EUROPEAN FUNDS: THEIR IMPACT ON ROMANIA'S FINANCIAL STABILITY

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ABSTRACT: *The specialty literature doesn't offer a clear definition which is generally accepted for „the financial stability of a state". Generally, by „the financial stability of a state" one understands that „situation where the financial system of a state can attract and efficiently place money funds and in the same time faces future crisis, without jeopardizing the real economy of that state". Thus, starting form the above explanation about the financial stability of a state, the authors intended, by means of this article, to conceive an analysis regarding Romania's financial stability and the impact that European funds have on the country, respectivelly the impact of structural and investment funds on the financial stability.*

KEY WORDS: *European funds, financial stability, structural funds, investment funds, European financing*

JEL CLASSIFICATION: *E52, E58, E33*.

1. INTRODUCTION

Starting with the premises that the allocation of capital, respectivelly the acceptance of resources represent an essential element for obtaining financial stability, the authors consider that the European funds can have a positive impact on Romania's financial stability. Taking into consideration Romania's economic situation and its position as a member state within the European Union, at the present, we can say that the European funds represent the most accessible alternative form of economical financing.

As we all know, the European Union allocates to the member states by means of instruments of the cohesion policy European funds to eliminate economic, social and territorial disparities. Attracting these funds is up to each state, representing each state's choice to absorb these funds so that the objectives are met.

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By means of this article the authors wanted to emphasize the fact that a high level of absorption of European funds would practically generate Romania's acceptance of more resources, of a high capital that would have a positive effect on the financial stability of the Romanian state, thus contributing to its realisation.

2. ROMANIA'S FINANCIAL STABILITY: CONCEPT AND PRACTICAL ASPECTS

Concepually, the financial stability is a very difficult term to define and measure. According to the specialty literature, by financial stability we understand that situation where the financial system of a state is able to efficiently attract/allocate capital/resources, to evaluate and manage financial risks and to have the capacity to autocorrect when it is affected by exogenetic/eventual crisis, by implementing an efficient macro-prudential policy so that the state economy doesn't suffer.

Considering the definition of financial stability, the question arises: *Is the Romanian financial system able to stay in such a state, respectivelly a financially stable state?*

The answer is, in the authors' opinion: *Yes, Romania's financial stability can be maintained, only under these conditions: continuous monitoring of financial stability indicators, efficient management of financial risks (especially the systemic risk), implementing an efficient macro - prudential policy, and not lastly, attracting resources/capital in a very efficient way.*

In order to fully explain the conditions mentioned above, conditions that have to be met by Romania in order to maintain financial stability, we'll present and explain them at length in the following paragraphs.

Continuous monitoring of financial stability indicators represent the activity for which the National Bank of Romania is responsible. This activity has an essential role, but, if at the end of this activity wrong data were collected of if the other two conditions (risk management and acceptance of capital) are not met in an efficient manner, then the financial stability is already questioned.

The monitoring activity of the financial stability indicators represents a very difficult process that cannot be achieved by measuring only a small set of indicators. In this process the National Bank of Romania uses „*an array of individual indiacots, it elaborates a risk/dashboard/risk board, makes systemic risk indicators*" (Neagu, 2015, p.4).

The indicators used in the financial stability monitoring process will have the purpose to „*efficiently warn in advance on the risks, the message to be consistent through time, to be intuitive and easily understandable"* (Neagu, 2015, p.4). The indicators used by the National Bank for monitoring financial stability are grouped according to: the activity sector (banking, financial non-banking, real-estate, population, government, companies, non-banking, external, etc).

Figure 1 presents the activity sectors by which the National Bank of Romania has grouped the indicators used in the financial stability monitoring process of Romania. One can notice that the National Bank of Romania uses in the financial stability monitoring process approximately 158 indicators that are grouped into 10 activity sectors. Aside from an incorrect evaluation during the economic stability monitoring process, another factor that could affect the stability of the financial system is the inefficiency of the capital allocation.

Tabel 1. Indicators grouped according to the activity sector

No.	Name of sector by which the indicators are grouped	Indiactor number
1	Population sector	19
2	Banking sector	21
3	Real-estate sector	14
4	External sector	4
5	Financial market	24
6	Payment system	18
7	Non-banking financial sector	19
8	Company sector	20
9	Internal macro-economic framework	12
10	Government sector	7

Source: elaborated by the authors according to the data from the online presentation of the Monitoring Indicators of financial stability, Florin Neagu, Chief of Macro-prudential risks Service, Directorate of Financial stability, National Bank of Romania, Bucharest, February 2015.

