. These customers are highly desirable for the bank: they are actively engaged in calculations (by giving commission income) and form cheap bank resources.”

Settling means on the account depends substantially on how skillfully and carefully the client manages its funds. A good customer makes sure that immediately after admission the funds are paid in accordance with his activity. This reduces his loan arrears, strengthens his reputation as a reliable partner and allows him to do business with less leverage. On this basis it is possible to expect that this type of customer balances will be minimal. However, research has shown that a number of factors prevent it: first, the customer is forced to generate some savings for payroll, transfers of tax payments and so on, and this leads to the accumulation of account balance. But the main factor is the inability to reset the client’s current account with active credit turns on it during a business day. A customer transfers before the end of the operational time of the bank and means may come to his account even after that, till the end of business day. As a result, by the end of the day some balances are being formed even with the clients carefully handling their own means. The more the turnover on the current account and the higher the intensity (frequency) of revenues during the day are, the more the minimum balance is. The characteristic feature of the ordinary current account is its periodic resetting, the customers who work actively enough form their minimal balance even at high controllability account.

Thus, the reason of balance on the current account is the mismatch of revenue timing and its withdrawal from the account (account crediting and debiting) in the presence of constraints: preventing debit balance on current account and inability to account debiting by the customer at the end of the bank operation day as well as the need for the client to periodically accumulate funds on the account for obligatory payments. Balances on current accounts are formed as a result of the interaction of these factors and the dynamic balance revenues and outflows in the general limits imposed by peculiarities of current accounts, banking services and characteristics of the client's operations, including its desire to minimize the balance on current account at the end of each business day." (2006, pp. 76-78).

We shall explain the features of the banking resources transformation. Transformation of means by request automatically results in the allocation to the conventionally permanent part of current liabilities which gives rise to its self-stabilizing. But for the increase of this important component, the bank must constantly work to increase the number of clients on cash and settlement services, to increase the number of accounts for both private and corporate clients. Therefore, efforts of the bank management to improve T_{const} should be directed to attract and service new clients – legal entities and individuals, as well as to increase the number of correspondent banks that are active in loro accounts. Banks also have a direct interest in the prosperity and development of their clients, because the value of conditionally permanent part of current liabilities is directly proportional to the value of average balances in their current accounts.

Transformation of ultra-short unstable aggregate deposits in current liabilities with allocation of their conditionally permanent, irreducible part is the manifestation of "bank effect". Transformation of ultra-short and small funds that are accumulated in the long and extensive resources shows the essence of creative banking with setting and stabilizing of resources made of unstable credit means on demand. It is often assumed that the banking activity is speculative – buying funds at a low price, followed by higher reselling. This creates a somewhat negative attitude towards banking. Understanding the creative role of banks in establishing resources that meet the requirement of placing long assets should promote a positive attitude towards banking, awareness of the need for economic development. The essence of the transformation process not only reveals the creative generating function of banks in the economic system, but also allows reasonable approach to assessing the deposit and resource risks in banking.

According to the theory of probability, the range dispersion of a random variable X_i with normal distribution is within $-\infty < X_i < +\infty$. In practice, the range of dispersion values is within well-defined range, which is $\pm 3\sigma$. However, the situation may change in the force majeure circumstances that should be considered in practice and will be discussed further. To calculate the probability of normally distributed random variable hitting on the plot, symmetrical about the center of dispersion (*m*), we shall draw consecutive sections of length σ. Since the normal curve is symmetrical, it is enough to draw these segments in one direction only. The graph in Fig. 3 shows the dependence of the probability (*P*) of hitting events in different intervals. Probability of hitting a random variable *Xi* in the interval ($t < Xi < t\text{-}\sigma$) is equal to 0.34, in the interval ($t - \sigma < Xi < t - 2\sigma$) is equal to 0.14, in the interval ($t - 2\sigma < Xi < t - Z\sigma$) is equal to 0.02. For normally distributed random variable the probability of hitting into the range $Z\sigma$ is the sum of three values of probability (0.34, 0.14 and 0.02), that is 0.5 or 50% (Fig. 2).

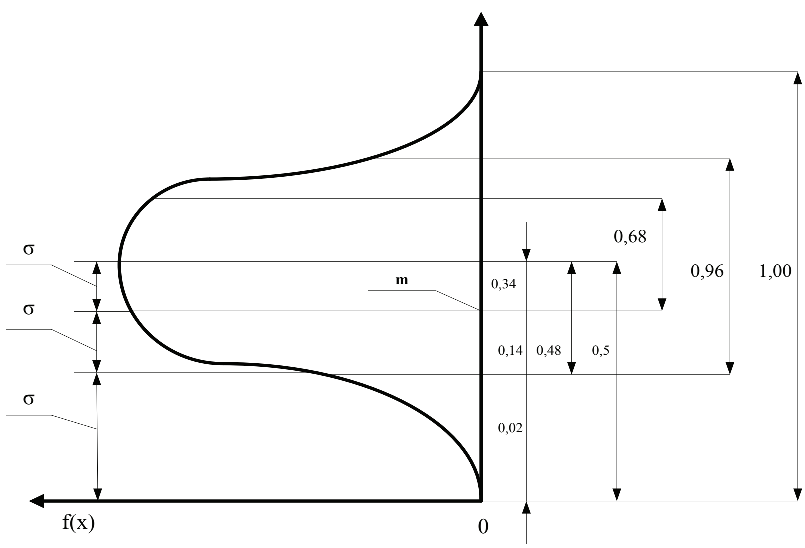


Figure 2. The probability hitting into the preset of random variable with normal distribution

The probability that a random variable falls outside the range – *3*σ, is very small and makes 0.0027. This means that under normal conditions, only 0.27% of the actual value of the conditionally permanent part of current liabilities $TП_{const}$ will be less than the estimated value, corresponding to a range of deviation ± 3σ. Such events are considered to be unlikely and usually not taken into account in practice. However, according to the theory of probability, even the lowest probability of an event cannot be excluded. So, the minimum balance ($TП_{const}$) is constant, but by the fact that probability of lowering the target still exists (especially in the emergencies), this component of current liabilities is legally called not constant, but the relatively-constant part (2006, pp. 113-115).

Another problem is the transformation of banking resources in their variable of current liabilities.

The effect of this transformation is determined by the additional interest margin received by the bank using the variable part of current liabilities as a sustainable resource and is based on a comparison of interest margin derived by the bank when placing liability on the part of the short-term interbank market and when placed in terms of urgent assets.

The value of the additional interest margin is defined as follows:

$$\Delta M = M_K - R_S \qquad (3)$$

with:

ΔM as extra interest margin, which determines the effect of transforming the variable portion of the current liabilities of the sustainable and managed resources;

$M_к$ as the value of the margin received by the bank after the transformation of the variable part of the current liabilities into the part of the sustainable and managed resources;

R_{SS} (Returns short-term sale) as income that the bank will receive when placing the total amount of the variable part of current liabilities in the interbank credit market (without using the mechanism of transformation).

When placing capitals in urgent assets, emergency funds and conditionally permanent part of current liabilities, all the variable of current liabilities (ranging A-C) can be placed on short-term interbank lending market. Revenues from the placement of variable part of current liabilities are determined by income from short-term interbank loans:

$$R_{SS} = V_{SS} \cdot I_{SS} \cdot t \qquad (4)$$

with: V_{SS} (Value short-term sale) as active volume of interbank transactions;

I_{SS} as the interest rate on short-term interbank loans;

t as the time period for which the calculation is performed.

The amount of resources in the range of A-B (ie, the entire range of scattering) is equal to the math expectation value of customer accounts balances, and the formula can be represented as follows:

$$R_{SS} = m \cdot I_{SS} \cdot t \qquad (5)$$

with m as the mathematical expectation (average value) of the flickering current liabilities.

Stabilization of liabilities in the range of A-K for the increase in immediate active operations will result in the periodic occurrence of temporary shortage of resources at the end of business day, requiring short-term borrowing in the short-term interbank market. At the same time reduced amount of active interbank transactions are now limited in the range of K-V. The value of the interest margin to be received by a commercial bank after transformation is defined as follows:

$$M_K = R_C^K - E_{SP} + R_{SS}^K \qquad (6)$$

with R_C^K (Returns from credit) as revenues from resource allocation of the variable part of current liabilities (range A-C) in urgent assets;

R_{SS}^K (Returns short-term sale) as revenues from the placement of the variable current liabilities (range K-V) in the interbank credit market;

$\boldsymbol{E_{sp}}$ (Expenses short-term purchase) as costs to attract short-term interbank loans (in the range A-K) to cover temporary deficit of resources.

Evaluation of effect from the use of variable part of current liabilities is shown in Figure 3.

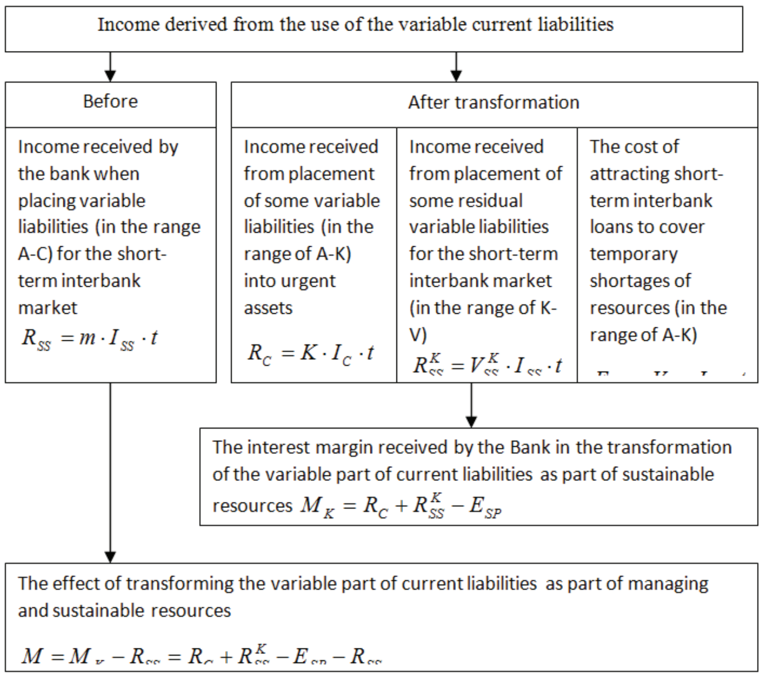


Figure 3. Evaluation of effect from the use of variable part of current liabilities for immediate active operations

The effect of altered transformation of the current liabilities into part of the sustainable resources defines revenue from urgent loans and investments, formed by the fact that the bank sends means into the most profitable active transactions that were previously placed in short-term interbank loans (2006, pp. 136-137).

The following shows how it is implemented in practice in Ukraine in 2013:

Analysis of the structure of loans to non-financial corporations within regions proved that most loans were received by trade, car repairs, household appliances and personal use – 219,325 million UAH (36% of all loans granted), manufacturing – 120,265 million UAH (20% of all loans granted) and real estate, renting and business activities – 105,021 million UAH (17% of all loans granted). The worst situation is on crediting for education, health and social work, fishing and fish farming. Amounts of funds received by these industries are so scarce that they make up almost 0% of total loans granted (2014).

Particular characteristic of this situation typical for Ukraine in recent years is provided by Z. Gerasymchuk (2010).

The problem of regional economic development of priorities in the current banking system is being complicated. It is based on the stability of banks that is preventing the bankruptcy of banks, ensuring its safety for investors, when in the world practice investing is a financial transaction, an integral part of which is receiving interest income and, therefore, the adoption of a particular risk of no return on investment. That is why it is necessary to slightly change the focus strategy of the banking system of Ukraine and to make it support the economy of the country and its regions. The better the economy is functioning, the better the average of profitability will be, it will lead to the increase in average wages and will not trigger inflation, as this increase will be underpinned by an increase in the mass of commodities and, consequently, will lead to the enrichment of the population. This enrichment will stimulate an increase in the share of income that goes to savings and therefore will increase the deposit base of banks (2010, p. 10).

We will show how the processes of transformation of banking resources may affect economic growth by affecting the supply and demand (Figure 4) (Vozhzhov, 2006, p. 300).

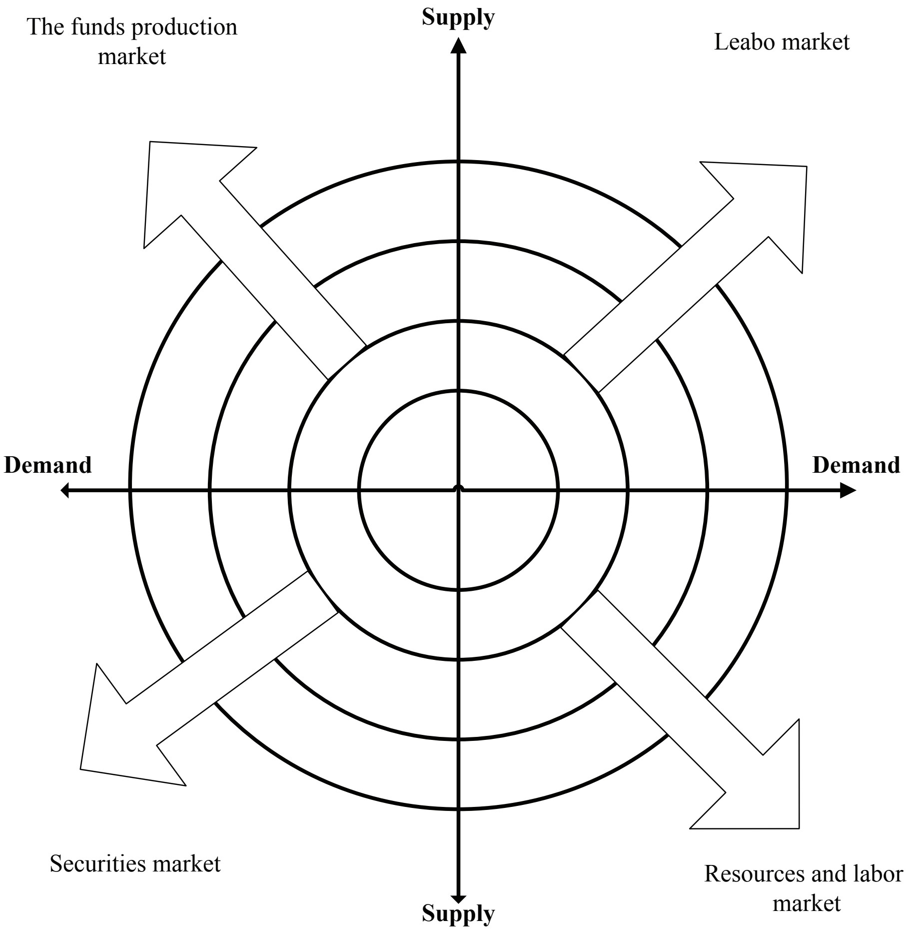


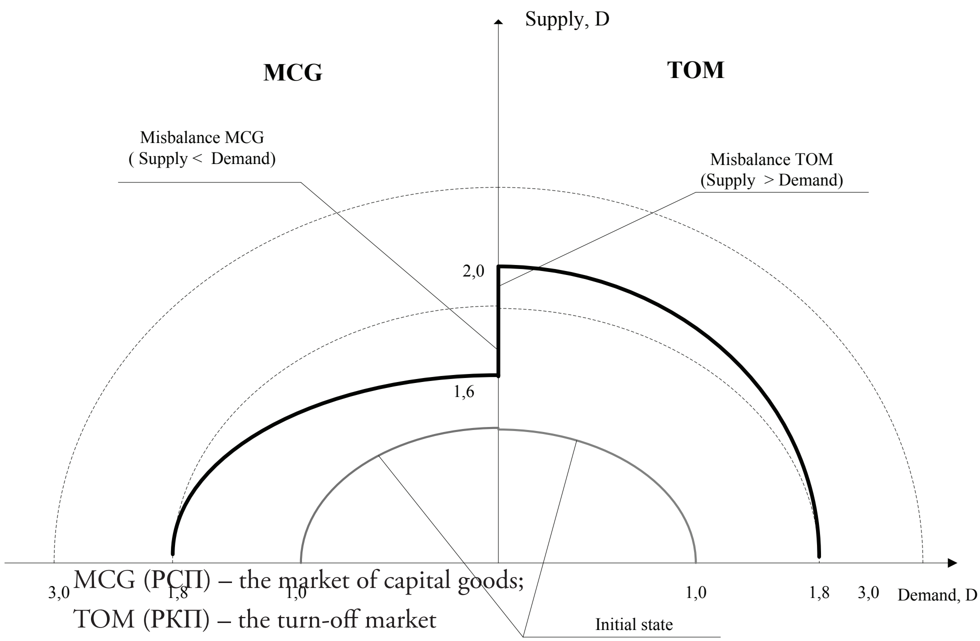
Figure 4. Economic growth with balanced supply and demand changes in the economic system market

This figure clearly shows the relationship between the most important markets of the financial system with the role of bank resources as a connector in these processes. This means that any problems in the banking system, particularly in the transformation of their resources, due to open markets affect economic growth through supply and demand.

Some situations in these relationships are caused as follows:

- The proportional balanced increase of supply and demand in the turn-off market;
- Misbalance of supply and demand on the market of production with the delay growth rates in relation to the turn-off market;
- Misbalance of supply and demand on the stock market with excess of demand over supply;
- Misbalance of supply and demand on the labor and resources market with excess of supply over demand.

One of such possible situations is shown in Figure 5 (2006, p. 291).



MCG (РСП) – the market of capital goods;
TOM (РКП) – the turn-off market

Figure 5. Misbalance of supply and demand in consumer crediting of domestic products

As follows from Fig. 5, the use results of credit issue for the expansion of consumer credit on the purchase of durable goods of domestic production will lead in this case to the deregulation of both the market of capital goods and the turn-off market. In this case misbalance in MCG will be 0.2 D and in TOM – 0.2 D from the volume of emissions.

Conclusions and implications

This study, clarifying features of the functioning of the banking systems in individual countries and particularly in Ukraine, and analyzing transformation processes of banking resources, leads to the following conclusions. It is necessary to provide security for banking stability and dynamic development in any country of the world. The transformation of banking resources is a complex and variable process so the bank managers should constantly monitor the banking resources. Today both theoretical and practical methods to control the transformation of banking resources are designed and implemented which contributes to stable operation of banks, in particular using the Agreement "Basel 3."

Bank resources, formed in an open environment of financial system are movable, so it is essential to have qualified professionals in the management structure of the banks.

These recommendations will certainly contribute establishing efficient operation of banks.

