

ASPECTS OF RISK IN ROMANIAN FINANCIAL SECTOR

ASPECTE ALE RISCULUI DIN SECTORUL FINANCIAR ROMÂNESC

DONOSĂ D., DONOSĂ RALUCA ELENA

University of Agricultural Sciences and Veterinary Medicine Iasi

Abstract: *The profitability and the firms' liquidity continued to improve in 2006, but the efficiency of the economical activity had contradictory developments. Good performance of firms without debts to banks made them eligible for bank financing with no negative consequences upon financial stability. The credit risk of the banking system remained moderate. Debt service capacity has reduced and the level of credit concentration has raised. On the other hand, the probability of default is becoming low and the creditors perception regarding the credit risk has improved. Bank resource allocation has improved, but the discipline in payments has mixed evolution: default credits have reduced to a historic low level but payment incidents have slightly raised. Risks generated by population upon financial stability have raised, on active side, but on liability side. Incomes kept their tendency of rise being the main element that led to higher risks assuming by the population in 2006. Taking into account the population balance sheet, the value of real estates held by population have raised due to higher prices but not of the quantity, the financial assets become more liquid with mixed risk, and financial liabilities are presenting a higher risk profile. The foreign money position of the population sector has deteriorated, raising the negative impact in the case of foreign shock. The events of leveraging has generated two main risks: debt service has raised with a slow pace, but the population position of net creditor has significantly reduced. Financial infrastructure, mostly the financial frame regulation, has consolidated in 2006, ensuring by the primary and secondary legislation the convergence to the European standards.*

Rezumat: *Rentabilitatea și lichiditatea firmelor au continuat să se îmbunătățească în anul 2006, dar eficiența activității de exploatare a avut evoluții contradictorii. Performanța pozitivă a firmelor fără credite bancare, le-a făcut eligibile la finanțarea bancară, fără consecințe negative asupra stabilității financiare. Riscul de credit indus în sectorul bancar se păstrează moderat. Pe de o parte, capacitatea de onorare a serviciului datoriei s-a diminuat, iar gradul de concentrare a creditelor a crescut. Pe de altă parte, probabilitatea de nerambursare este în scădere și percepția creditorilor cu privire la riscul de credit s-a îmbunătățit. Alocarea resurselor bancare către companii s-a îmbunătățit, dar disciplina în plăți a avut evoluții mixte: arieratele s-au redus la un minim istoric, însă incidentele de plată au crescut ușor. Riscurile generate de populație asupra stabilității financiare au crescut, atât pe partea de activ, cât și de pasiv bilanțier. Veniturile bănești și-au păstrat tendința ascendentă, pe fondul unor așteptări optimiste, fiind elementul principal care a condus la asumarea de riscuri mai mari de către populație în 2006. În bilanțul sectorului populației, valoarea deținerilor de active imobiliare s-a majorat aproape în exclusivitate pe seama prețului și nu a cantității, activele financiare au devenit mai lichide cu evoluție mixtă a riscului, iar*

pasivele financiare au un profil de risc superior. Poziția valutară a sectorului populației s-a deteriorat, crescând impactul negativ în cazul unui șoc valutar. Dinamica îndatorării a generat două riscuri principale: serviciul datoriei a crescut într-un ritm foarte alert, iar poziția de creditor net a populației s-a redus semnificativ. Totuși, gradul de concentrare a creditelor și rata restanțelor s-au diminuat. Infrastructura financiară, îndeosebi cadrul de reglementare aferent sistemului financiar, s-a consolidat în anul 2006, asigurând, prin legislație primară și, în mare măsură, prin cea secundară, convergența cu standardele europene, la nivelul principalelor componente ale sistemului financiar.

The risk of the enterprise's sector remained at an average level. The performance improved in comparison with 2006, consolidating the capacity of the real sector to face of a systemic shock. Most likely, the greatest negative implications re on the exchange rate, because the value of the exposures naturally covered is small. The risk of credit induced in the banking sector is kept to an average level. Allocation of bank resources to companies had improved, but the payment discipline had mixed evolutions: pending payments has diminished, while the payment incidents had slightly increased.