Concerning ***the risk monitoring,*** the systemic risk being emphasized, one can say that it represents that probability that makes the payment and discount system of a state stop functioning correctly and can even produce a financial crisis. When a participant does not meet its payment obligations that immedialtely causes difficulties to the participant and indirectly to third parties that are realted to their partners, so there is a chain reaction (a domino effect) that can start the financial crisis mentioned above.

According to Tobias Adrian and Markus K. Brunnermeier, a methodology for measuring/estimating systemic risk would be to use „Conditional Value at Risk (CoVar)" indicator (Tobias & Brunnermeier, 2008, revised 2014, pp 26), an indicator that will emphasize the maximum possible system loss due to losing of the banks during a financial crisis.

As for the systemic risk, its spreading area can be individual, respectivelly to affect a certain entity in the system or it can extend to the entire financial system, when it can seriously disrupt the economy. From this point of view, the systemic risk can be determined locally, regionally or nationally.

The main causes of systemic risk are: big discount volume, lack of liquidity, the incapacity of the banking system to grant credits, incorrect information on the banking market, unilateral decisions of important entities within the banking system regarding pulling back from certain transactions, sales, etc.

In Romanaia, the National Bank of Romania has the main role in system monitoring, a role that assures „monitoring the secure and efficient functionality of the payment system and of discount systems of operations with financial instruments to ensure and maintain financial stability" (www.bnr.ro).

The National Bank of Romania uses certain risk identification procedures with the purpose of reducing them. In Romania, the National Bank of Romania functions according to the existing legal framework for monitoring systems. In order to acheive its objectives of system monitoring the National Bank of Romania uses certain specific instruments that collaborate with the European Central Bank as well as with other institutions and financial-banking organisms.

As for the macro-prudential policy , we can say that the first time that the term „macro-prudential" was used, was in the summary of Cooke Committee meeting in 1978 (the present Basel Committee on Banking Supervision)" (www.bnr.ro), taking into consideration the macroeconomic situation and financial stability of the developing countries that could have been affected by the high degree in crediting at that moment. Some authors, like Bogdan Chiriacescu, consider macro-prudential policy to be „a central backbone in promoting generally understood financial stability" (Chiriacescu, 2013, pp.57-64).

Strictly referring to the general objective of macro-prudential policy and to its objectives, we can say that the general objective of macro-prudential policy is represented by reaching financial stability and among the specific objectives of this policy we can note the following: minimizing risks, avoiding financial crisis, etc.

The purpose of macro-prudential policy, in some specialists (Borio & Drehmann, 2009, pp.29-46) opinion means limiting the risks that can cause financial crisis, crisis that directly lead to financial instability. According to Minsky, the author of the model "Financial Instability Hypothesis", the financial instability is linked to the "empiric and theoretical" (Minsky, 1992, p.1) aspects.

"The financial system's health" in Romania is protected through the macro-prudential policy that is implemented for ths purpose. Referring to it, we can say that in Romania, by the macro-prudential policy that is implemented, they are trying to avoid macroeconomic costs that can be the result of the state's macroeconomic instability and, at the same time, to protect the investors and the bank depositors.

According to the report in 2015 about the financial stability in Romania, elaborated by the Directorate of Financial Stability under the coodination of vice-governer of National Bank of Romania, Mr. Liviu Voinea, the national bank „has fulfilled the objectes linked to the macro-prudentiality in his area of expertise" (National Bank of Romania, p. 7).

The objectives of National Bank of Romania concerning the macro-prudential policy are the following:

- minimizing and prevention of crediting and excessive debt;
- minimizing and prevention of maturity mismatch and lack of liquidity;
- reducing the concentration of direct and indirect exposure;
- reducing moral hazard;

- sustaining financial infrstructure resilience.

Another important factor in maintaining the financial stability of a state is attracting resources/capital. Capital acceptance represents a very important factor that can pressure the financial stability of a state. Thus, the external flows of capital that are attracted must be sustainable, which entails that every state follow an efficient to policy for this purpose, so that the capital be oriented towards the activity sectors that generate economic growth. Every state's goal should be – in the authors' opinion- that the acceptance of capiltal shouldn't generate a sustainable currency growth , a situation that could provoke increase in debt, finance, currency reserve, price increase in export, aspects that can lead to an external imbalance of that state.