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Country risk dynamics of Romania in the post-EU accession period

Anda GHEORGHIU[1]

Abstract. *This paper analyzes what is the evolution of the country risk following the adhesion of Romania to the European Union. Such an analysis is crucial for investors who would like to enter the Romanian market, for decision makers in the public sector, and for international banks. The evolution of the Romanian economy was reflected by ratings given by Standard and Poor's, Fitch, Moody's and Japan Credit Rating Agency for the long term foreign sovereign debt, starting from 1997 and it is fundamental to understand the reasons for the up and down movements of the ratings and how they have influenced investors perception over the social, political and economic development of the country after the accession into the European Union. The methodology used is a combination of extensive literature survey and analysis of data. In addition, the paper presents an indicator meant for assessing the prospective of success or failure for a company trying to enter a new market by using an associative strategy. It was tested on a number of samples of 40 companies selected from Bucharest Stock Exchange. In order to take the right decision concerning the optimal market entry strategy, managers may use a software application, "AnBilanţ", created by a Romanian research team. The paper enumerates several conclusions about Romania's country risk, and, consequently, its economic growth and attractiveness for investors. Joining the European Union in 2007 has undoubtedly had a positive effect on the exposure of Romania's country risk. Nevertheless, acquiring the EU membership was not sufficient for economic continuous growth. Fiscal measures undertaken thereafter and reforms initiated by Romania increased investor confidence in the Romanian business environment and led to a general positive trend in sovereign rating. Nonetheless, administrative and judicial institutions do not function effectively, corruption remains systemic and regulatory level trading environment is high. On long-term Romania's has to take steps to fight against a serious demographic downturn and the environmental damage, with high restoration costs for water, air, soil.*

Keywords: *country risk; market entry, rating agencies; Romania.*

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Introduction

For more than a decade, after a slow start in the nineties, Eastern Europe enjoyed high economic growth thanks to domestic demand, credit boom, and capital influx into the increasingly more financially integrated region from highly liquid international markets. A large part of these inflows was intermediated by the local affiliates of occidental banks, which had come to control most local banking systems. The emerging Europe was hit by the financial crisis that followed the fall down of Lehman Brothers in September 2008. Many emerging economies from Eastern Europe, such as Hungary, Romania, Latvia and Ukraine, had then to ask to the International Monetary Fund (IMF) for assistance.

The article analyses what was the evolution of the country risk in the years following the adhesion of Romania to the European Union. The country risk is a collection of risks associated with investing in a foreign country. These risks include political risk, exchange rate risk, economic risk, sovereign risk and transfer risk, which is the risk of capital being locked up or frozen by government action.

The years 2007-2008

The accession of Romania to the European Union on 1 January 2007 entailed clear benefits, such as increased flows from the structural funds and more attractive business environment, developing capital markets, increasing foreign investment, access to the European labor market.

After long periods of fixed exchange rate, in 2007, a great fluctuation of the hard currencies exchange rate occur in Romania. A high currency appreciation was recorded in mid-August 2007, followed by a strong devaluation in late 2007. This was an effect, on the one hand, to rising food prices due to the drought that has affected agriculture, and on the other hand to the global economic crisis caused by the falling of real estate markets in the US and the UK and to the soar of inflation in the EU.

The global economic crisis has affected Romania since 2008, when the GDP fell more than 7%, the unemployment rate has doubled and the local currency, leu, has lost more than 15% against the euro currency. In the period before the crisis, the value of many local companies has grown to irrational levels, while after 2008, as an outcome of the worldwide trend, there was an accelerated reduction of their value. Furthermore, when the global crisis hit Romania, the influx of capital stopped, GDP fell more than 7% in 2009, unemployment almost doubled and the exchange rate weakened by more than 15 percent against the euro.

In the years before the financial and economic crisis, the number of companies increased sharply. After 2008, their value has experienced a considerable decrease as a result of the worldwide trend. Investors' perceptions of risk associated with investments in the capital market in Romania deteriorated in 2010 due to concerns about sovereign debt. Meanwhile, the stock market was characterized by high volatility, and the majority of shares were devalued by 70-80%. In 2008, the inflow of FDI attracted by Romania registered a value of 9.024 billion euro, which was very close to the peak registered in 2006, being only 36 million less compared with that historical record of 9.06 billion euro.

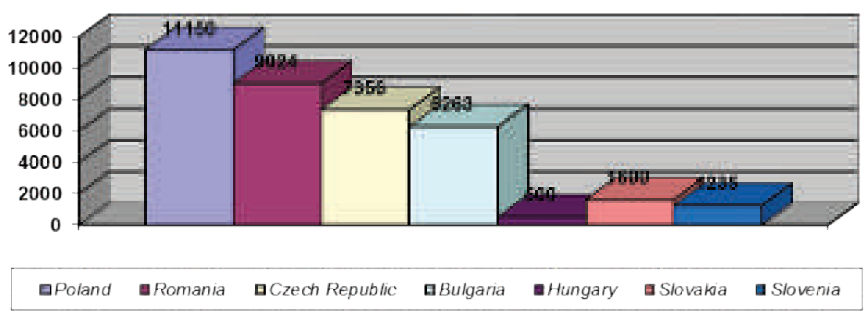

Figure 1. FDI evolution in Romania in the regional context, in 2008 (million euro)

Source: www.wiiw.ac.at

The ratings given by the Standard and Poor's, Fitch, Moody's and Japan Credit Rating Agency for the long term foreign sovereign debt, starting from 1997 have been the following:

	S&P's		Fitch		Moody's		JCR	
2012	BB+ (reaffirmed on May 26th 2012) Stable outlook	⇔	BBB- (reaffirmed on June 28th 2012) Stable outlook	⇔	Baa3 (reaffirmed on December 22nd 2011) Negative outlook (June 29th 2012)	⇔	BBB- (reaffirmed on December 28th 2011) Stable outlook	⇔
2011	BB+	⇔	BBB-	⇔	Baa3	⇔	BBB-	⇔
2010	BB+	⇔	BB+	⇔	Baa3	⇔	BBB-	⇔
2009	BB+	⇔	BB+	⇔	Baa3	⇔	BBB-	⇔
2008	BB+ BBB- (Jan.-Oct.)	⇩ ⇔	BB+ BBB (Jan.-Nov.)	⇩ ⇔	Baa3	⇔	BBB- BBB (Jan-Dec.)	⇩ ⇔
2007	BBB-	⇔	BBB	⇔	Baa3	⇔	BBB	⇔
2006	BBB-	⇔	BBB BBB- (Jan.-Aug.)	⇧ ⇔	Baa3 Ba1 (Jan.-Sept.)	⇧ ⇔	BBB BBB- (Jan.-Nov.)	⇧ ⇔
2005	BBB- BB+ (Jan.-Sept.)	⇧ ⇔	BBB-	⇔	Ba1 Ba3 (Jan.-Mar.)	⇧ ⇔	BBB- BB+ (Jan.-Sept.)	⇧ ⇔
2004	BB+ BB (Jan.-Sept.)	⇧ ⇔	BBB- BB (Jan-Nov.)	⇧ ⇔	Ba3	⇔	BB+ BB (Jan.-Nov.)	⇧ ⇔
2003	BB BB- (Feb.-Sept.) B+ (Jan.-Feb.)	⇧ ⇧ ⇔	BB BB- (Jan.-Dec.)	⇧ ⇔	Ba3 B1 (Jan.-Dec.)	⇧ ⇧	BB	⇔
2002	B+ B (Jan-Apr.)	⇧ ⇔	BB- B+ (Jun.-Oct.) B (Jan.-Jun.)	⇧ ⇧ ⇔	B1 B2 (Jan.-Dec.)	⇧ ⇔	BB BB- (Jan.-Dec.)	⇧ ⇔
2001	B B- (Jan.- Jun.)	⇧ ⇔	B	⇔	B2 B3 (Jan.-Dec.)	⇧ ⇔	BB-	⇔
2000	B-	⇔	B B- (Jan.-Nov.)	⇧ ⇔	B3	⇔	BB-	⇔
1999	B-	⇔	B- B (Jan. – Mar.)	⇩ ⇔	B3	⇔	BB-	⇔
1998	B- B+ (May - Oct.)	⇩ ⇩	B BB- (Jan.-Dec.)	⇩ ⇔	B3 (Nov.-Dec.) B1 (Sept.-Nov.) B3 (Aug.-Sept.)	⇩ ⇧ ⇩	BB- BB+ (Apr.-Dec.)	⇩ ⇔
1997	BB-		BB-	⇔	Ba3		-	

Figure 2. Sovereign ratings

Source: Romanian Minister of Finance

So, all four agencies have slowly improved the sovereign ratings of Romania throughout the years of transition to market economy, as an effect of the creation of a competitive economic environment, privatization of the former stated-owned companies, and developing of the democratic institutions, due to the power shift of political forces. The membership to N.A.T.O. and the accession to the European Union were the events that boosted the trust of investors in the economic potential of Romania, and, accordingly, the country's ratings.

The years 2008-2010

Before 2009, the most significant foreign capital in Romania consisted of direct foreign investment (especially capital ownership as a result of privatization), and other investments (such as loans from parent banks), while investment portfolio were generally low. After the start of the global financial crisis, the contribution of FDI was drastically reduced as reflected by Figure 3, regardless of the fact that Romania has remained an attractive business destination.

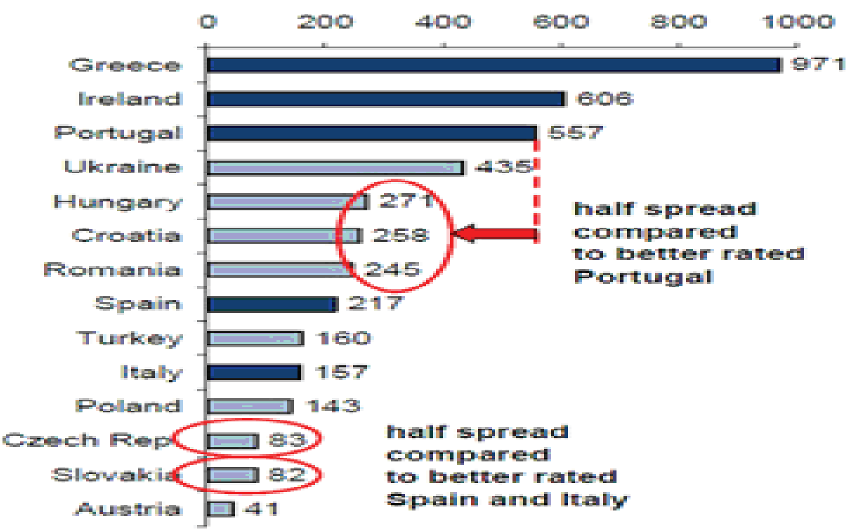

Figure 3. FDI evolution in the regional context, in 2010

Source: Bloomberg, Erste Group Research

In 2008 and 2009, the cumulative effects of the crisis based on relative change in real GDP, provides the following recorded values (see Figure 4).

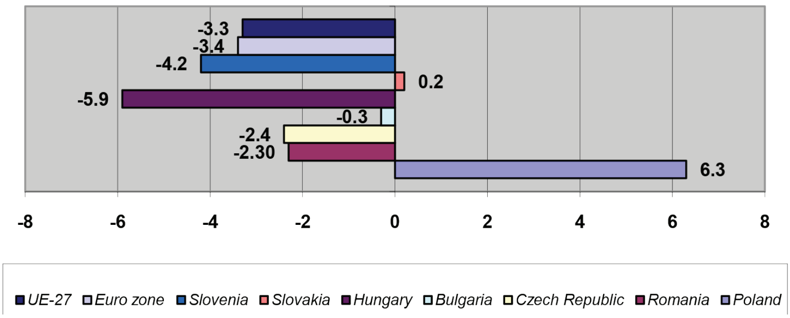

Figure 4. Relative changes in real GDP in 2010 for EU developing countries

Source: European Commission, 2014

In 2009, most liquid shares were devalued by 70-80%, which was one of the most significant drops in the capital markets of the EU. The Government started to have difficulties in paying pensions and salaries for civil servants. As a result, in March 2009, the government received a loan of € 12.9 billion from the IMF as part of a coordinated package of € 20 billion financial assistance. That moment marked a decrease in the rating of the country of Romania. As such, Moody was the only rating agency evaluating Romania with a stable outlook, favorable investment while Fitch and Standard and Poor's placed Romania in the category „junk" in the fall of 2008 as a result of the current account deficit.

Under these circumstances, the National Bank of Romania has asked the international rating agencies to assess the country risk, in order to obtain loans from international markets. The access to the international financial markets could have opened up new funding opportunities for Romania, either by issuing Eurobonds or through syndicated loans. Romania National Bank intervened in the international capital markets in order to increase the hard currencies exchange reserves and, hence, to meet the requirements of the agreements with the IMF to attain a certain level of foreign reserves. The stand-by agreement with the IMF was conditioned by the implementation of fiscal and monetary policies, including fiscal discipline, macroeconomic stability in the context of compliance and performance criteria, improved investor sentiment, stabilizing the foreign exchange market, sustainability and consistency of the economic policies, support the banking sector and its consolidation, including the recommencement of lending activity, both as for individuals and legal entities.

The positive effect of concluding this agreement was felt in March 2010, when the rating outlook of Romania was upgraded to “stable” by Standard and Poor’s, followed by Fitch Ratings in April 2010. Moody’s Investors Service was the only agency that has continued to classify Romania among the countries ‘investment grade’.

Under these circumstances, the current account deficit was reduced by more than half to about 4 percent of GDP and the structural fiscal deficit also declined. Pressures on the exchange rate have decreased in intensity while reserves have stabilized. Financial markets have reacted to all this by reducing pressure on sovereign spreads, which by the end of 2010 fell by almost 600 bps from their peak levels during the crisis.

Romania was among the best performing countries in the world in terms of reduction of country risk in the third quarter of 2010. Thus, Romanian sovereign bond risk fell by 21.5 points to a level of less than 300 points. At the same time, several European Union countries registered increases the risk of the country, such as Ireland and Greece, which increases up to 640, respectively 1023 points.

In the first half of 2010, BET index recorded significant fluctuations in growth - 27% in the first quarter, and decreased by 20% within 3 months. The steepest declines were recorded in the first two months of 2009, when the BET declined 34.5%. BET then returned to an upward trend with 61.7% more than the previous year.

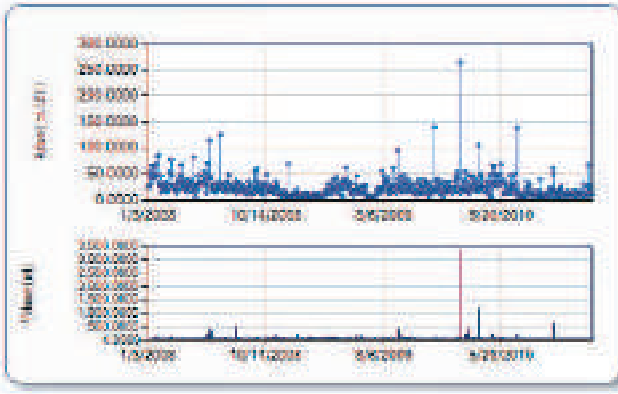

Figure 5. Evolution of the volume of transactions on the BSE in 2008-2010

Source: Bucharest Stock Exchange, www.bvb.ro

In March 2011, Romania requested a successor Stand-By Arrangement (SDR 3.1 billion, 300 percent of quota) to continue the economic adjustment initiated under the 2009 SBA. The main objectives of the new program, jointly supported by the European Union, were to provide precautionary support against external shocks and to advance economic adjustment.

The years 2011-2013

The year 2011 marked a crucial step in the evolution of Romania's sovereign rating; the country began to feel the positive effects of the Stand-by Agreement approved in 2009.

A new precautionary financial assistance program for Romania was officially closed in October 2013 for a total amount of EUR 4 billion, equally divided between the EU and the IMF by the end of September 2015. This is the third program financial assistance granted to Romania by the EU, after the one in 2009-2011 reimbursed in full, and one in 2011-2013 which provided preventive care 5 billion euro, of which 1.4 billion from the EU and the authorities decided not to use, due to the improved economic and financial situation.

The effects were made visible in the review's positive rating for Romania's international rating agencies.

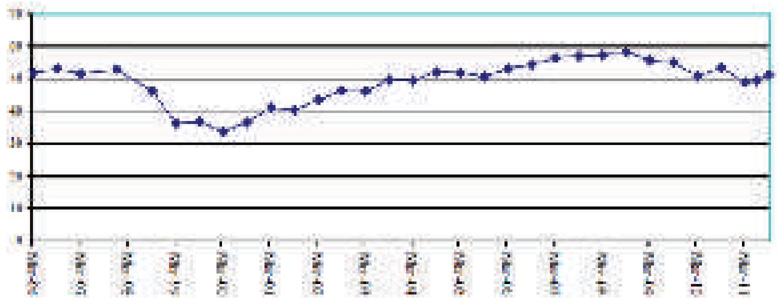

Figure 6. The dynamics of Romania's country rating, according to Euromoney

Source: Processed data from the database of Euromoney Country Risk.

Including bonds of Romania in the GBI index - EM: consequence of the financial assistance program provided by the European Commission and the IMF

The country's economic performance, thanks to fiscal changes of the legislation, and implementation of many structural reforms, contributed to a significant improvement of investment environment. The most important international recognition of the level of performance achieved by Romania came from the bank JP Morgan, which in 2013 included the Romanian bonds in emerging markets index. JP Morgan officials said their decision was based on the fact that Romania has met the conditions for market liquidity. With a market capitalization of US $3,482 bn (as of January 11th, 2013), Romania's potential weight was estimated to be 0.54% in the flagship GBI-EM Global. However one has to note that the Romanian bonds included in the index rate of only 0.5% in the GBI-EM, while Hungarian bonds account for 5.5% and Poland for 10%. The increasing of the attractiveness of Romanian international bonds had immediate consequences:

- Low cost of financing for the Ministry of Finance with more than 1 percentage point in one month;

- The national currency has appreciated considerably, allowing the Ministry of Finance to borrow at record low interest on financial markets. The Ministry of Finance has managed to attract capital from the primary market sources to yield 1.17 percentage points lower than the yield obtained at the auction of 13 December 2012, which demonstrates investor confidence in Romania's macroeconomic development.

Current period

2013 recorded an encouraging evolution of the current account deficit judged against the level recorded in the same period a year before; the most important aspect that supported this increase is the contraction of the trade deficit, which fell in the analyzed period from EUR -5.7 bill. to EUR -0.65 bill. Lowering Romania's current account deficit has reduced the country's dependence on international funding. GDP has also grown steadily and the perspectives for 2014 are also good (see Figure 6).

Figure 7. Romania, Real GDP Growth Projections (IMF Report, 2014)

An aspect that has contributed to improving the rating of the country of Romania was the absorption of EU funds, which had substantial grown in 2013, although it still remained as the lowest of the EU member states. In late January 2014, Romania managed to absorb 11.3 billion euro, representing a rate of 41.4% cumulative absorption of structural funds, cohesion and agricultural allocated for the period 2007-2013 (Table 1).

Table 1. EU funds absorption for Romania

Date	EAFRD	% of total EAFRD	SCF	% of total SCF	Grand total	% of total
Mar-09	*171*	*2.1%*	*87*	*0.5%*	*258*	*0.9%*
Dec-10	1436	17.7%	368	1.9%	1804	6.6%
Mar-11	*1552*	*19.1%*	*548*	*2.9%*	*2100*	*7.7%*
Dec-11	2209	27.2%	1066	5.5%	3275	12.0%
Dec-12	3323	40.9%	2204	11.5%	5527	20.2%
Dec-13	4538	55.9%	6430	33.7%	10968	40.1%
Jan-14	4861	59.8%	6462	33.9%	11323	41.4%

Legend
EAFRD: European Agricultural Fund for Rural Development
SCF: Structural and Cohesion Funds

Total EAFRD	8124
Total SCF	19058
Total Funds	27337

Source: European Commission: Romania, Balance-of-payments assistance program mission report (21 January - 4 February 2014).

In the fourth quarter of 2013, the strong growth in Romania was in contradiction with the collapse of the governmental coalition. Consequently, Fitch confirmed the rating of investment grade for sovereign debt of Romania (BBB-, with a stable outlook), while in November 2013 S&P revised the growth prospect rating of Romania (from 'stable' to 'positive').

Table 2. Romania country ratings in 2014 (Fitch Ratings, Moody's, S&P)

Rating	Foreign currency	Local currency
Moody's	*Baa3*	*Baa3*
S&P	*BB+*	*BB+*
Fitch	*BBB-*	*BBB*

According to the Fitch estimates, in 2014, Romania's macroeconomic risks will remain balanced: even if final data on agricultural and industrial production for 2013 are better than expected, lending is still limited. Internationally, Romania remains vulnerable to negative developments on the international financial markets and slow growth in the euro area. An implementation of prudent policies, which contributed to a substantial reduction in spreads, will be crucial in maintaining investor confidence.

The conclusions of the 2014 IMF Report on Romania indicate that financial assistance from the IMF and European Union Romania ensured macroeconomic stability and policy credibility needed for a positive review or rating of the country to "investment grade".

Moody's (2014) draws similar conclusions, i.e. that the rating of Baa3 for the government bonds was determined by the fiscal consolidation achieved in the last two years despite slow growth in GDP, but remains constrained by low economic growth.

The report also states that the integration of Romania in the group of developed European economies will generate revenue and productivity gains in the medium term. In the short term, however, Romania's economic recovery could be hampered by its exposure to the volatility of financial markets in Europe and the growth rate of GDP is likely to remain lower than other Member States with similar rating outside the European Union next year.

Euromoney Country Risk ECR-survey (2014) shows that the rating of Romania, has been on the rise since the start of 2013 and has continued to improve in the first months of this year, reaching 48.9 maximum 100 points, ahead of Hungary. After Romania has regained 69th place out of 186 nations included in the top global ECR, which means five places higher than the position held in June 2013, Romania is currently only two places under the third category rating of five levels calculated by the ECR, which would equate to a rating between BB + and A-, according to the rating methodology used by Moody's. Romania is more risky than other countries in Central and Eastern Europe, like Czech Republic, Estonia, Slovakia and Poland that have higher scores awarded by ECR. The country is menaced by uncertainty related to the presidential election this year.

The visit of the IMF and the European Commission in Romania between January 21 and February 4, 2014 marked the end of the review of the Stand-By Agreement. The failure to meet the target of reducing the arrears of state-owned companies in the last quarter of 2013 was the main accusation made by the mission; otherwise the assessment was generally favorable. The mission announced that if no progress is being made to reduce arrears (in particular those from SOEs of rail transport sector), the IMF will not approve the agreement in April 2014.

In 2014, one can expect a fiscal slippage, and a depreciation of the national currency as a result of the election year. However, it is unlikely that the rating of the country will be downgraded, due to political disturbances, for three reasons:

- the European Union and International Monetary Fund will vigilantly monitor the continuity of government policies;
- in the event of a change in the governmental coalition, it is unlikely that Romania's major political parties will support a change in current policies that prove to be beneficial at macroeconomic level;
- these macro-economic benefits, as reflected in the growth of Romania, in the fiscal outlook and in the balance of payments, have strengthened the investors' confidence in Romania and, hence, they will limit the capital outflows in response to political developments.

Solutions to improve the rating of Romania

In order to fall in the category of emerging markets, Romania needs a number of structural improvements conditioned by a sound public debt management. The Stand-by Agreement includes measures to strengthen the progress made in the previous program and increase predictability of the Romanian state, through a solid presence on the financial market by issuing bonds according to a certain calendar, and consultations with market participants.

Building a sovereign market infrastructure is another important objective, through the introduction of an automated platform for primary issuance of bonds, an electronic system for monitoring transactions on the secondary market, in order to optimize the functioning of the domestic financial market. These measures should improve the market efficiency and help the Ministry of Finance to put up the yield curve of government bonds.

Romania's main troubles are: the slow accessing European funds for investment projects, inefficient energy and transport sector and pressures on public finances, mainly due to a lower tax base, increased health costs and poor performance of SOEs.

Standard and Poor recommends Romania to continue reforms and the budget deficit under control, to improve the rating. In addition, S&P believes that structural reforms undertaken so far should help to rebalance the economy and would allow a solid growth medium. The sovereign rating could suffer if the government will fail to continue the structural reforms and fiscal consolidation.

To take advantage of the opportunities offered by the economic relations with the EU, the government will need to continue structural reforms and make more efficient the SOEs, at the same time as maintaining fiscal cautiousness in the medium term. Decreasing health care costs would also be a wise solution to improve the sovereign rating. Comparative advantages of Romania at the sectorial level are various, but they are put in shade by drawbacks like the subsistence agriculture, tourism lacking a network of highways, a developing but chaotic IT sector, unsupported by adequate education and research). Romania will continue to benefit from the gradual liberalization of world trade and of the trade integration in the EU (although joining the euro area is projected for 2019). Romania's long-established reliance on exports of goods in sectors with intensive labor could become a burden on medium and long term. On short-term it is likely that Romania can maintain the good position currently held on the efforts made by companies with headquarters in developed countries to move non-core activities in locations with small costs in order to increase profitability. But as the wage level increases, Romania will face tough competition from China, India and other emergent countries and the solution cannot be other than to move the production and exports on a higher position in the value chain.

Usefulness of the country risk analysis. "AnBilanţ" software.

The risk management area has more and more become important for any company willing to enter new markets. The country risk rating is essential for investors who wish to conquer new markets or to deinvest from dangerous states. A useful instrument for assessing the prospective of success or failure for a company trying to enter a new market by using an associative strategy is I, a risk indicator defined as follows:

$$I = N \times F \times \frac{1+R_T}{1+R_O} \times \frac{1+RCE_T}{1+RCE_O} \times \frac{V_{company\,X}}{CS_{company\,X}}$$

where the factors are:

-the country-risk of the target-market rating (N)

-the degree of cultural and organizational compatibility (F)

-the inflation rate for the target-market (R_T)

-the inflation rate for the country of origin (R_O)

-the rate of economic growth for the target-country (RCE_T)

-the rate of economic growth for the country of origin (RCE_O)

-the social capital of the X firm, the patrimonial entity that is used for settling an associative strategy ($CS_{X\,firm}$)

-the economic value of the enterprise ($V_{X\,firm}$), if the company is listed at the stock exchange, than $V_{X\,firm}$ is the market value.

For anuanced analysis, one can apply the logarithm over I and the result is

$$I^* = \lg I = \lg \left(N \times \frac{1+R_T}{1+R_O} \times \frac{1+RCE_T}{1+RCE_O}\right) + \lg \left(F \times \frac{V\ company_X}{CS\ company_X}\right).$$

The first term reflects the degree of risk of the target region/country, while the second characterizes the microeconomic risk. After testing the indicator over a sample of 40 companies listed on the Bucharest Stock Exchange, the conclusion was that the right values of the indicator are:

-if $I^* < 0$ and the country risk is more than 6, the factors which characterize the external environment being in normal limits, than the company envisaged for association is either less evaluated, or almost bankrupt, vulnerable, able to be taken over very easily

-if $I^* > 5$, under the same circumstances, than the company envisaged for association has a very good financial situation.

Therefore, five intervals of values for the I^* indicator have been settled.

Table 3. The evaluation of the microeconomic environment analyzed in rapport with the values on the grid of I^*

The values of $I^* = \lg(I)$	The evaluation of the microeconomic environment	The optimal entry strategy
$I^* < 0$	The microeconomic environment likely to be entirely taken over	Direct greenfield investment
$0 < I^* < 1,6$	The microeconomic environment likely to be entirely taken over by a buy of the majority of stocks and joining the management team	Acquisition
$1,6 < I^* < 2$	The microeconomic environment likely to be taken over at a equal rate to that of the partner	Mergers, acquisitions
$2 < I^* < 5$	The microeconomic environment favorable for economic cooperation	Licensing, franchising, strategic alliances
$I^* > 5$	The microeconomic environment hard to be approached through a partnership but favorable for trading operations	Export

Source : Gheorghiu, 2009

In this context, a Romanian team formed by three researchers (Anda Gheorghiu, Ion Daniel, Anca Gheorghiu), has created a software application "AnBilanţ" designed to be an helpful instrument in order to take the right decision concerning the global market entry and to choose the most advantageous strategy, such as export, franchising, licensing, merger/acquisition or building a shining new industrial unit from scratch.

AnBilanţ is a user-friendly and trustworthy tool in the decision process, especially in the case when the company intended to be acquired is not listed at a stock market, and, consequently, it should be thoroughly evaluated by using one of the classical assessment methods like Discounted Cash Flow or Adjusted Net Asset method.

As AnBilanţ is developed under Visual Basic 6 as an executable and runs under Windows operating system, it is able to identify and interrelate with various types of data files or Database Management Systems (i.e. software systems that allows users to save retrieve and modify information) such as Microsoft Access, dBase, FoxPro, Visual FoxPro, Paradox, SQL Server, etc; it allows the access to documents and Internet/Intranet applications.

The application is structured in four areas, specifically:

I. The input area of comparative parameters between the target market and the country of origin, to be exact:

N-the country-risk of the target-market rating with values between 1-10 (10 for financially solid countries

F- the degree of cultural and organizational compatibility (F), with values between 0.1 (incompatibility) and 100 (full compatibility)

R_T - the inflation rate for the target-market

R_O - the inflation rate for the country of origin

RCE_T - the rate of economic growth for the target-country

RCE_O - the rate of economic growth for the country of origin

r -the discount rate, i.e. the rate at which costs and estimated future incomes of the investment are discounted to calculate the present value of it

g- dividend perpetual growth rate.

II. The area that displays the values calculated according to the Discounted Cash Flow method (DCF) and Adjusted Net Asset method (ANC). After selecting the amount considered by the assessor as the most appropriate the software automatically calculates the indices I and I *= log (I), which asses the market environment of the target country / region and deliver the strategic investment recommendation.

III. The area of financial analysis applied to items selected from the balance sheet or profit and loss account, accompanied by graphic illustration of the dynamics of the economic factors.

IV. Copyright.

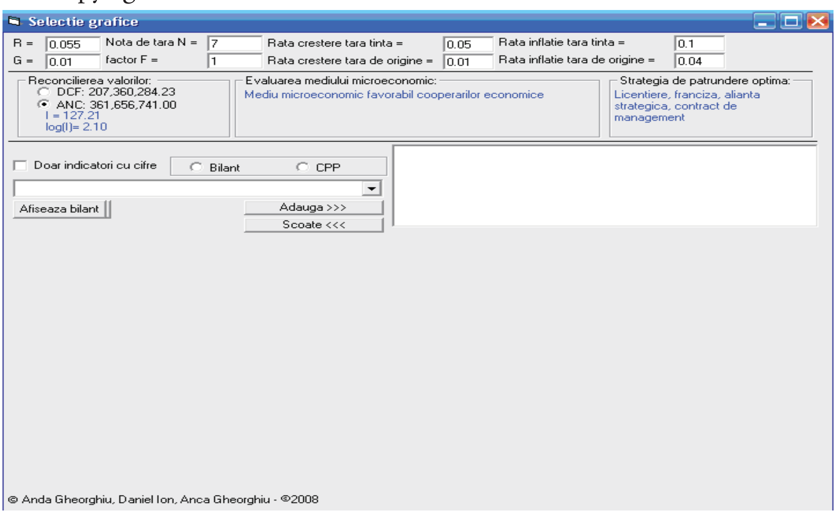

Figure 8. The visual appearance of the application AnBilanţ

Source: Gheorghiu, 2009

Conclusions

Romania's country risk assessments by international agencies have revealed that joining the European Union in 2007 has undoubtedly had a positive effect on the exposure of Romania's country risk. Nevertheless, acquiring EU membership was not sufficient for economic continuous growth. Fiscal measures undertaken thereafter and reforms initiated by Romania in this period increased investor confidence in the Romanian business environment and led to a general positive trend in sovereign rating.

Romania's development prospects at the institutional level and with regard to the regulatory framework are not clear. EU integration has made solid improvements in the business environment. Nonetheless, administrative and judicial institutions do not function effectively, corruption remains systemic and regulatory level trading environment is high. The potential for improvement in the regulatory framework is limited by the weakness of the state apparatus. However, national policies the government can facilitate progress, provided there is political will in choosing the best direction.

On long-term Romania's development will definitely be influenced by two major factors: a serious demographic downturn that has deepened in recent years (decreasing population, including as a result of deployment abroad a few number million people in the active workforce, coupled with an aging population), with direct effects on social insurance budget and environmental damage, with high restoration costs for water, air, soil, etc.

Continuing the trend of Romania's macroeconomic development, confirmed by a higher grade of country rating will allow the state to fulfill its management strategy established by the government for 2012 – 2014, through extending the maturity of government securities by issuing bonds principally on medium and long term. This will reduce the financing needs, namely to reduce the volume of refinancing bonds and consequently the risk of refinancing.

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Foreign equity ownership, corporate governance and financial performance

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Abstract. *The increasing importance of the Foreign Direct Investment (FDI) is one of the most features of the world globalization. FDI is one of the key ways of economic development for emerging countries. It provides funding and expertise to help companies from the emerging markets to increase the international trading. The present research is conducted to assess the impact of foreign ownership, aiming to determine if foreign ownership improves corporate governance, firm performance and competitiveness and if foreign-owned entities over-perform domestic-owned companies. The empirical literature reveals mixed evidence. An increase in FDI has a positive effect on economic growth rates in financially developed countries but foreign ownership has either a negative or a small effect on firm performance in some emerging countries, like Croatia and the Taiwan. The main findings of the research support the view of a positive connection between FDI and firm performance. This suggests that FDI should be encouraged by policies regarding foreign ownership to enhance firm productivity and competitiveness in emerging markets.*

Keywords: *ownership; foreign equity ownership; corporate governance; financial performance.*

Introduction

Entity ownership, corporate governance and firm performance are key elements for economic growth in a globalized economy. To achieve sustainable economic growth, the emerging countries need large inflows of foreign investments. There are three main forms of foreign investments: portfolio investments, foreign loans and Foreign Direct Investments

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(FDI). According to the International Monetary Fund (IMF), FDI is one individual business that owns more than 10% from the capital of a foreign company and thus has important influence on the company's policies. FDI is one of the key channels and an important engine for economic growth, increasing the capital stock, creating employment and may bringing new technologies. Despite the fact that some researchers found no evidence of spillovers to the domestic economy due to FDI, most empirical studies have found evidence of increasing performance of the companies with foreign ownership.

Ownership structure

As according to the Oxford Dictionaries, ownership means the act, state or right of possessing something (Oxford Dictionaries, 2014). The business ownership structure has an important impact upon the liability of the owners, the continuity of it if one of the owners dies or withdraws the kind of managements control, the level of additional capital, and the amount of taxes (Douma et al., 2012, p. 642). There are six main forms and four main types of ownership. The most common forms of business ownership can be structured as follows: sole proprietorships, general partnerships, limited partnerships, corporations, limited liability companies and limited liability partnerships (Prescott, 2010, p. 30). As for the type of ownership, it can be: ownership concentration, public ownership, private ownership, foreign ownership (Aymen, 2014, p. 164). Business ownership structure can be represented by director ownership, foreign ownership and state ownership. Other important elements that have significantly positive impacts on profitability are the board size, board composition, management skill level, Chief Executive Officer (CEO) duality inside ownership, and family business (Abor & Biekpe, 2007, p. 288).

Foreign Direct Investment: definition and importance

Foreign Direct Investment (FDI) is a direct investment into production or business in a country by an individual or company based in another country. According to the World Bank, FDIs are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. FDI is one of the key ways of economic development for emerging countries and it boosts corporate performance indicators (Jurajda & Stancík, 2012, p. 322). It is widely known that foreign direct investment is a way for improving corporate governance, firm performance and profitability (Aymen, 2014, p. 166). Among the effects of FDI can be mentioned: the transfer of new technologies and know-how, formation of human resources, integration in global markets, increase of competition, and firms' development and reorganization. Bokpin suggested that the more foreign owners a firm has the less the company discloses and the less a company discloses the more foreign share owners it attracts. At the same time he found a positive and statistically significant relationship between foreign share ownership and the market capitalization and insignificant relationship with Return on Equity (ROE) (Bokpin, 2009, p. 692).

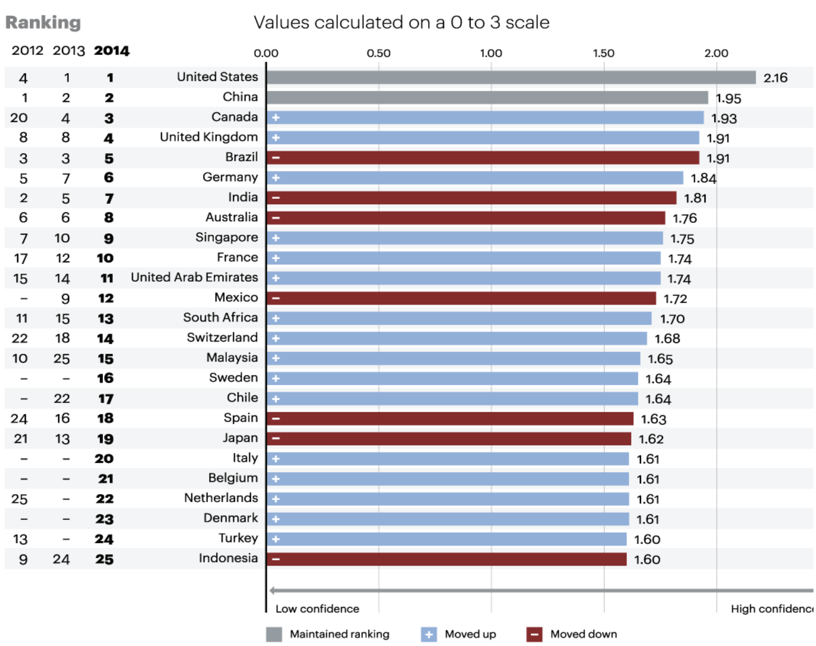

Figure 1. FDI confidence index, ranking and scores

Source: Foreign Direct Investment (FDI) Confidence Index®

Among the main determinants of FDI can be mentioned: proximity to markets or customers, skilled workforce availability, government support and lower costs (fDiIntelligence, 2014). Firms attracting foreign direct investment acquire sufficient internal funding and they do not need more debt financing to fund their capital expenditures compared to domestic firms. They found increased capital investment for the firms with foreign ownership than domestic ones (Gurunlu & Gursoy, 2010, pp. 21-29). Among the main determinants of FDI can be mentioned: proximity to markets or customers, skilled workforce availability, government support and lower costs (fDiIntelligence, 2014). In 2013, around 45% of FDI projects were driven by the access to domestic markets growth potential.