Concluding, to contribute to the financial stability that every state wants, it must manage very carefully both the way in which it attracts capital and the way of allocating that capital, respectivelly to ***direct that capital to durable investment.*** In the case of the allocation od capital, banks should be more careful and pay greater attention to the analysis of the projects that they are financing and to the way that the money they are lending to their customers is spent.

According to the agreement Basel III, that refers to the consolidation of the bank system, during the „***economic boom"*** periods, banks should form ***„acyclic capital"*** as a „***bumper***" to avoid risks caused by unsustainalble crediting and a reserve of capital as „***buffer***" to prevent the possible loss in situations where the bank has financial trouble.

The implications of agreement Basel III on Romania are „pretty limited" . For the banking system in Romania, the Romanian Association of Banks considers that it „still holds considerable resources of capital. The solvency ratio has maintained to a high level, 18,07% in June 2015. Gradually they are letting go the prudential filters during the implementation of supplementary capital conditions linked to Basel III (period 2014-2018), with 20% annually". (http://www.arb.ro/basel-iii/)

In Romania the law assures the banking supervision by the central bank , and according to the specialty literature „the Romanian model of supervision includes both types of control: off-site and on-site" (Oprițescu et. all, 2013, pp 256).

So, by the „off-site" control the central bank monitors „the health of commercial banks"with the help of reports that are transmitted by the commercial banks each month to the central bank, respectivelly: monthly balance, profit and loss account situation, situation of some indicators like: liquidity, solvency, etc., and through the" on-site" control the central bank annually monitors or when there are financial problems, controlling the commercial banks on their operations, the risks, abiding of banking law and legislation and banking prudency norms.

3. THE INFLUENCE OF EUROPEAN FUNDS ON THE FINANCIAL STABILITY IN ROMANIA: PRESENT AND FUTURE

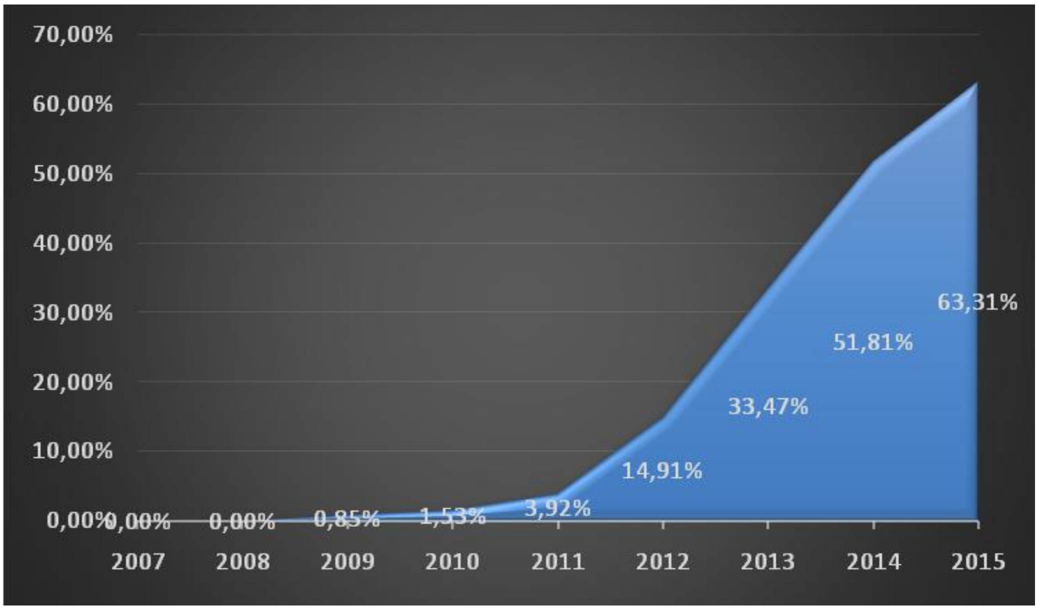
In this section we are set on analyzing the quantity and quality influence of European funds financing, from an evolving perspective, during the financing period 2007-2013, and future perspectives.