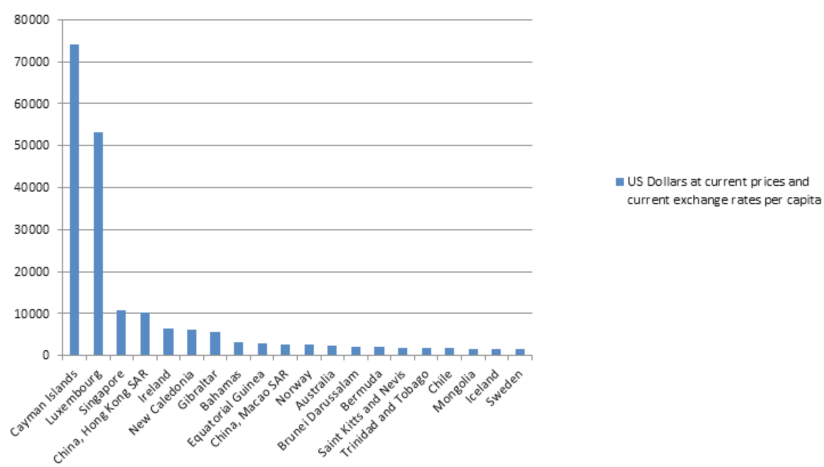

Figure 2. Inward FDI inflows by economy, 2012 – excluding British Virgin Islands (based on data provided by UNCTAD)

Studying the FDI inflows by economy, we observe that (Figure 2) Cayman Islands are placed on rank 2, after British Virgin Islands that have more than 81.82% of the world FDI inflows in 2012 (World Investment Report).

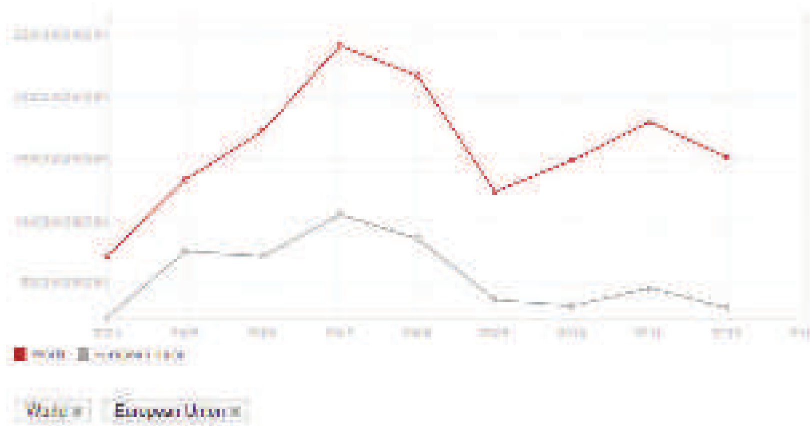

Figure 3. World and European Inward FDI flows (World Bank)

The European Union plays an important role in the global foreign direct investment (FDI), in terms of both inward and outward FDI (see Figure 3). This means that EU companies can compete in markets inside and outside the EU. The evolution European inward FDI flows follow the world trend, reaching a maximum in 2007. It was FDI inflows to the world and the EU were hit significantly by the global recession between 2008 and 2009. It recovered between 2010 and 2011, but the recovery lessened during 2012, meaning a reduced capability of European firms to invest abroad.

The impact of FDI and corporate governance on firm performance

Corporate performance can be measured by variables connected with productivity, profitability, growth and customer satisfaction (Barbosa & Louri, 2005). Firms are heterogeneous in terms of profitability due to differences in industry's characteristics, proprietary technology and managerial expertise, industry concentration that leads to larger profits, industry growth, and competitive environment. Among the elements that affect firms' performance can be mentioned: age, size and FDI. Older firms can obtain superior performance due to their previous learning process. Larger firms can exploit economies of scale and organize their activities efficiently but they must cope with the increased bureaucracy that prevents them from acquiring higher performance and profitability.

A main reason for investing in a company from emerging countries can be cheaper labor force and hence lower production costs. But foreign investors avoid investing in firms with poor corporate governance structures and inadequate disclosure practices. An improvement in the corporate governance system can facilitate capital mobility across countries (Cueto, 2009, p. 146; Bowman, 2012, p. 47).

Examining the impact of corporate governance on corporate performance Nazli (2010) found weak evidence that companies which adopted good governance practices performed better than others. But companies with a larger proportion of foreign ownership were found to be more profitable (Nazli, 2010, p. 117). Investigating a sample of 183 companies listed on the Amman Stock Exchange for the year 2010, Suwaidan, Abed and Al-Khoury (2013) showed that foreign owners play a very significant role in improving corporate governance and are likely to export their higher standards and apply them to firms in the host country. From the perspective of companies, foreign investor participation should improve the market value of their shares and thus lower their cost of capital. He found a positive relation between foreign share ownership and international audit firm, but debt ratio had no significant effect on foreign-Arab share ownership (Suwaidan et al., 2013, p. 21). Most studies indicate that foreign ownership has a positive effect on firm performance. Foreign ownership helps increase firm performance due to its monitoring role, foreign ownership has positive effect on firm performance because foreign investors possess better financial and technological resources and experience. Based on firms listed on Ho Chi Minh Stock Exchange between 2008 and 2011, Phung and Le (2013) found a negative impact of FDI on firm performance and a positive impact of FDI on capital structure. The reason for this result can be the lack of concentration of foreign ownership. As a result it cannot play a monitoring role in corporate governance and the investors cannot set out long-term goals for the company. As an example we can mention the case of Vietnam stock market where the foreign ownership is currently limited at 49% and it may not positively affect firm performance (Phung and Le, 2013, p. 56).

Studying 202 Ukrainian medium and large enterprises for the period 1998-2000, Akimova and Schwodiauer (2004) found the impact of foreign ownership on firm performance is non-linear, being positive up to a specific level. Stake holding ownership by customers affects sale prices and performance negatively. Many conflicts may arise in the case of ownership shared between several individuals with different preferences about company goals. These conflicts affect the entity's performance. In developed market economies partnerships are mainly formed by family business or by owners that have similar tastes (Akimova & Schwodiauer, 2004, p. 36). Ownership concentration has a positive and significant effect of Jordanian banks' profitability while foreign ownership positively affects their operating efficiency. Foreign-owned banks tend to be more efficient and less risky than domestic banks. Foreign ownership, measured by proportion of shares held by foreign shareholders, brings more efficiency to bank operating and minimizes the total operating expenses (Al-Amarneh, 2014, p. 198). In Kenya foreign-owned banks had slightly better performance and they are more efficient than domestically-owned banks (Mang'Unyi, 2011, p. 2). The positive effect of ownership concentration on firm performance matters more in countries with weak investor protection. Yang found that foreign ownership in Taiwan has a positive impact on the privatized firms and their operating performance. Ownership concentration is negatively related to performance of privatized companies.

Studying the relationship between firm performance evaluated by means of Assets Growth and Return on Assets (ROA) and FDI, on a sample of more than 400 companies from Czech Republic, Cástek (2013) found a positive effect of FDI in small companies. The profitability was higher if the owners were present in the top management but the results were not conclusive in medium-sized and large companies (Cástek, 2013, p. 13). While traditional theories predict that firms from developed countries acquire capital from entities located in emerging countries, Anusha, Chen and Dominguez (2009), observed foreign acquisitions of US firms by entities from emerging markets, despite the input costs for investment. Among their motivations can be mentioned: access to the advanced technology and entering new markets. In the years following the acquisition, sales and employment decline while profitability rises, suggesting significant restructuring of the target firms (Anusha et al., 2009). Using a sample of 383 state-owned firms from Taiwan between 1991 and 2002, Chen found that foreign investment had a positive impact on the long-run stock performance of equity issuers, suggesting that higher foreign ownership may increase the process of monitoring and reduce agency problems. It leads to better monitoring effects and thus increases firm performance. Studying 84 firms listed on Tehran Stock Exchange for a period of five years from 2007 to 2011, Moradi, Aldin, Heyrani and Iranmahd (2012) found that the percentage of institutional investors' ownership has a direct relationship with firm performance (Moradi et al., 2012, p. 91). Foreign ownership mitigates the agency problems of free cash flows and optimizes the use of corporate resources for equity-issuing firms (Chen et al., 2009). Using a data set of 434 foreign-invested firms in Poland, Hungary, Slovenia, Slovakia and Estonia, Filatotchev (2008) showed that foreign investors' ownership and control over strategic decisions are positively associated with export intensity, measured as the proportion of exports to total sales worsens (Filatotchev, 2008, p. 1145). Using a sample of 19 privatized firms from 1994 to 2005 in Taiwan Yang showed that ROS, ROA and ROE did not improve after privatization. The ownership concentration is negatively related to performance. Foreign ownership makes the performance of privatized firms increase because foreign institutions require a higher level of information (Yang, 2008, p. 10). Examining the role of FDI on firms' performance, Barbosa and Louri (2005) found that multinational Portuguese firms do not perform better than the domestic ones. FDI has a positive impact upon Greek entities' gross return on assets. When net profitability is taken into account, the level of FDI has no effect on Greek corporations (Barbosa & Louri, 2005, p. 49). Studying the firms listed on the Zagreb Stock Exchange in period 2003-2009, Dzanic (2012) shows a negative relationship between the presence of a large shareholder and Tobin's Q value of the company. Tobin's Q is calculated as the market value of the company divided by the replacement value of the firm's assets. High Tobin's Q implies that the stock is overvalued. Also, he found no evidence that foreign ownership is better domestic ownership, as it usually is in emerging economics. Despite the fact that different authors revealed the positive effect of foreign ownership on a firm's performance, the sample from Zagreb Stock Exchange - Croatia does not support this view. In the case of Croatian entities foreign ownership has either a negative or a small effect on firm performance (Dzanic, 2012, p. 44).

Taking into account the efficiency scores for measuring corporate performance, Huang et al. found a positive but weak effect of foreign ownership upon Taiwanese firms (Huang et al., 2007, pp. 143-144).

Bokpin (2011) shows that in Ghanaian entities foreign firms' appetite to accumulate more cash is more than twice local firms. Foreign investors would avoid firms with higher levels of insider ownership (Bokpin et al., 2011, p. 277). In India, where companies maintain their shareholding pattern over time and big corporate family prevails, ownership concentration increased the average company (Kaur & Gill, 2009, p. 25). The more activist of foreign investors focused on obtaining key shareholdings in the largest of Australian corporations. The ownership of Australian corporations has become more concentrated than before and more concentrated than in Canada. Also concentration in the hands of foreign finance capital has intensified (Murray & Peetz, 2013, p. 102).

Conclusions

FDI is an important engine for economic growth, increasing the capital stock, creating employment and bringing new technologies and skills, and technology, especially from industrialized to developing countries. Most studies indicate that foreign ownership has a positive effect on firm performance because foreign investors possess better financial and technological resources and experience. FDI can help entities from developing economies coping with informational barriers, improper management, lack of financing, higher risks and costs entering new markets. Foreign-owned firms can become more competitive, increase their profitability, shareholder's value, and can easier access, expand and integrate into new and global markets. At the same time, reduces the agency costs within a corporation, improves the activity of managers, increases the quality of their auditing and reporting systems and thus result in higher performance and profitability. Due to its monitoring role, foreign ownership helps increase firm performance, the capital stock and creates employment. Foreign investors can monitor more independently the company's ways of spending capital and its managerial activity. For the investors' point of view, FDI is associated with costs for acquiring information, monitoring and bonding expenses that tend to decrease the benefits of international diversification. Due to the negative effects of expanding their business operations and disclosure of entities' resources across different business segments, FDI is not perceived as value increasing. The empirical literature shows that FDI has a positive effect on the corporate governance, financial performance and the economic growth rates. The impact of Foreign Direct Investment on domestic acquisitions is significant and positive only in low international trading companies. On the contrary, services and manufacturing industries that are competing in international markets record smaller influence of FDI on corporate performance, productivity, and level of employment. One of the main reasons is that they are very competitive because only the most productive firms are able to overcome the costs of entering the international markets. The competitive exporting markets force exporters to be more efficient (Kostevc, 2009). In Malaysia and Czech Republic, FDI has a statistically significant and positively associated with company performance. When certain groups or families, like in Asia or in Jordan, where the banking sector is essentially built upon family businesses, mainly control companies, FDI has a weak influence on company's performance. Also firms with higher foreign ownership do not change their benchmark after equity issues. In Portuguese firms there is no connection between foreign ownership and profitability. In Greek firms, foreignness has a positive effect in terms of gross measure of profitability (Barbosa & Louri, 2005). The non-linear effect of FDI on firm performance from the emerging countries is due to their different level of institutional environment that is still adverse to the foreign ownership.

This study is a systematic literature review that has shed some light and provides evidence of the importance of Foreign Direct Investment for the firm performance and productivity. As the results are mixed, further research is requested. It might be interesting to study the main determinants taken into consideration by the investors for their investment decisions: corporate governance, disclosure practices, the official language, the market size, new trade agreements, the political climate, and the economic and business risks, that are country specific.

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Gender differences in investing and savings behavior: the nesting effect

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Abstract. *Field studies and experimental studies show that women are more risk aversive than men. The natural tendency of women to prefer lower risk behaviors, to reduce uncertainty and engage in protective behavior is referred in the literature as the nesting instinct. The current paper investigates the effect of nesting instinct on gender differences in economic behaviors, particularly the entrepreneurial behavior and the preference for investing and savings plans. Using a comparative analysis of the current experimental and field studies addressing this topic, the current paper adds some nuances in the way we portrait men as risks seekers and women as risks aversive: 1) gender differences are more in the risk planning behavior: with women being more inclined to long term interest rates and men to short term capital gains; 2) women tend to undertake financial risks and stereotypical masculine leading behaviors when the real situation is requiring it: We reveal that innovation societies, with strong feminist movements and sustainable economies, have a relative low level of women entrepreneurship. Still, in these countries opportunity motivators define women entrepreneurs. On contrary, in less developed countries, and with consolidate liberal position towards women rights (as in the Latin America), the number of women entrepreneurs is higher and defined by necessity motivators; 3) we suggest a potential dynamic of the phenomenon: increased risk aversion for women who are about to start a family and decrease risk aversion for women later in life; 4) differences in revenues between men and women are created not only by the way they approach financial risks, but also by their level of financial literacy. Finally, the paper discussed some arguments to support the idea that financial programs gender oriented could be successful. The efficiency of such programs needs further investigation in the context of relatively low financial literacy of women compare to men.*

Keywords: *nesting instinct; gender differences in economic behavior; necessity entrepreneurship; opportunity entrepreneurship; savings; risk behavior.*

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Introduction

The fact that women are more risk aversive than men has debated in research studies conducted during past years (Brachinger, Brown, Gysler & Schubert, 1999; Rui & Sherman, 2005). Field studies (for a meta-analysis see Rutterford & Maltby, 2007) and experimental studies (see Crozon & Gneezy, 2004 for a review) confirmed that women are more inclined to risk avoidance behaviors and, generally speaking, they prefer lower risks compare to men. The researchers (e.g. Rutterford & Maltby, 2007) sometimes refer to this phenomenon as nesting instinct because they claim for a biological explanation: there is a natural tendency of women to caring and protective behaviors, to reduce uncertainty and protect the offspring. A consequence of the nesting instinct for women's financial behavior is the avoidance of the entrepreneurial actions and the general preference of saving plans over the investments. As most of the economic behaviors and particularly the entrepreneurial ones involve high risks and uncertainty, the nesting instinct could be an interesting feature to study when approaching gender differences.

Still, research studies that particularly addressed the issue of risk aversion and gender differences have produced more nuanced conclusions (Bertocchi, Brunetti & Torricelli, 2011; Schubert, Brown, Gysler & Brachinger, 1999; Sunden & Surette, 1998). For example, Bertolocchi et al. (2011) and also Barber and Odean (2001) show that single persons are more risk aversive than the married ones, and the effect is stronger in the case of women: married women are less risk aversive than single women. Such findings tend to support the nesting instinct explanation, suggesting also a potential dynamic of the phenomenon: increased risk aversion for women who are about to start a family and protect the offspring and decrease risk aversion for women later in life, when family protection is not a priority anymore. Thus, we can explain why women retired in pensions tend to be more inclined for investment behaviors compare with women at younger ages (see Rutterford & Maltby 2007).

When analyzing gender differences in financial risks behaviors, Bertocchi and collaborators (2011) show that gender effect is rather small and even not significant, when we control for the occupational status: women in management positions tend to have similar financial behavior (profit oriented) as their fellow men. Bertocchi et al. (2011) claim that women from the business sector “have learnt” to overcome their natural risk aversion and to follow the financial paths, traditionally attributed to men, in order to get profit of their leading positions. Furthermore, when studying women in the business domain, Harrison and Mason (2007) reveal that they are more inclined to long term investments compare to business men from the same domain.

In sum, a more nuanced approach also takes into account, besides gender, other socio-demographic variables (as for example marital status or profession) to a better understanding of the “nesting instinct” concept. Instead of an “instinct”, we can talk about a predisposition to approach risk in a certain way, which has some biological routes but it is shaped by other contextual factors and socialization processes that both men and women encounter through out their lives. Thus, Bertocchi et al. (2011) indicate that differences between married and single women in the way they approach risk are stronger in the case of unoccupied women and decrease when we include their occupational status in the model. In turn, when focusing on women who are active on the labor market in the financial domains (where we presume they are socialized according to their profession), gender differences are more in the risk planning behavior: with women being more inclined to long term interest rates and men to short term capital gains.

There are also other factors that influence gender differences in approaching financial risks. Rutterford and Maltby (2007) mention: the educational level, the level of financial literacy and also the age category. Thus, more aversive to financial risks seem to be younger women, with lower level of education and no financial knowledge, trusting less their abilities to handle financial tasks. This group also has the highest aversion to the financial risks and avoidance to investments. Moreover, Rutterford and Maltby (2007) notice that age plays an interesting role in the investment behavior: younger women tend to be more risk aversive than younger men, whereas older women tend to be less risk aversive than their men partners. One can use the nesting instinct concept to explain gender differences between younger women and younger men in approaching financial risks: young women are more inclined to protect their new formed families, whereas young men are trying to gain “financial potency” – an aspect that is always speculated in the popular media. When they get older, the empty nest phenomenon – also analyzed in the literature (Adelmann et al., 1989; Roberts & Friend, 1998) – can be used as a potential explanation for the old women interest in activities outside family care (including investments and entrepreneurial initiatives). The interplay between nesting and the empty nest phenomena deserve further investigation in order to explain the role switch in the investment behavior between men and women, once they grow older and their children lave left the home.

Statistics (see van Staveren, 2010; Schalatek, 2011) show that 90% of the women eventually have to take care of their own welfare (including financial decisions) because of the divorce or the death of their spouses – as the mean life expectancy is 5 years higher for women compare to men. Therefore, strictly for adaptive reasons, older women should engage more in investments and savings than their spouses because they live longer and they have more pressure to secure their ageing period of time.

In the current paper I discuss the influence of nesting instinct on women economic behavior, focusing on investing and savings plans. Using the current literature on gender differences in leadership style and entrepreneurship, the paper argues about the importance of introducing nuances in the way women are depicted as financial actors. Three powerful contextual factors are introduced in the equation and debated bellow: 1) the importance of push versus pull entrepreneurship and the role of the institutional gender equality policies; 2) the demographic factors that urge women to act in order to secure their longer ageing period; and 3) their increased level of education and financial literacy that would eventually stimulate them to play a more active financial role.

Necessity entrepreneurship versus opportunity entrepreneurship

Risk aversion in the case of women and also men tendency to be rather risk seekers have as consequences different financial behaviors. Researchers (Hinz, McCarthy & Turner, 1997; Whitaker, Bokemeiner & Loveridge, 2012) have identified women's tendency to access saving plan services, including long time savings and less banks credits for houses, stocks exchange or transactions on the stock markets. Contrary, men are the main clients of the financial investment services and they exchange more money, stocks and gold. In the case of women, they are more inclined to access health and life insurance, private pensions and other types of insurance for children (e.g. insurance for education). These patterns could be treated as consequences of the nesting instinct in the financial area. However, we should take into account that the investment behavior per se it is not preferred over the saving behavior. I agree with Bertocchi et al. (2011) point of view that gender differences in the financial risk behaviors should be analyzed by taking into account contextual factors. Thus, during the financial crisis period of time, acting precautious and avoiding high risk or high incertitude could be an efficient strategy, whereas in the economic boom situations, taking the risk to invest and looking for opportunities are probably preferred strategies because they generate higher profits. Some studies (King & Sweetman, 2010; WIDE, 2010) even speculate on the fact that a global economic crisis, as the one we have lived for the past six years, could have been reduced or even prevented in a global financial market leaded by women. Such speculations are based on the observed gender differences in the financial risk behavior: men tend to be overconfident when they invest and to have a higher than mean level of trust in their abilities to return the investment and make profit and they also then to invest in stocks with 45% more then women (Barber & Odean, 2001).

We have no idea how the current economic crisis would have looked like in a world leaded by women, but there are some interesting research studies conducted in the US and Great Britain, just before 2007 (CATALYST, 2004; Krishnan & Park, 2005) showing a positive correlation between the number of women in the management positions and the company profit. Some authors (Fisher, 2012; Rosenblum, 2009) argue that the recent economic crisis has underlined the need for new leaders and gendered the discussion on the leadership efficiency – the fenimization of the financial markets means actually the valorization of women as more conservatory and risk aware resurfaced economic actors. The general conclusion was that companies with more women in the top management positions were more successful compare with those having few women in upper managerial work. Those studies suggested that the number of women employed in top management positions could be used as an important predictor for the company profit. However, in such studies, the effect of the „company domain" has not been isolated and presumably we find more women in the managerial positions in the stereotypical feminine domains (as for example cosmetics, health care, beauty) and fewer women in the top management positions in the stereotypical masculine domains (such as construction work, cars, transportation). We argued before (see Ivan & Cismaru, 2010) that it is eased for a woman to gain and maintain the legitimacy of a leading position in a „feminine domain" because job expectations are similar with her sex role. Therefore there might be a non-significant relationship between the number of women involved in the company management and the company financial performance, when we control for the domain, due to the fact that some of the „masculine" industries (e.g construction work) have encountered a significant decline in the past ten years. Nevertheless, research studies that tried to prove that men and women have different leadership styles have produced contradictory results (Bass & Avolio, 1994) and more indirect evidence (see Ivan & Cismaru, 2010 for a review). A meta-analysis on gender differences in the leadership style (Eagly & Johnson, 1990) showed that significant results regarding different leadership styles for men and women were found particularly in the experimental studies but not in the filed studies. In other words, the high stake of real management situations (that could not be created in the laboratory studies) could modify the leadership style adopted by women in the leading positions: they will tend to undertake risks and adopt leadership behaviors traditionally attributed to men, when they need it or when they have to in order to make they companies profitable.

One particular argument supports our statement that women tend to undertake financial risks and stereotypical masculine leading behaviors when the real situation is requiring it: Data coming from the Global Entrepreneurship Monitor (2010) showed that in all 43 participant countries the number of men entrepreneurs overcome women entrepreneurs, but not in the poor countries having a democratic system in term of women rights (such as Bolivia, Angola, Ecuador, Peru, Argentina, Jamaica, or Dominican Republic). In those countries there was the highest number of women entrepreneurs, whereas the lowest number of women entrepreneurs was found in the developed countries (the so called "societies based on innovation"): France, Denmark, Finland. The Global Entrepreneurship Monitor (2010) conclusion over this study is that women from the less developed countries are associated with necessity entrepreneurship (push entrepreneurship): they open businesses and undertake risks because they have "no other choice", to support their families and get financial stability or minimum wage. More recent studies (Klyver, Nielsen & Rostgaard-Evald, 2012) confirm the hypothesis about the negative relation between country development and women's self-employment (including women entrepreneurship). The authors (Klyver, Nielsen & Rostgaard-Evald, 2012, p. 171) argue that countries focusing on gender equality at the institutional level tend to have more policies to support women employment and fewer policies to encourage them for entrepreneurship, and this will paradoxically result in less self-employment for women. Thus, the more prevalence of gender equality in a particular country (and this variable is generally found at high level in European developed countries), the less advantages women perceived in getting involved in self-employed activities and they will tend to become employers, situation in which their benefits are higher. This particularly study conducted on 50 countries reveled the paradoxically effect of the welfare state over the decreased women entrepreneurship

When looking at the Romanian situation in the Global Entrepreneurship Monitor (2010) report, we notice that the number of women-entrepreneurs (2%) is rather low, close to the developed countries and similar to Russia, Belgium, Italy and Turkey. A possible explanation for the low number of women entrepreneurs in Romania could be found in the paternalist values shared by the two genders, as we can depict them from the Special Eurobarometer on Gender Equality in the EU (2009). Romanians' opinions resulted from the Gender Eurobarometers are in favor of a gender role differentiation: men associated with the management positions and women with household duties. Global Entrepreneurship Monitor estimations about Romania are that 50% of the women entrepreneurs are driven by necessity (push) factors, whereas 20% of the respondents mentioned opportunities (pull) factors. In other words, most of the women entrepreneurs (50%) in Romania have answered that they decided to start a business because "they could not manage anymore" and 20% of then that "they found a good business proposal". Still 30% of the women entrepreneurs that have answered to Global Entrepreneurship Monitor (2010) in Romania mentioned both necessity and opportunity as a starting point of their business. This particular group are described as push-pull entrepreneurship and is significant larger among the Romanian women who have started business over the past years.

The debate on the push-pull entrepreneurship in the case of women helps us to nuance the gender differentiation in the financial behavior, discussed above. The fact that women from the developed countries tend to avoid entrepreneurial initiative constitutes an indirect evidence for the natural tendency of women to avoid risks and uncertainty. We reveal that innovation societies, with strong feminist movements and sustainable economies have a relative low level of women entrepreneurship, similar to the one existing in Romania. Still in these countries opportunity motivators define women entrepreneurs. On contrary, in less developed countries, and with consolidate liberal position towards women rights (as in the Latin America) the number of women entrepreneurs is higher and defined by necessity motivators.

In sum, women risk aversion, or nesting instinct, as we prefer to call it here, is changing when the context is powerful enough: the data from the Global Entrepreneurship Monitor show that in the developing countries (as the ones mentioned above) the number of women entrepreneurs varies between 15% and 20%, being even ten times higher that in the developed countries. Indeed here we find more push type of entrepreneurship, based on necessity, but with high level of risks taken and high uncertainty about the level of success. Particularly, women entrepreneurship in Romania is more defined by necessity factors, with an important percent of women entrepreneurs being in a situation of mixed pull-push entrepreneurship – both opportunity and necessity driven. Although women entrepreneurs in Romania are mainly from the 35 to 55 age group, small scale local studies show an interesting dynamic in the 60+ segment of population: women retired in pensions tent to be more interested in the financial services than their spouses, including the financial services that involve considerable risks. Women in pensions seem to be also more involved in gold transaction compare to younger women. We use the same push-pull idea to explain why women in pension are changing their financial behavior and tend to undertake financial risks, including investments: because "they have no other choice". In addition, this effect is met also in more developed countries, with strong policies regarding equality as Klyver, Nielsen and Rostgaard-Evald (2012) reveal in their analysis: most of the gender equality policies target women between 30 and 50, whereas, older women are not stimulated to get employed by welfare state benefits. Thus, the negative effect of institutional gender equality on women self-employment is decreasing with age, so more self-employed women could be found in the 50+ age cohort, in the developed countries with stronger gender equality policies.

When combining the economic constraints with the demographic trends (women tend to have a longer ageing period than men), we can easy understand why older women are trying to undertake their financial welfare and get interested in different financial services.

Nesting instinct and gender differences in welfare

Researchers (Barber & Odean, 2001) discuss the fact that gender differences regarding risks perceptions and financial behavior are also linked with differences in revenues and welfare between men and women. The fact that men tend to invest more than women and that the number of men entrepreneurs is larger than the number of women entrepreneurs are followed by gender differences in income and economic welfare. Barber and Odean (2001) show that when men invest up to 45% more than women, they have also two times more returns of the investment. When analyzing the returns of the investment, on long term, we observe higher profits for men entrepreneurs, compared to women entrepreneurs and consequently different welfare.

However, women's risk aversively means also gender differences in the credit reimbursement: women have less non-performant credits compare to men and delays in credit reimbursement. Moreover, regarding long term deposits (consistent with women tendency to have long time savings), the number of deposits ended before time by women are smaller compare to the number of deposits ended before time by men (who have more heterogeneous behavior in the case of financial savings).

Differences in revenues between men and women are created not only by the way they approach financial risks, but also by their level of financial literacy. Financial literacy describes basic financial knowledge and also abilities to handle a bank account doing current financial operations (Lusardi & Mitchell, 2008, p. 414). Recent studies show that women have lower financial literacy compare to men and also lower confidence in their abilities to handle financial tasks (see Financial Finesse Reports, 2012). Thus, women are less active in transactions using their own bank account, they are less involved in paying the bills using the online baking account, passing such responsibility to their partners, and they have also fewer knowledge about taxes, debts and credits, than men. Women lower financial literacy comes in contractions with their natural tendency to organize the family budget and to take care of family duties and also to their preoccupations for long tern savings adjusted to the needs of each family member (found in research studies and discussed above). Still, having not enough financial knowledge and also not enough trust in their own abilities to handle a bank account would limit women's possibilities to achieve welfare by using their natural skills: anticipation, risk adversity and tendency to protect the family using money saving.

Gender differences in financial behavior and adaptive strategies

When we consider that risk aversion is a natural tendency of women that has adaptive value and functional meaning, one can wonder why a society would like to have more women entrepreneurs than women involved in savings plans and if there is no better for women to invest less and save more as their natural tendency seems to be. There are at least three arguments to support the idea that women would benefit from a change in their financial behavior, in the future and they will get more welfare if they decide to invest more:

1. First, in Romania and all around the world, more and more women have high education (Goldin, Katz & Kuziemko, 2006; Pricopie et al. 2011) and they have, as a consequence of their college graduation, higher financial literacy. Those women are becoming financial independent, and embrace more independence values, getting also more confident in their own abilities to handle financial tasks. There are more and more women having leading positions in several organizations, including managerial positions, earning more and have more opportunities to invest or to become entrepreneurs.

2. Gender equality debates and women access on the labor market has as direct consequence the fact that there will be financial offers special

for them. More and more financial institutions will try to get women's attention and to stimulate them to invest, as their financial resources become important.

3. Because life expectancy is higher in the case of women compare to men, we can talk of a gender different financial planning for the retirement period. Women would have to save for a longer ageing period of time or to invest more in order to get welfare later in life, when most probably their spouses will not support them anymore. The new debates about equal retirement age for women and men have already created some changes in the legislation inside the European Union. Those social policies are trying to maintain women longer on the labor market and to reduce economic disparities between men and women, once they get older. They address a problem that is to be found in many European countries: large gaps between pensions and other financial benefits associated to work between old women and old men that are translated in different poverty risks. The legislative initiative attempting to increase the retiring age for women, have been quite unpopular in the European countries where it have been launched (including Romania). Still such measures can be also seen as attempts to reduce poverty risks for some groups considered vulnerable. Thus, when analyzing women situation on the labor market and their revenues once they retired in pension, most governments concluded that older women constitutes a more vulnerable group than older men, in what concerns poverty.

Although women have lower level of pensions compare to their spouses, they spend more for health services than men and this aspect becomes also relevant when we talk about women's attitude towards risks and financial investments.

Conclusion: future global developments

Taking into account the particularities of women's economic behavior, but also the demographic and economic trends at the global level, more financial institutions (see Climate Funds Updates, 2013) create financial services addressed to women or gender differentiated. There have already been launched some Trusting Funds special addressed to women: Global Fund for Women, EU Network of Mentors for Women Entrepreneurs, European Network of Female Entrepreneurship Ambassadors, which have also programs to support women entrepreneurship. Also, the new perspective in the global financial market is to focus more on the individual needs and particularities, the personalization of the financial services to adjust the solicitant socio-demographic and personality characteristics. Financial institutions admit that the beneficiary are not a homogeneous group that would react in the same manner to the services they offer, but rather a heterogeneous group with particularities that worth to be revealed.

We have presented in this paper some arguments to support the idea that financial programs gender oriented, which comprise their need for savings and investment, could be successful. Still, an issue that deserves further investigation is the efficiency of such financial plans in the context of a relatively low financial literacy of women compared to men. The financial literacy topic and its consequences are approached by a number of the recent studies (Fernandes, Lynch & Netemeyer, 2013; Lusardi & Mitchell, 2007). Moreover, the financial institutions that offer investment plans are also more willing to educate and to invest in creating basic financial skills for the potential beneficiary. Thus, women are targeted in the programs of financial training and financial education and also in programs aiming to increase the entrepreneurial skills.

The "financial literacy" is considered to be a key factor in the discussion about investing versus saving, in the case of women and also this factor plays an important role when financial institutions consider gender differentiated or personalized financial services. The discussion is more about minimum competence to operate in the global financial market but also about trusting financial plans and individual's interest to learn more in the financial and economic domain.

We cannot ignore the role of cultural and religious values in the countries where the financial institutions or financial training programs operate. When "working with money" is seen more as a "man duty", or as a "dirty job", that would dis-honor women, the programs of financial literacy would face real challenges. Not only in the Muslim countries the number of women entrepreneurs is small (bellow 5%), but also in the countries when paternalist values are prominent and where there is a strong association between financial power and masculinity, as it has been found in research studies conducted in Romania, Russia, or Latvia (see GEM, 2010).

To analyze further developments in women entrepreneurship, the level of financial literacy and also gender differences in opportunity versus necessity entrepreneurship, we should take into account the dynamic of people's value orientation regarding gender at European level, as depicted by Special Eurobarometers (i.e. Special Eurobarometer on Gender Equality in the EU, 2009) and worldwide (i.e. World Values Surveys - see Inglehart, Norris & Welzel, 2002 for an analysis). People's value orientations in terms of behaviors and characteristics attributed to men and women in daily activities (including financial and economic activities) can nuance the research findings regarding women entrepreneurial behavior, their level of financial literacy or their confidence in abilities to handle financial tasks. Such an approach would also help in estimating whether push or pull type of entrepreneurship will prevail.

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Government accounts: below the line financing in Romania

Nicoleta SAVU[1]

Abstract. *The statistics represent data; the best decisions are based on information. Fiscal Notification reflects data and correlations between the most important indicators of Government Finance Statistics (GFS). The annual budget programs, the international agreements for financial assistance and the empirical evidence show that fiscal policy in Romania has targeted directly the budget balance (B9), acting only "above the line of B9", on the non-financial accounts of Government sector (S13). Using the language of national accounts experts, it is called "B9 of S13 sector" the difference between government revenues and expenditures, the budget balance of the country according to the European System of Accounts (ESA95). One explanation may be that, so far, the European Commission has opened Excessive Deficit Procedure (EDP) only for countries that have exceeded the threshold of 3% GDP for budget deficit, debt levels above 60% of GDP being not a prerequisite for triggering Excessive Debt Procedure. The role of the Government in economy is manifested through fiscal strategy, which should also cover items from "below the line of B9", where are aligned the financial accounts of Government sector and thus, indirectly the public debt could be targeted, as one of the stock indicators composed by the liabilities side items of the financial accounts. The purpose of this paper is not to characterize the fiscal policy, which however has proved to be pro-cyclical during the entire period, but to find alternatives to improve the budgetary system, to take into account the statistics when formulating fiscal strategy, the government finance statistics, but not only the classical and evident indicators on revenues and expenditures, but also that coming from national accounts statistics, specifically the government financial accounts.*

Keywords: *EDP notification; budget deficit; public debt; ESA95; national accounts; Government sector; fiscal strategy.*

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Introduction

Fiscal Notification is the procedure by which all the European Union Member States are obliged to send to Eurostat data and information about the Government deficit and debt based on a common statistical methodology (ESA95), so that the European Commission can monitor compliance with fiscal discipline in EU (article no. 126 of Treaty on the Functioning of the European Union - TFEU), according to the convergence criteria of the Maastricht Treaty, supervising that the results of the budgetary area are within the limits, maximum 3% of GDP for budget deficit and 60% of GDP for public debt (Protocol annexed to the TFEU). Member States have to calculate and to transmit to Eurostat twice a year the tables concerning EDP notification, in March and September, including annual data for the preceding four years and forecast for the current year. Commission publishes data on the Eurostat website, in April and respectively in October, after previously held rounds of clarifications with each Member States so that Eurostat experts can conclude if the data are consistent with ESA95 regulations, otherwise to express their reservation on published data. Commission monitors public finance indicators for each Member States and if the budget deficit exceeds three consecutive years 3% of GDP and the structural deficit on the medium term doesn't frame within the limits imposed by the Stability and Growth Pact, respectively by the Convergence Program for the EU Member States outside the euro zone, then Excessive Deficit Procedure will be triggered for that country.

Targeting the budget deficit was the main objective of fiscal policy in Romania, in both periods, prior to the EU accession and also after 2007. Compliance with the fiscal criterion requested to be met and maintained in order to have fiscal stability before joining the European Monetary Union, has influenced the national authorities to take decisions with immediate impact on public finances, that not always led to the best results on long term for the national economy as a whole. Therefore, the ad-hoc nature of the budgetary measures highlighted more the procyclical character of fiscal policy.

Deficit and debt axiom: 3% of GDP, respectively 60% of GDP

Leading economists and politicians have met together at Maastricht in 1992 and have concluded, considering the need to strengthen fiscal rules and taking into account the statistics and the various economic models, that a country's economy is stable in terms of public finance if the budget deficit does not exceed 3% of GDP and public debt is within 60% of GDP. But rules on determining all values included in the analysis must be harmonized in all countries, in order to reflect comparable realities. ESA95 standard governing elaboration of national accounts statistics, GDP being the most important indicator, it is also behind of government finance statistics and therefore the government deficit and debt follow ESA95 Manual, which has been updated into ESA2010 and included in 2013 in an EU regulation, thus having the force of law and being directly applicable in Member States. ESA2010 will enter into force in September 2014, for all the national accounts statistics reports.