The absorption of European funds during the programming period 2007-2013 in Romania, meaning the attaction of capital by the country, has contributed to maintaining Romania's financial stability, but not in such a high degree as it was expected to. The European funds, as capitals attracted by Romania and directed to financing sustainable sectors of Romanian economy should have contributed very much, in the authors' opinion, in the process of mintaining financial stability.

The argument that shows that the European funds represented capital that has been attracted by Romania and directed to sustainable economic sectors, is represented by the fact that, before launching every financing program of allocating these funds, there was an analysis and a development strategy by which the activity domanins/ economic sectors were selected to be finaced through these programs.

In the authors' opinion, considering that Romania, in the first two years in the programming period mentioned above, the absorption ratio was „zero”, and in the following five years the growth was slow, so that on the 30th of December 2013 the absorption ratio was only 33,4%, cashing fom the European Union approximately 5,1 billion euro (www.fonduri-structurale.ro), as Chart no. 1 shows, the European funds couldn't contribute to maintaining the financial stability of the country.

The evolutionary trend of European funds absorption granted to Romania shows an increase of investment from this source, of approximately „20-25% of total investments on a national level” (www.capital.ro), according to the statement of European funds ministry, representing a 10% increase in GDP.



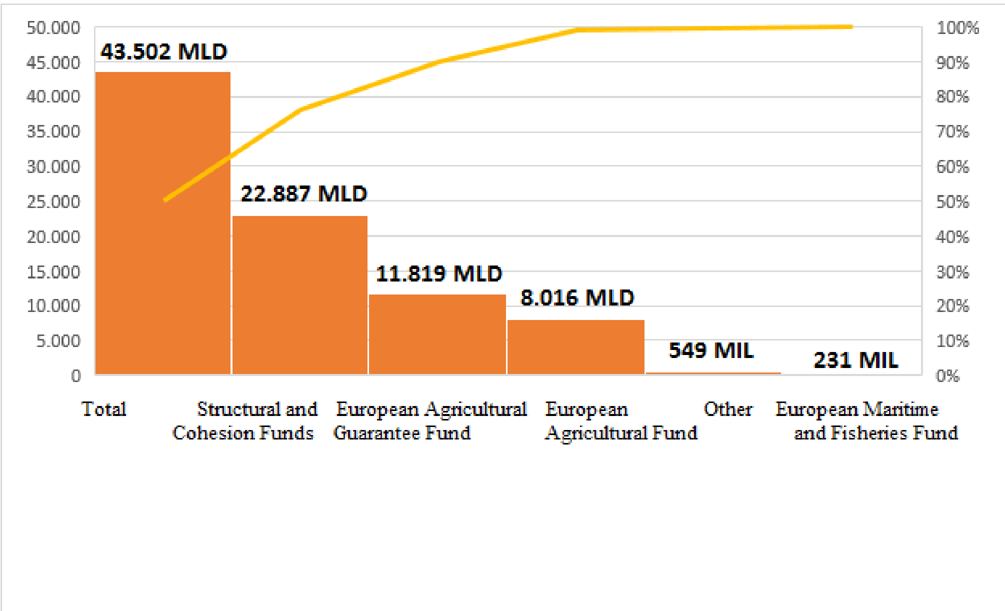
Source: elaborated by the authors, according to the data offered by The European Funds Ministry (www.fonduri-ue.ro)- Absorption of structural and cohesion funds

Figure 1. Absorption ratio of European funds during the programming period 2007-2013

The real increase of intervention from European funds is found in investment whose necessity was determined through strategic and programming documents in Romania. So, the intervention from European funds is noticed by directing sustainable economic growth through corelated interventions and directed according to the development needs within each region, according to their degree of development on economic sectors and on the types of beneficiaries.

These premises of acceptance of European funds offer the general macroeconomic framework financial sustainanbility through these investments. Thus, the entrepreneurial initiative is stimulated, Romania surpassing the European average by opening new businesses, giving capacity to sectorial development, especially on those sectors that have limits in their development, or underdeveloped sectors, and by differentiating financial allocation according to the regions that are in a development process. Impact studies and specialty reports (http://www.capital.ro/pib-ul-romaniei-a-crescut-cu-10-in-perioada-2009-2015-gratie-fondurilor-europene.html) demonstrate that the businesses that underwent interventions from European funds have developed much more prosperous than the ones that have met the same initial conditions, but did not get financing.