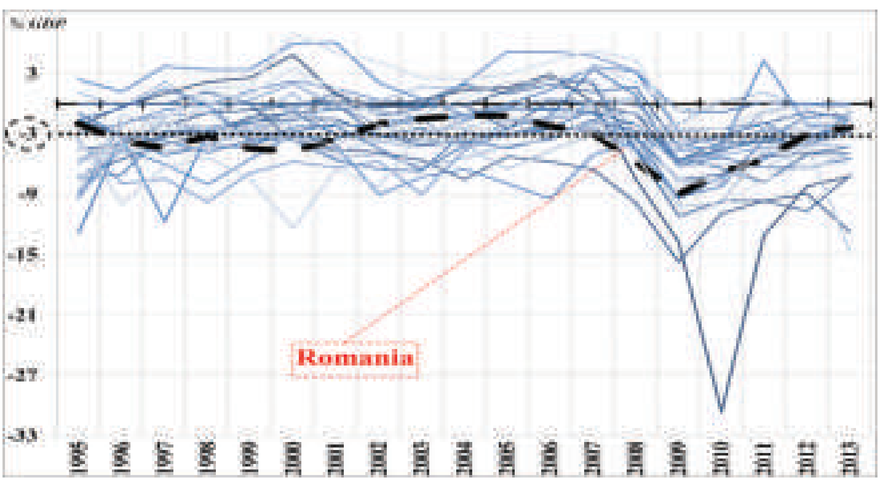


Figure 1. Evolution of budget balance (ESA95) of Romania and the EU Member States

Source: Eurostat database

In the period 2008-2011, Figure 1 shows that in Romania the budget deficit exceeded the threshold, because the European Commission opened the excessive deficit procedure (EDP) for the country. EDP is triggered if the budget deficit is three consecutive years more than 3% of GDP and suppose a fine to be paid to the EU budget, amounting up to 0.2% of GDP of the country if in a set period, the public finances doesn't meet again the Maastricht criteria and also could be reason for exclusion from the EU. In 2013 the European Commission has decided to close EDP for Romania, being confident that the deficit will not surpass 3% of GDP in the coming years. In April 2011, Eurostat express reservation on the Romanian data, because of uncertainty regarding the correct reclassification of companies from non-financial corporations sector (S11) into the Government sector (S13) after applying 50% criterion (more than 50% of expenditures of the company are financed by government) for the period included in the notification, between 2007 and 2011. But, fortunately, in April 2012, the specific reservations on the quality of the Romanian fiscal notification were withdrawn, after several technical, methodological, dialogue and upstream visits of the Eurostat experts, which involved all institutions responsible for compiling EDP Notification, National Institute of Statistics (NIS), National Bank of Romania (NBR), Ministry of Public Finances (MoF), as well as some companies, ministries and agencies, as primary data sources for EDP Notification.

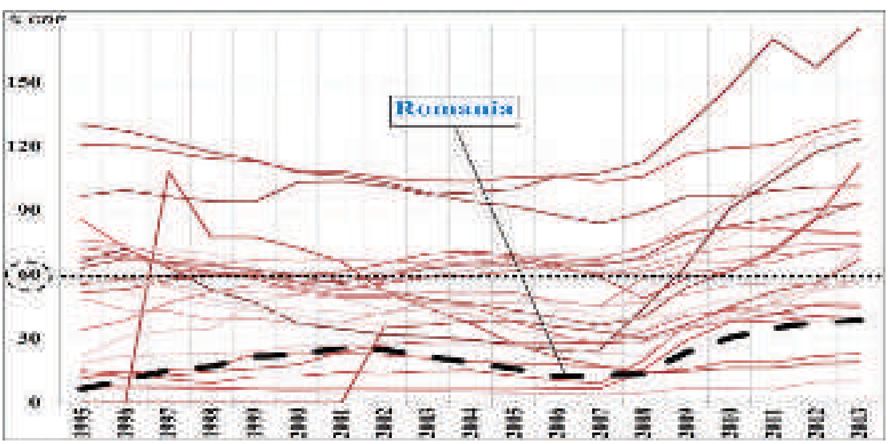


Figure 2. Evolution of public debt (ESA95) of Romania and EU Member States

Source: Eurostat database

The Figure 2 illustrates that in Romania, the public debt has recorded levels well below the nominal convergence criteria, but once the financial crisis has started, the public debt has begun to accumulate pro-cyclical fiscal policy outcomes, reaching the level of 38,4% of GDP at the end of 2013, two times higher than the outstanding level of the end of 2008, when the crisis began. However, noticeable is that the annual increase of public debt is reducing dynamics every year, as percentage of GDP, recording the peak of 10.2% in 2009 and the lowest increase in 2013, year coming only with an additional of 0.4% for public debt level.

Theoretical equivalences and practical discrepancies

ESA95 manual defines general government sector (S13), as part of the national economy. Annual national accounts are transmitted to the Eurostat once a year, in September, with the EDP Notification. Quarterly accounts of the national economy, both non-financial and financial accounts, have begun to be reported since September 2013 and are transmitted at a distance of a quarter (t+1). Specific to national accounts is the fact that all historical data have to be updated if occurre changes in terms of procedures, reclassifications, new information, in order to have comparability over the period.

The time series used in analysis covers the period 1995-2013. As a EU Member State, Romania has to report fiscal data according to ESA95 starting with 1995, compiling the standardized tables of EDP notification, the sequences of non-financial accounts of general government sector and its subsectors and also the related financial accounts, the last category being excepted from reporting for years 1995-1997. All these data are public and could be found on dedicated category web page of national responsible institutions and also on the site of Eurostat, the Statistical Institute of the European Commission, which provides access to all member states government finance statistics, as well as on the ECB database.

Government revenues and expenditures are transposed into budgetary resources and uses in order to determine B9, the net lending/net borrowing of general government, as is shown in Figure 3 ("B9 above the line") and are also reflected in the mirror, based on the double entry principle, on the financial accounts, which demonstrate the ways in which B9 was invested/ financed, the difference of net flows of assets and liabilities representing "B9 below the line", summary called "B9F" in Figure 4.

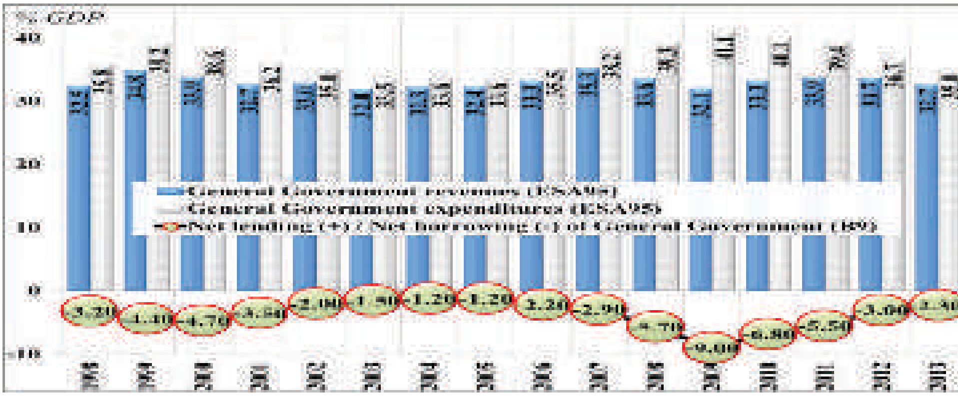


Figure 3. Revenues, expenditures and deficit B9 of General Government in Romania (ESA95)

Source: Eurostat database

If budgetary revenues have been relatively constant as a percentage of GDP in the period 1998-2013, recording levels between 32-35% of GDP, budgetary expenditures has been fluctuated from 35% to 41% of GDP and as direct consequence have increased the budget deficit. Fiscal policy has been built on spending programs based on optimistic forecast of tax collections to the state budget without taking into account the status of the economic cycle. The fiscal policy has proved to be pro-cyclical almost in all the last sixteen years, in time of growth the tax rates have been reduced (the introduction of flat tax in 2005) and in time of recession the expenditures have been cut and the tax rates have been increased (the increase of value added tax from 19% to 24%). Anyway, it is important that, in about three years of budgetary adjustments (2009 – 2012) after the crisis has started (end – 2008) and the deficit surpassed the European target, the budget balance come back below 3% of GDP, this Maastricht convergence criteria being again fulfilled.

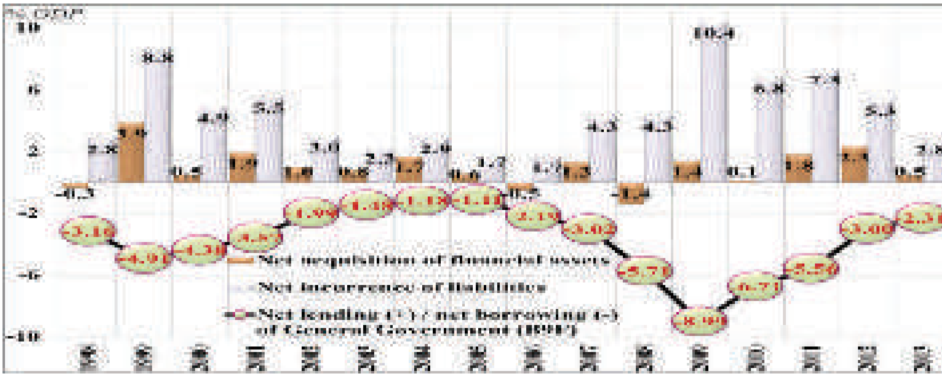


Figure 4. Transactions with assets, liabilities and B9F of General Government in Romania (ESA95) *Source: NBR, General Government Financial Accounts tables*

B9F is simply represented in Figure 4 as the difference between the net acquisition of financial assets and net incurrence of liabilities. What is clear is that the values of B9F in Figure 4 are very close to those of B9 in Figure 3. In theory, B9 equals B9F, but in practice discrepancies arise. The fiscal notification tables request this information to be compiled for each subsector of general government. It is tolerated and accepted the existence of a certain level of discrepancy, considered as being normal and varying from a country to another, depending on GDP level, complexity and size of transactions. Sometimes their absence raises doubts on quality data. The reasons of discrepancies come mainly from data sources and also from time of recording of transactions, non-financial accounts and financial accounts being developed using different financial statements.

It is evident therefore, that B9 differs from B9F at second decimal, as percentage of GDP. In practice, when considerable differences have occurred, Eurostat has requested to investigate causes and sometimes to recalculate B9, the balance of non-financial accounts flows being monitored through EDP. In Romania, the NIS is the institution responsible for the transmission of fiscal notification to Eurostat, the tables being compiled by NIS together with MoF, NBR and the National Prognosis Commission, each having well-defined roles in the protocol of cooperation signed by these institutions. The non-financial accounts are elaborated by NIS, the financial accounts by NBR and because MoF is coordinating fiscal policy and annual state budgets, the ministry is also responsible for determination of cash budget balance, starting point for EDP Notification indicators and in addition, it provides advice and most of the primary data, because of the role stipulated by law of collection of the financial statements of the entities from the economy.

As obviously, Figure 4 illustrates financial transactions in assets and liabilities of S13 sector, flows between institutional units inside sector are consolidated; the data includes relationships with other sectors of the national economy and rest of the world. The figure shows that the total amount of asset transactions has recorded very low levels as a percentage of GDP, generally positive, except years 1998, 2006 and 2008, taking values between 0-2% of GDP. Fluctuating in the same trend as the budget deficit B9, the total amount of liabilities transactions has recorded levels between 1.7-10.4% of GDP in the period under review. At first sight, therefore, it can be said that B9F sit on liabilities, Figure 4 is a chart so simple but saying a lot!

Fiscal Policy is targeting budgetary flows … on debt

EDP notification is the radiography of Government sector, which captures financial flows contributing to the change in public debt. Analysts could read the figures of this blueprint from two perspectives:

a) National Competent Authorities explain public debt stock starting from the government flows, the most important and the one that contributes the most to changes of the public debt, being the budget balance. The classic formula governing elaboration of national accounts: "closing stock = opening stock + transactions + reevaluation + other changes in volume" can be applied also to calculate the stock of public debt. Figure 5 and Figure 6 show the direct and high influence that Romania's budget deficit has on change in government consolidated gross debt.

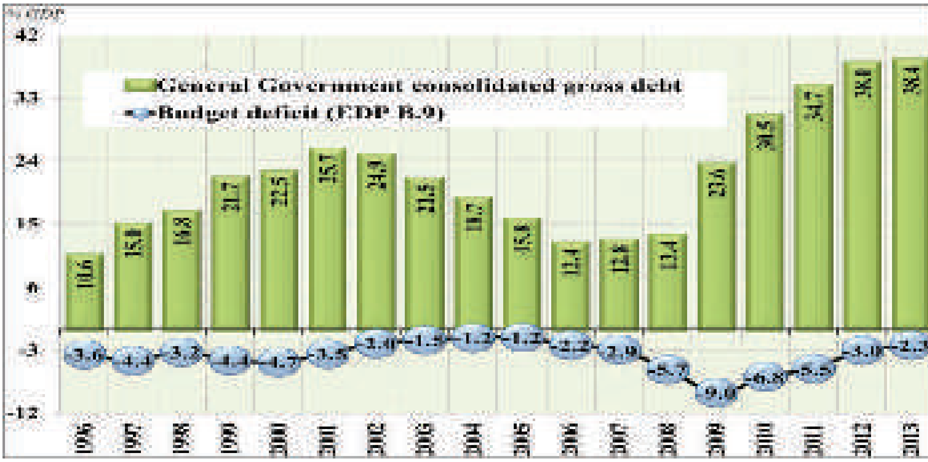


Figure 5. Evolution of budget deficit and of public debt (ESA95) in Romania

Source: Eurostat database

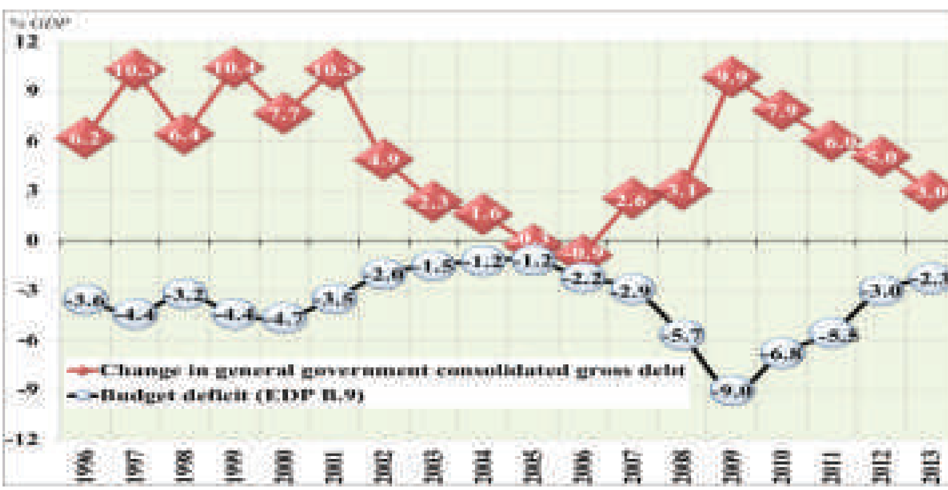


Figure 6. Evolution of budget deficit and change in Maastricht debt (ESA95) in Romania

Source: Eurostat database

Figure 6 shows the almost perfect symmetry between budget deficit and change in public debt in Romania, highlighting that the budget deficit is a result of pro-cyclical fiscal policy and an explanation for change in debt.

Eurostat, based on Table 3A of April 2014 EDP Notification, developed an analysis called "Stock -flow adjustment (SFA) for the Member States, the Euro area and the UE28 for the period 2010-2013". EDP Table 3A, namely "Provision of the data which explain the contributions of the deficit/surplus and the other relevant factors to the variation in the debt level (general government)", is part of a set of harmonized tables reported for EDP purpose by all member states. These flows are in deep monitored also during the upstream dialog visits by Eurostat, which are data quality check visits, organized by Eurostat in order to verify consistency of notified data. The authorities are tempted to hide behind these elements, flows that actually should enter into the calculation of the deficit and/or the debt. Sometimes, it is required the reclassification of certain transactions that should have an impact on the budget deficit/surplus. Thus, this analysis highlights the main factors that contribute to changes in public debt other than the budget deficit/surplus and assess the overall trend.

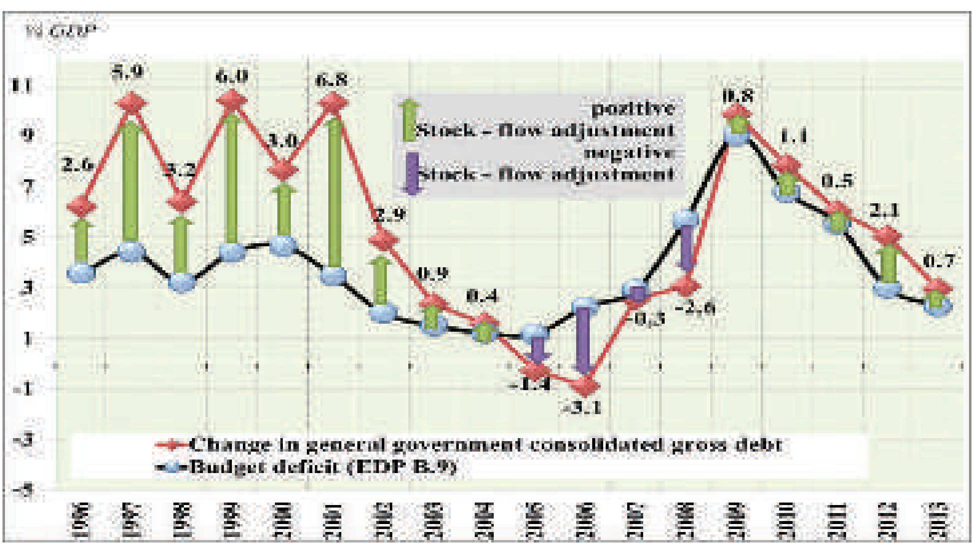


Figure 7. Evolution of stock-flow adjustment in Romania

Source: Eurostat database

Buti, Martins and Turrini (2006) in the research concerning relationship between "budgetary rules" of Economic and Monetary Union (EMU) and the "political incentive for manipulating fiscal variables" demonstrate that "during the run-up and in the early years of EMU", "Governments used a number of operations to conceal the true size of their deficits and put in place financial operations to stem the increase in the public debt". The conclusion shows that "increased weight to the deficit criterion in the EU surveillance resulted into lower Maastricht deficits but also into a higher incidence of stock-flow adjustments potentially connected with accounting tricks to keep Maastricht deficits low" and that "such incentives were reinforced in electoral periods" (Buti et al., 2006, p. 1038).