The importance of funds allocated in such manner presents such an exteremely important condition, respectivelly assuring the monitoring of investment impact, then the finalizing of financing projects, assuring balanced and durable development that assured the realisation of financial sustainability on a national level, for the respective interventions.



Source: elaborated by the authors, according to the data provided by the Ministry of European Funds (www.fonduri-ue.ro)

Figure 2. Alocation of European funds for Romania during the programming period 2014-2020

It is shown that the interventions from European funds represents a viable premises of economic growth in Romania, within the context of financial sustainability. But, the present funds are affected by a systemic risk too, respectively the risk of automatic decommitment, whose impact can be observed in figure 2.

We consider that such a low ratio of absorption of European funds in Romania, in the programming period 2007-2013, was duet o the following essential aspects: late launching of appeals for each financing line. The lauch of appeal hasn't taken place from 2007, but it started approximately 2 years later, after the beginning of the programming period.

This delay in signing financing contracts is emphsized in figure 1, through a zero absorption ratio; blocking of funds for long periods of time, at the moment of project implementation, which led even to bankrupcy of certain companies, which didn't have the capacity to sustain long term expenses generated by on-going projects; lack of liquidity flow in implementing the projects: initially only the mechanism of reimbursment request was used, the beneficiaries being forced to have their own resources, until the reinbursment of the allocated sums of money, which made the implementation of projects difficult; the alternative represented by the demand of payment mechanisms followed.

4. CONCLUSIONS

In the authors' opinion maintaining the financial stability of Romania is one of the most important objectives, considering that financial stability would guarantee, at the financial system level sustainable crediting, minimizing and managing of risks, stability of financial assets prices, and that of real-estate.

Furthermore, the financial stability would lead to avoiding a financial crisis and the devastating effects (incapacity of credit refunding, lack of finance, devaluing of assets and real-estate, etc). Not lastly maintaining Romania's financial stability will have a direct impact on its economy, meaning that the number of investments will rise , new capital and resources will be attracted, new foreign and local investers will be attracted, the level of life conditions will grow and the people's wealth will also increase, new jobs will be created, unemployment will decrease and not lastly a durable economic growth will exist.

Regarding the European funds, their acceptance, the realisation of a greater absorption of European funds from Romania, in the future, will practically contribuite to the acceptance of capital, an aspect that will positively influence Romania's financial stability, especially if these funds will be allocated/directed by financing programmes towards sustainable economic sectors/domains that contribute to a durable economic development of Romania and to the economic growth of this country.

According to the report on Romania's financial stability from 2015 by the Directorate of Financial Stability within the National Bank of Romania, „the internal macroeconomic framework has improved", but there are warnings regarding certain risks that can change the existing situation.

Among those risks, the specialists of the central bank emphasize the next risk that Romania is subjected to: „economic growth has started to be determined mostly by consumption , while the potential level of GDP is still affected by the poor condition of transport infrastructure, by ***the insufficient absorption ratio of European funds*** and by the indiscipline in payment of non-financial companies".

So, the National Bank of Romania closes the alarm on the importance of European funds for maintaining the financial stability of Romania, in relation to the fact that if these funds were accepted , important and durable investments could be made. In addition to the facts mentioned above, it is obvious that European funds have and could have an important contribution in maintaining Romania's financial stability.

In the authors' point of view, the main reasons for which the degree of acceptance of European funds has been so low are the following: lack of experience in writing, managing and implementing of European funds projects, the poor legislative framework, excessive beureaucracy, insufficient administrative capacity, corruption, etc.

Thus, the authors consider that Romania should profit from the programming period 2014-2020 and from the experience of programming period 2007-2013 and to realise a reform within the administrative and legislative domain, simplifying the procedure of European funds acceptance with the end of absorbing of a higher amount of European funds, considering that by „Regulation (UE) no. 1297/2013 of the European Parliament and of European Union Council, Romania has received approval for continuing to accept European funds for the period 2014-2020 in the amount of 30,7 billion euro (http://www.arb.ro/basel-iii/).

In conclusion, the new regulations, turned into legislation, the country's recommendations and objectives for each financing program for the programming period 2014-2020 lead to the elimination of such problems, by creating the premises for assuring real economic growth in the context of durable development, respectivelly insuring financial stability.

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