Certain studies demonstrate how some countries use the accounting rules and instruments in order to hide real level of deficit and debt: Hagen and Wolff (2004) measure the creative accounting by the stock–flow adjustments.

In Romania, the low level of SFA shows that no evidence of hiding real fiscal indicators is. The total effect of SFA is very small (0.7% of GDP in 2013), but it should be investigated, because it may be the effect of compensations resulting from totalized values of individual factors Figure 7 reveals that, in the period 2005-2008, the stock-flow adjustments were negative, the budget deficit has surpassed the change in debt, on one side mainly due to the fact that the stock of debt must be recorded at nominal value and that period has been characterized by depreciation of foreign currency debt/ appreciation of national currency and, on the other hand due to the increase in net incurrence of other liabilities (trade credit and advances and other accounts payable), most result of entry and of no use of the EU funds before and after joining the EU, both liabilities items not included in the Maastricht debt. Figure 8 presents the transaction with financial assets, on the left side and the transactions with liabilities instruments on the right side, item not included in the Maastricht debt.

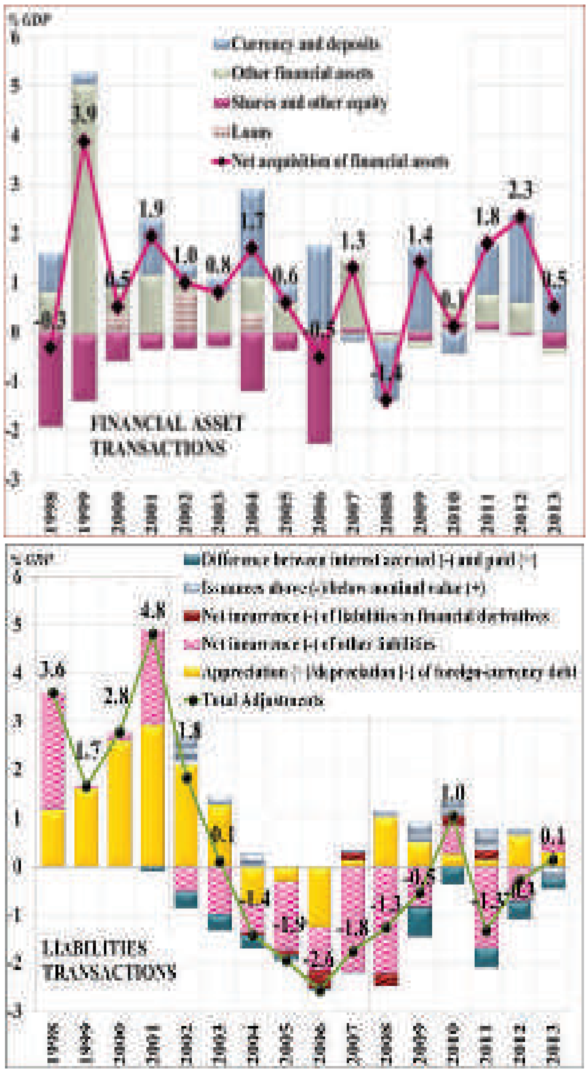


Figure 8. Evolution of transactions with financial assets and liabilities (ESA95) in Romania

Source: Eurostat database

Table 1. Contributions of the deficit and the other relevant factors to the variation in the debt level

% of GDP	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Net acquisition of financial assets (1)	**-0.3**	**3.9**	**0.5**	**1.9**	**1.0**	**0.8**	**1.7**	**0.6**	**-0.5**	**1.3**	**-1.4**	**1.4**	**0.1**	**1.8**	**2.3**	**0.5**
Currency and deposits	0.8	0.2	0.2	1.1	0.3	0.3	1.8	0.4	1.7	-0.1	-1.2	1.7	-0.4	1.0	1.8	0.9
Loans	0.2	-0.1	0.3	-0.1	0.8	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Shares and other equity	-1.9	-1.3	-0.6	-0.3	-0.3	-0.3	-1.2	-0.3	-2.3	0.1	-0.1	-0.2	0.1	0.2	-0.1	-0.3
Other financial assets	0.6	5.0	0.6	1.2	0.3	0.8	0.8	0.6	0.1	1.4	-0.1	-0.1	0.3	0.6	0.6	-0.1
Adjustments (2)	**3.6**	**1.7**	**2.8**	**4.8**	**1.8**	**0.1**	**-1.4**	**-1.9**	**-2.6**	**-1.8**	**-1.3**	**-0.5**	**1.0**	**-1.3**	**-0.3**	**0.1**
Net incurrence (-) of liabilities in financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.4	0.2	-0.2	0.0	0.2	0.2	0.0	0.0
Net incurrence (-) of other liabilities	2.4	0.1	0.2	2.0	-0.5	-1.0	-0.6	-1.4	-0.9	-2.2	-2.2	-0.8	0.6	-1.7	-0.7	0.3
Issuances above (-)/below nominal value (+)	0.0	0.0	0.0	0.0	0.6	0.2	0.3	0.0	0.0	0.0	0.1	0.4	0.4	0.5	0.2	-0.3
Difference between interest accrued (-) and paid (+)	0.0	0.0	0.0	-0.1	-0.3	-0.3	-0.3	-0.1	0.0	0.0	0.0	-0.6	-0.4	-0.4	-0.4	-0.2
Appreciation (+)/depreciation (-) of foreign-currency debt	1.2	1.6	2.6	2.9	2.1	1.3	-0.8	-0.3	-1.3	0.1	1.0	0.5	0.3	0.1	0.6	0.3
Statistical discrepancies (3)	-0.1	0.5	-0.3	0.1	0.0	-0.1	0.1	-0.1	0.0	0.1	0.0	0.0	-0.1	0.0	0.0	0.0
SFA (1+2+3)	**3.2**	**6.0**	**3.0**	**6.8**	**2.9**	**0.9**	**0.4**	**-1.4**	**-3.1**	**-0.3**	**-2.6**	**0.8**	**1.1**	**0.5**	**2.1**	**0.7**
Net borrowing(+)/lending(-) of general government (-B9)	**3.2**	**4.4**	**4.7**	**3.5**	**2.0**	**1.5**	**1.2**	**1.2**	**2.2**	**2.9**	**5.7**	**9.0**	**6.8**	**5.5**	**3.0**	**2.3**
Change in general government consolidated gross debt (-B9 + SFA)	**6.4**	**10.4**	**7.7**	**10.3**	**4.9**	**2.3**	**1.6**	**-0.3**	**-0.9**	**2.6**	**3.1**	**9.9**	**7.9**	**6.0**	**5.0**	**3.0**

In the Table 1 it is obvious that the budget deficit (B9) is the element contributing the most to the change in debt (77% in 2013).

b) The EU Member States notify the Eurostat the budget balance as output of fiscal policy of the Government, highlighting transactions on assets and liabilities with financial instruments by which the deficit was funded or the surplus has been invested, thus the budget balance being justified by the changes in government financial accounts.

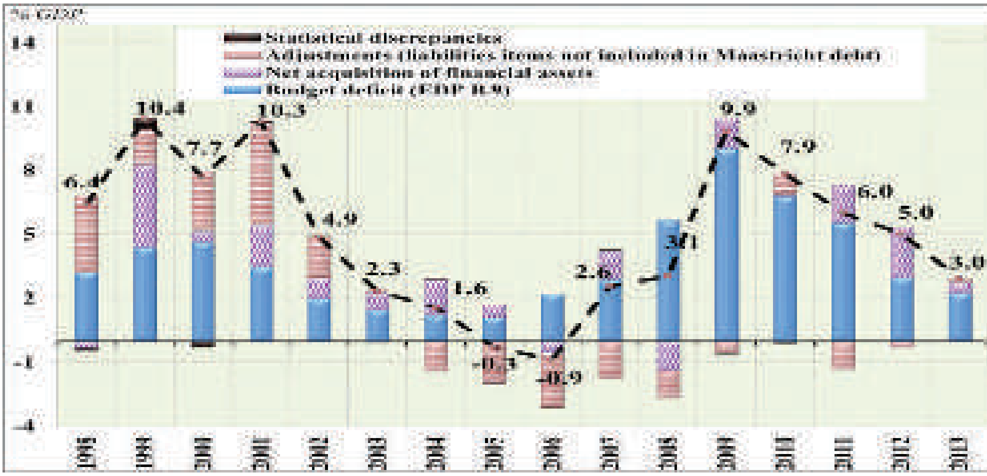


Figure 9. The main factors contributing to change in Maastricht debt in Romania

Source: Eurostat database

Figure 9 shows that in Romania, in addition to budget deficit, change in public debt is influenced also by the net acquisition of financial assets, the effect of other liabilities adjustments and by the discrepancies. According to the Protocol on the excessive deficit procedure annexed to the EC Treaty, Maastricht debt is the consolidated gross debt of the whole general government (central government subsector, local government subsector, social security funds subsector), the outstanding amount at the end of the year at nominal value. According to the EU Regulation no. 479/2009, it includes the following categories: currency and deposits, securities other than shares excluding financial derivatives and loans.

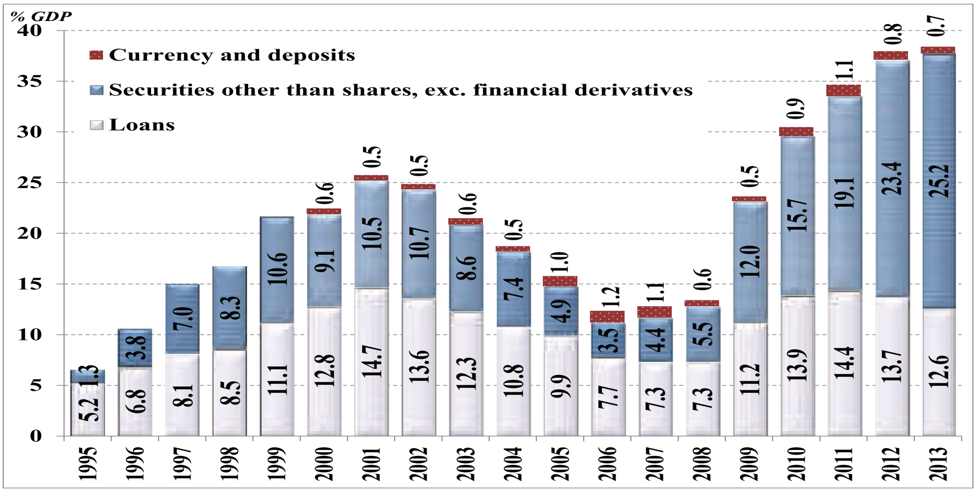
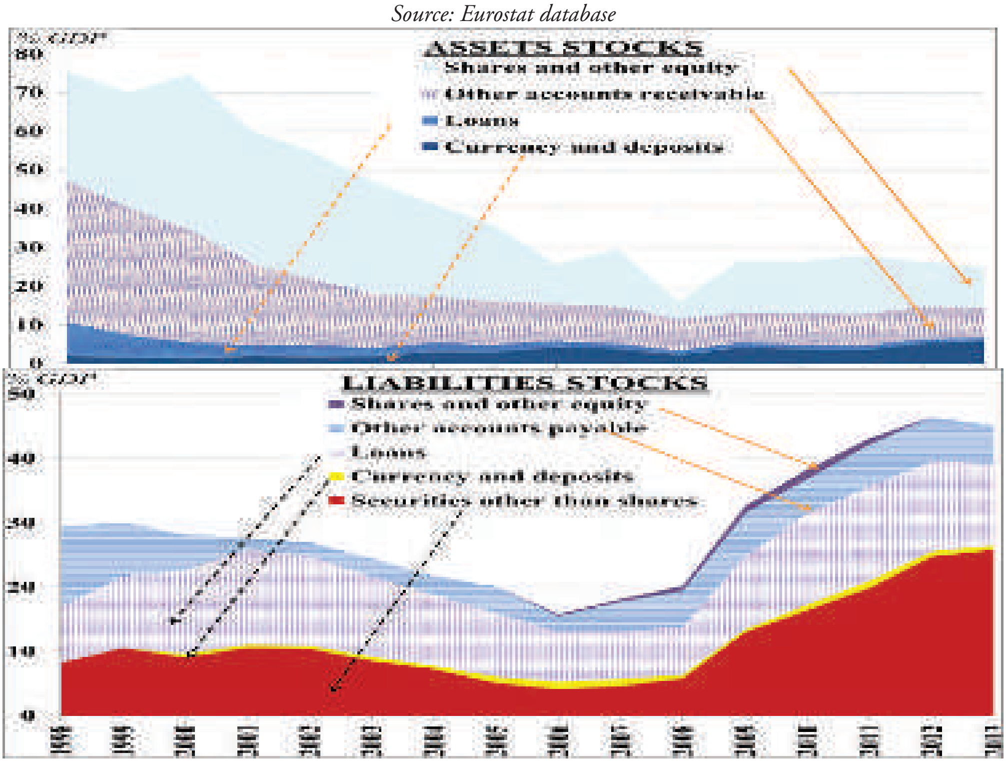


Figure 10. Evolution of budget deficit and public debt (ESA95) in Romania
Source: Eurostat database

The management of government assets and liabilities that are not included in the Maastricht debt is missing (Figure 11).

Figure 11. Evolution of stocks of financial assets and liabilities (ESA95) in Romania
Source: Eurostat database



The assets stocks of share and other equity are decreasing rapidly between 2004 and 2008, because of the privatization of public companies, structural operations that do not increase the net worth of Government because all receipts financed the budget deficit in that period.

The policymakers have to analyze and to take active action on asset stocks of shares and other equity, of other accounts receivable or of currency and deposits (F5, F7 or F2 – ESA95 codes) and also they have to take into account the liabilities stocks of shares and other equity and of other account payable (F5 and F7 – ESA95 codes). The best solution when all options have already been exhausted is to find niches that even if at first view do not seem so important, through targeted strategies on medium and long term, they can drive to benefits.

Considering the IMF staff discussion note on definition of public sector debt taking into consideration 61 countries around the world, the gross debt is "headline indicator for risk-based assessments of the fiscal position", but also "net debt is important to any comprehensive analysis of a country's debt, debt sustainability and fiscal risks. Net debt is calculated as gross debt minus the financial assets corresponding to debt instruments". It could be seen as a new trend, "while much of the policy debate centers on government liabilities, some countries have begun to publish and focus policy analysis on net debt" (Dippelsman, Dziobek & Gutiérrez Mangas, 2012, pp. 3-4, 7-8). In Romania, the financial assets (F2 - currency and deposits and F4 - loans) related to debt instruments, as we see from Figure 11a, maintain relatively the same level during the analyzed period, respectively 10% of GDP, the decrease of loans being compensated by the increase of currency and deposits.

We conclude from both approaches that behind fiscal notification are the national accounts, as statistical standard and also as used, extracted and compared figures.

Conclusions and implications

The management of all financial assets and liabilities is essential; attention must focus not only on the liabilities items included in public debt but also on other financial accounts. To define the strategy is needed, using models which change the routine and which do not look only at revenues and expenditures, to come up with innovative mechanisms if the classical does not proved any more effectiveness. Diversifying the existing framework, but using existing resources, use of the EU funds mainly can implement the management of financial assets and liabilities and determining fiscal targets based on analysis of all economic sectors. S13 sector itself would consolidate its position by any step taken for development of the other sectors, which in return are paying taxes. The management of the financial assets and liabilities means to develop strategies for existing stocks so that, with the lowest risk, considering that government sector are in the middle, whose role is not the same as for a company, maximization of profit, but the redistribution of revenues and a decent living for citizens so that to lead to value added into the economy and positive net wealth.

In formulating the fiscal policy, analysis of budgetary indicators should be linked to national accounts statistics, especially to government finance statistics and to all government accounts. Special attention should be given to stock indicator “net wealth”, which is equal to the stock of nonfinancial asset plus net financial worth, calculated as difference between stocks of financial assets and liabilities (GFSM2001, IMF). By analogy with the fact that the budget balance is the main element defining the fiscal policy, calculated as difference between revenues and expenditures or in terms of national accounts standards as difference between financial assets and liabilities transactions of government sector, any budgetary decision requiring the determination of the impact on the budget deficit, the policymakers should give equal importance to managing stocks of assets and liabilities, whether they are financial or non-financial. Government sector net worth is as important as the budget balance in order to accomplish both objectives of fiscal strategy, the stability of public finances and economic growth. Last year, the Ministry of Public Finance has created a new department responsible for management of nonfinancial acquisitions, which has begun activity with prioritization of public investment and inventory of state-owned fixed capital, being very important to update their book values to the market value.

Regional financial companies having role of development agencies could be a solution for managing the financial assets and not only. These financial institutions can play the role of a bank or of an intermediary institution dealing with EU funds projects or also the role of direct business partner, according to the European regulations on state aid! This is an idea to increase the stocks of shares and other equity and to use EU Fund in efficient manner involving the private companies.

The Government's role in the economy could be met with efficiency and effectiveness through fiscal strategy, targeting directly government financial accounts counterparties, each balance of the national economy sectors, as classified by ESA95 manual into the nonfinancial corporation sector – B9 of S11, the financial corporation sector – B9 of S12, the households sectors – B9 of S14, the nonprofit institutions serving households – B9 of S15. But which is the optimum level for each B9 of each sector? Perhaps at European level, it should be defined another axiom of B9 for each sector of the economy and also an EDP notification for each sector. Then, the fiscal strategy will target national macroeconomic policies coordinated at European level.

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Is the European social and economic model still sustainable? A pragmatic approach from Romanian students on the future of the Eurozone

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Abstract. *In the light of recent events, the European project is still facing a series of crises on different levels: economic, political, social and identity based ones. Although Eurobarometers emphasize the fact that young Europeans are more optimistic than older generations considering the future of the European project, they are also the ones labeled "the Lost Generation" (European Commission, 2012) due to the economic hardships. This paper explores the impact of the economic crisis on Romanian students' attitudes towards the future of the European Union as an economic project. In this regard, we approached the subject from a utilitarian perspective, focusing on the actual advantages of the Europeanization process and the sustainability of the European social and economic model in the current national economic context. The results of our study indicate that although Romanian youth perceives the European project as a necessity to the current economic pressures driven by the process of globalization and the increasing competitiveness of the international markets, at the same time emphasizes its concerns regarding the sustainability of the European economic and social model in the current context.*

Keywords*: economic crisis; European social model; euro; EU attitudes.*

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Introduction

The European Union is facing a state of profound uncertainty, as the European project is being put under scrutiny. Under the influence of the financial and economic crisis of 2007 – 2008 the pillars on which the EU stands no longer satisfy the demands and necessities of the European citizens (Van Ham, 2005; Habermas, 2012). Among the most affected categories are the young people, as the economic crisis has left them with little or no opportunities in terms of finding a job, and building a future for themselves.

This chapter sets out to reflect on the attitudes of young Romanians towards the future of the European project from an utilitarian perspective. We begin by introducing the economic context that underlies all the challenges that the EU nowadays has to face. We discuss the effects of the financial and economic crisis on the young individuals, exploring the topic of self-interest in relation with the EU.

Although the economic crisis has raised many issues, highlighting the EU's vulnerabilities, our results show that young Romanians hold a rather favorable opinion about the EU as long as they feel the benefits and the concrete advantages that derive from being a European citizen.

The crisis of the European Union

The present day reality continues to be under the influence of the financial and economic crisis that started six years ago, and that still has serious effects on both the USA and Europe (Krugman, 2012; Verhofstadt, 2012). At the moment, the European Union has a heavy challenge to confront, as the crisis struck a Union that was under construction, and that had much vulnerability (Dobrescu, 2013; Bârgăoanu, 2011). Therefore, our aim is to highlight the key events that shaped the socio-economic context in Europe during the past six years, drawing attention, to the impact and effects of the financial and economic crisis on young people in Europe, and respectively in Romania.

The crisis of 2008 has highlighted great imbalances between the European Union member states (Kattel, 2010; Dobrescu, 2013). Radu, Boțan and Corbu (2013) argue that the EU is divided into regions. In this sense, there is a clear distinction made by specialists (Dobrescu, 2013; Dobrescu and Palada, 2012; Buiter, 2011) in terms of core vs. periphery. The distinction between 'core' and 'periphery' is, therefore, made when debating the newly integrated countries, referring to old versus new member states, on the one hand, and on the other hand when discussing the South versus the North, in terms of economic performance (Radu et al., 2013). Other specialists (Dobrescu & Palada, 2012; Buiter, 2011) state that the concept of "periphery" is used just in relation to the countries facing serious financial difficulties. The economic crisis has underlined even further this division between member states, exposing the European project to much criticism in terms of the legitimacy of European integration (Wilde & Trenz, 2012).

The Union's main weakness was caused by its common currency: the euro. In this sense, Stiglitz (2012) states that the EU member states adopted the euro without making the necessary political and institutional arrangements to ensure its success and for this reason Europe will have to face a high price. This viewpoint is shared by other specialists (Krugman 2009, 2011, 2012; Habermas, 2012; Costa Fernandes & Mota, 2011; Aslund, 2010), who also underlines that countries that share the common currency are highly vulnerable.

After 2007 and 2008 financial markets were greatly affected, and, as a consequence, the European Union was severely afflicted because of the increasing debt, while fiscal deficits rose for several countries with leading economies (Lapavistas, 2012). At the European level, the effects were seen in imbalances between member states that left the peripheral countries vulnerable to the crisis. Hence, the sovereign debt crisis that broke out was caused, as expected, by the financial and economic crisis of 2007-8, and in the same time, by the "precarious integration of peripheral countries in the Eurozone" (Lapavitsas, et al., 2012, p. 26). Nevertheless, Hall (2012, p. 361) comes with an explanation, stating that a "basic asymmetry was built into EMU from its inception". This asymmetry was given by differences between institutional frameworks in northern and southern political economies. On the one hand, northern countries had well suited policies and growth strategies that led to their economic welfare, and, on the other hand, southern economies entered the monetary union unprepared and ill equipped to the effective competition within the union (Hall, 2012). These imbalances that led to the sovereign debt crisis have brought about a great amount of stress concerning the cohesion of the Eurozone (Costa Fernandes & Mota, 2011). Similarly, Schmitz and von Hagen (2011) put forward the idea that while concerns about the sustainability of the monetary union have been risen, there is evidence that a deepening in financial market integration in the euro area is already taken place.

Moreover, the effects of the financial and economic crisis and the newly exposed flaws in the construction of the economic and monetary union made Eurosceptics to take a "reluctant step in the direction of integration" (Habermas, 2012, p. 129). This context, hence, fuels more and more skeptical concerns in reference with the European project and European integration. Consequently, recent studies (Pew Research Center, 2013; Gallup, 2013; Eurofound, 2012) show that the level of confidence in the European Union among its citizens has significantly decreased due to the economic and financial turmoil. Attitudes towards the European integration may, therefore, be affected by this economic context that highlighted the Union's many vulnerabilities. This is in accordance with previous literature (Garry & Tilley, 2009; Eichenberg & Dalton, 2007; McLaren, 2006) that shows that economic factors are important determinants of citizens' attitudes towards the EU. When it comes to attitudes in the European Union, they have always been divided, as there have always been supporters and opposers to the European integration. As Fliegstein (2008, p. 4) points out, the source of conflict may arise from the gap between those who "participate and benefit from Europe directly and those who do not", especially at the moment, when this gap became more evident due to the disparities between member states caused by the crisis. Some authors (Wilde & Trenz, 2012) even put forward the idea the entire European project – with its basic purpose and rationale - is nowadays contested, along with its future trajectory.

The situation is all the more dramatic for the young European citizens, as the effects of the crisis had taken a great toll in their concern. Since one of the immediate consequences was the sudden rise in unemployment (Krugman, 2012), the young people were among the most vulnerable. Krugman (2012) states that, now, it is the worst time to be a young individual in search for a job, especially if you live in Europe. If we take a look at the numbers, they illustrate an alarming situation: youth unemployment rate in EU28 is more than double than unemployment rates for all ages (Eurostat, 2014). According to Eurostat (2014) data the overall unemployment rate in the EU28 reached 10.8% in 2013, while youth unemployment reached at the end of the same year 23.1%. In what concerns the Romanian youth, their situation is even grimmer, as the rate of unemployment is higher than the EU youth average, reaching 23.6%.

As pointed before, young people are unemployed and due to the hardships and the labor market regulations, jobs scarce and unsecure. Moreover, Krugman (2012) underlines that about one in five graduates is unemployed or working part-time and is underpaid. This situation described by Krugman (2012) is also concordant with the Romanian reality, as "half of high school and university graduates cannot find a job" on the Romanian market (FutureLab, 2013, p. 24). The young people are "trapped in a limbo of unemployment, underemployment or an endless cycle of education because of a lack of job opportunities" (FutureLab, 2013, p. 4).

Hence, the young individuals, aged roughly between 18 and 35, belonging to the so called "lost generation", are characterized to be overqualified, to have low salaries and low job security and satisfaction, in the best case scenario. On the other hand, in the worst case, young individuals have no qualifications, no employment, and have even fewer opportunities on the labor market. The major issues and concerns when it comes to the "lost generation" are that they face greater uncertainty and economic insecurity, that, in tour, cause them to be insecure about their future, to have a low self-esteem, to lose their sense of identity, to be disengaged from society and politics, to fail inadvertently to retain their freedom and independence, as they need to return to live with their parents (FutureLab, 2013, European Commission, 2012; Eurofund, 2012). Taking these facts into consideration, we can better understand the decline in trust when it comes to the European Union, as it is only natural for young individuals to become more pessimistic (Eurofund, 2012), as the Union's promised welfare was not achieved in their concern.

An instrumental approach on the attitudes towards the European Union

By reference to the European Union and the enlargement process, identity represents a social construct and a catalyst for promoting peace, democracy and prosperity. The emergence of a European identity based on the formation pattern of nation-states remains questionable due to the fact that on the pressure of globalization, the geographical and psychological barriers that demarcate the European space haven't been clearly defined yet (Delanty & Rumford, 2005; Kaina & Karolewski, 2009).

The concept of European identity can be analyzed from different points of view taking into account its cultural, civic or utilitarian components (Jimenez, 2004). On the one hand, several theories emphasize that the individual's emotional sense of belonging to the European community is shaped by elements such as historical heritage and a common European culture (Bruter, 2003, 2005; Inthorn, 2006). In contradiction with the thesis mentioned above, the theory on constitutional patriotism stresses that European identity is based on civic elements and represents a form of attachment of citizens towards political institutions through universally accepted democratic values (Lacroix, 2002; Habermas, 2004; Mueller, 2007).

In line with the instrumental approach, European identity is being conceived as primarily pragmatic. Therefore, individual's membership towards the European community depends on the results of a cost-benefit analysis of the economic consequences of the process of Europeanization on their lives (Kaltenthaler & Anderson, 2001; Hooghe & Marks, 2004; Tănășoiu & Colonescu, 2008; Frunzaru & Corbu, 2012). As a consequence, individuals define themselves as European citizens in accordance with the concrete advantages provided by the European integration process and their personal interests. When analyzing European identity, research indicates that young people internalize a sense of belonging to the European community mainly in pragmatic terms (Frunzaru and Corbu, 2012; European Commission, 2013; Udrea, Udrea & Țugmeanu, 2013). Tfasos (2006) states that young Europeans have the tendency to share a collective identity only in good times, while in times of social and economic insecurity rely on their national identity. This approach is inconsistent with the results of the most recent European Commission Report (2013, p.16) suggesting that despite the negative economic trends affecting the Eurozone, young Europeans are rather optimistic concerning their future as European citizen due to concrete benefits that are relevant to their needs and aspirations: obtaining appropriate qualifications, building their professional career and securing good living conditions".

When addressing attitudes of support or opposition towards the European integration process in relation to the utilitarian approach, we can distinguish between two divergent perspectives that take into consideration economic factors, respectively identity aspects. Lauren McLaren (2006) proposes two theoretical models that are predominant among utilitarian approach concerning individuals attitudes towards European integration: egocentric utilitarianism that emphasizes the fact that individuals support for the European project depends on the maximization of personal interests and economic benefits that directly impact the standards of living (Palmer & Gabel, 1999; Gabel, 2009); secondly, the sociotropic utilitarianism, that examines the attitudes of support towards the EU by taking into consideration the consequences of the European integration process on the national economy (Garry & Tilley, 2007). The egocentric utilitarianism approach indicates that the demarcation between the winners and losers of the European integration process is made through the differentiated economic costs and benefits for each European citizen. Therefore, individuals with higher education and professional skills (students, managers, entrepreneurs etc.) show a positive attitude towards the European integration process can adapt more easily and are able to identify significant opportunities in the context of the liberalization of capital markets. Conversely, European citizens with average education and low income express rather skeptic attitudes concerning the positive effects of the process of European integration on national economy (McLaren, 2006, p. 32).

Unlike the egocentric utilitarianism theory that analyses the political attitudes of individuals towards the process of European integration in relation to personal interests and social status, the sociotropic utilitarianism approach focuses on the consequences of the Europeanization process on national economy. The support or opposition attitudes towards the European project are influenced by two major economic factors: in the first place, *the European Union budget* and the differentiated economic contribution of each member state causing a major gap between beneficiaries and main contributors; secondly, *the elimination of regulations and trade barriers* in order to establish free trade zones for increasing competition across markets (McLaren, 2006, p.44). Despite the positive effects of the European integration process on national economies, the current crisis has generated „economic xenophobia" (Garry & Tilley, 2007, p. 184) and a defensive European identity against immigrants.

The opposition attitudes against the European Union are grounded on utilitarian aspects, but are also influenced by the emotional attachment and loyalty of individuals towards the nation-state. Hence, the process of European integration represents a threat to the sovereignty of the nation-state, to national cultures and identities (Carey, 2002; Marks & Hooghe, 2003; McLaren, 2002, 2004; Netjes, 2004; Netjes & Kersbergen, 2004). Lauren McLaren (2002) emphasizes: „antipathy toward the EU is not just about cost/benefit calculations or about cognitive mobilization … but about fear of, or hostility toward, other cultures" (p. 553). In specific contexts, through political discourses and the inference of politics in everyday life, national identity becomes dominant in relation to personal and economic interests. Therefore, the citizens perceive the process of European integration as a threat to the integrity of the nation state, the legitimacy of its political institutions and cultural heritage. This idea is also supported by some authors indicating that euro, one the of the most representative markers of European identity and integration process is used as a tool for manipulating European citizens through the reproduction of national symbols (Bruter, 2003, 2004; Kaina & Karolewski, 2009). Conversely, Jacques Hymans (2004) suggests that euro currency represents an important indicator for the development of a European demos and not an instrument for indoctrination. Although, at a symbolic level, euro embodies the federalist vision on the European project, at present, values such as economic and political cohesion, no longer hold the same resonance and meaning for political elites and European citizens.

Research design

This article aims to analyze from a utilitarian perspective the impact of the economic crisis on Romanian students' attitudes towards the future of the Eurozone and, implicitly, towards their future as European citizens. Therefore, we focus on the following research questions:

RQ1: How do Romanian students imagine the future of the Eurozone?

RQ2: Do Romanian students perceive the euro as threat to national economy and national identity?

RQ3:In the aftermath of the European economic crisis, is the European economic and social model still sustainable?

In order to address these research questions we adopted a qualitative approach. Consequently, we conducted 3 focus groups. Our sample comprised 24 students, aged between 19 to 30 years, enrolled in Bachelor degree programs at the following public learning and research institutions: College of Management - The National School of Political Studies and Public Administration; respectively, Faculty of International Business and Economics - Bucharest University of Economic Studies. Thus, our analyses comprises several questions regarding: the process of Europeanization and its effects on national economy; the impact of the economic crisis on the stability of the Eurozone, business markets and standards of living; the competitiveness of the European social and economic model on the global market; euro adoption in Romania.

Results and discussion

Romanian students emphasize the fact that the process of European integration has improved the living standards and the economic development of the country but only at a small scale: *We don't need to wait for the EU to solve our social, political and justice problems … but we must admit that different aspects concerning corruption, unemployment have improved, but are not so noticeable (Bianca);It has helped Romania in certain ways, but Europeanization doesn't mean economic equality like in the communist period (Mihai).* The negative references concerning the Europeanization process relate to the deliberate preservation of economic disparities and competition between member states but also to the incapacity of national institutions to adapt to the new climate of change imposed at a continental level. In this context, the promised economic welfare is seen only as an utopia and the Europeanization process only another form of oppression: *The Europeanization process has helped other countries but destroyed most of the Romanian economy (Radu)*; *There will always be countries that work for others and this system of oppression will never disappear (Alexandra); EU has its own interests, they wanted us only as a name, for a more positive image and credibility (Adela).*

For most of the respondents, the current economic situation has highlighted the fact that the European social and economic model is not sustainable and cannot be a source for gaining competitive advantage on a global market anymore: *We are moving towards social collapse (Oana)*; *We are not competitive with Americans, we do not have the same ways of making business on an international level, we still have taxes between us so it isn't really a free trade zone. There is only a competition between member states (Andreea).* One of the respondents states that the consumerist European model has lost its relevance in the current economic reality and that citizens must support economic recovery of Romania through the consumption of traditional products instead of those labeled under „Made in the EU": *The model itself is a problem. Each country must protect its industry and we must be aware that we can have jobs only if we encourage the consumption of Romanian and not foreign products (Ioana).*

The current struggle that Eurozone is facing has been generated not only by economic factors but also by the hostility and lack of solidarity between member states causing a gap between the core and the peripheral areas of the European Union. Romanian students emphasized that economic cohesion between member states is a double-edged sword used by the most powerful countries of the Union to run in debt the beneficiary countries: *I do not believe in solidarity between member states regarding the economic crisis. It will always apply the law of jungle: the lion is the king (Mihai); There can't be all for one and one for all. It's not right that only some countries get help (Mădălina); If to borrow money from the main contributors means solidarity this helps the country only in a short term ... with excessively high gearing and high rates of interest you can never recover (Călin).* Conversely, for some of the respondents solidarity remains a fundamental European value that stands at the core of the European project: *The negative effects of the crisis can be exceeded only through economic cohesion and solidarity between member states. After all, what's the point of the EU if not unity? (Gabriela); The social and economic problems must be solved through cooperation, it's a partnership (Mădălina).*

A general opinion concerning the euro adoption in 2019 by Romania represents an unrealistic scenario due to the lack of economic competitiveness of the country and the fragile European economy. The major concerns of the respondents in relation to Romania's future status of becoming a member of the euro area are economic instability, high interest rates and higher prices, based on the major differences between Eastern and Western economies: *Romania should keep its currency because it's stable. Every time a national currency is changed a series of financial problems arise (Andrei)*; *Romania adopting euro would mean national starvation (Călin)*; *We are too poor to join the Eurozone (Bianca); The changes would be to high: the same wages, but higher prices of products ... Romania is not ready for this (Alexandra); Romania is not sufficiently prepared to adopt the euro (Ștefana).* Only one of the respondents states that *Euro currency itself cannot generate benefits or ruin national economy. Other factors are involved (Ana),* emphasizing the importance of politics on this matter.

In relation to the austerity measures that were taken by national governments and imposed at a continental level for the survival of the monetary Union, the respondents emphasized the fact that this measures were a necessity, such as the existence of the European project itself. At the same time, participants on this study appreciate that European Union interference in national economy through fiscal policies and collecting taxes results from the obligations and responsibilities that derive from the status of being a member of the Union and a European citizen: *As long as the future of the European Union is at stake they have the authority to impose certain rules (Andreea); When it comes to austerity measures you take it as a given (...) it is naturally to obey to this laws as a European citizen or you will not be part of the Union anymore (Laura);They have the right to collect taxes from citizens because we are part of the European economy... For example, most of the investors on FMCG industry are foreign, so the money returns to European Union (Călin).* In addition, participants stated that the economic crisis has affected them in terms of less job opportunities, less options when it comes to choosing a faculty: *The crisis has limited my options in choosing a faculty. Now, I have to be much more careful when I choose a faculty, a career (Silvia).*

Conclusion

Even though the economic crisis has underlined many vulnerabilities of the European project, Romanian young people do not seem to be very pessimistic about its future, although they have some reservations. Interestingly, Romanian individuals put under scrutiny the weak solidarity between member states and from here some issues might emerge in terms of the feasibility of the European project. Young people consider that the economic crisis has brought disparities between member states, highlighting the incapacity of national institution to adapt to the regulations imposed at the EU level. Hence, we can infer their lack of trust in national institutional management and their disbelief in an economic welfare in what Romania is concerned. Their reservations are highlighted by the consequences of the economic crisis in terms of the unsustainable European economic and social model. The crisis has taken its toll in young people concern, as they are a generation labeled 'the lost generation', as they have to face many difficulties such as unemployment and lack of opportunities, all under the context of a great financial and economic turmoil.

In the same time, our research reveals that the economic crisis has underlined the dichotomy between 'core' and 'periphery', referring to the fact that young people perceive a gap between Romania, an emerging economy and Western Europe, and older, more stable economies. Furthermore, the economic crisis brought much instability in the Eurozone and in young Romanians opinion the country is not ready to adopt the euro, emphasizing the importance of politics in this matter.

In relation to attitudes towards the European Union, young Romanians are not skeptical, as they admit that that European integration has brought economic development and higher living standards. Moreover, when it comes to the way they perceive the membership of Romania to the European community, the research showed that young individuals correlate it with the cost-benefit of the economic consequences to the process of integration. This finding is in accordance with previous literature (Kaltenthaler & Anderson, 2001; Hooghe & Marks, 2004; Tănășoiu & Colonescu, 2008; Frunzaru & Corbu, 2012), as young Romanians put a lot of emphasis on the benefits they gain as a result of the country's membership, such as mobility and studying opportunities. On the other hand, a few concerns appear as the costs of the European integration may highlight the economic and social imbalances between member states. Therefore, we notice, once again, that the gap between poorer and richer European countries becomes a matter of interest for the young individuals. These inequalities, as seen before, are a consequence of the economic crisis that has underlined the differences between the North and the South in terms of economic policies.

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