MATERIAL AND METHOD

Concerning the economical and financial performance it can be seen that the company profitableness and liquidity continued to improve than 2006, consolidating the capacity of the real sector to face with a systemic shock. The efficiency of the exploitation activity has different evolutions. Thus, return on equity has grown to a level of 14,9% in 2006, than 13,4 % in 2005. In structure, the return of equity is focused in two bends of profitableness (0-15 %) and over 50 %. The main explanation for the last bend is because of reduced level of small companies' capitalization, these ones owning a significant position in the economy. The weight of the companies with positive return financed by banks is declining.

Liquidity constraints had diminished in 2006, current actives were greater than current liabilities with 7 % at a global level. Quick ratio remains at 0, 18, but the liquidity of the banks represents almost 5 % from the balance sheet, being over the euro zone. The efficiency of the exploitation activity had mixed evolutions. It has deteriorated in the sector of no tradable goods and had improved in manufacturing industry and energetic sector. The reduced operational margin in the context of a growing profitableness is explained through a greater speed of actives and by the presence of the leverage effect.

RESULTS AND DISCUSSIONS

The indebted companies had profitableness and cost efficiency smaller than companies without indebt ness. The most important differences are in the sectors of non tradable goods. This situation could be favorable to financial stability because the extention of credit basis to these companies will not lead to risk growing.

The sentiment of trust of management in the evolution of the economical activity had improved in the second part of the year 2006, especially in construction and services.

The number of the new established companies is superior to the number of registered bankruptcies, so enlarging the number companies in the economy. The number of active companies is smaller, because only 540 000 of firms had reported the results.

About the repayment capacity of banking debts it can be said that the risk credit induced in banking sector by the companies is keeping moderately. On the other hand, the repayment capacity has diminished and the credit concentration rate had grown.

The capacity of domestic debt service has diminished slightly in 2006, because of the slower pace of profitableness grow in comparison with debt service. But there are sufficient resources for debt payment. Aside the important money resources, the companies have access to credit lines unused of 7, 5 billiards RON, representing 35 % of total current money.

Institutional concentration of bank credits to firms has grown in 2006 but under the critical level. Credit concentration is higher in the case of corporations than small and medium enterprises.

The banking sector perception on firms' capacity to fulfill the debt service has improved, leading to prime risk reduction mostly to credits in RON. Nevertheless, this change is due to improved competition and growing the role of bank revenues, other than interests.

The risk of not repayment has diminished in the last years, as a result of improving the majority of the repayment determinants probability: interest expenditures in total revenues and the margin of debt unpaid has reduced, return on actives, liquidity margin, and national currency has appreciated.

CONCLUSIONS

Bank resource allocation to the firms had improved, but the payment discipline had mixed developments: pending debts has reduced, but the payment incidents had slightly grown.

The firms have grown the financing weight through banking resources. The credit from domestic banks own 11,5 % in the balance sheet of the firms, comparatively with 10,4 % in December 2005. But, the majority of the firms had no credit, the small and medium enterprises a part of 86 % of them are not accessing banking sources.

The risks generated by the population on financial stability had grown than the previous year. Financial liabilities had a superior risk profile, debt service growing into a rapid pace, the value of real estate assets had grown rapidly on the back of price exclusively, and the currency position and of net creditor for population had deteriorated. On the other hand, the incomes are growing, financial assets became more liquid, and the rate of credit concentration and the rate of unpaid debts had diminished.

The population income are dominated by wages and other incomes (money transfer from workers from abroad). Annual net average wage has risen in 2006 with 11 % in real terms. Transfer flows raised, but with a pace much diminished

(40 % in 2006 in comparison with 160 % in 2005). The majority of the flows (82 %) are owned by the residents working abroad more than one year. Generally, these flows are diminishing while these persons are living abroad for a longer period of time.

The population net wealth continued to rise in 2006, more than the raise of the incomes. The main component of the net wealth remains the owned real residence. For those who acquired a real estate by credit, and also for crediting banks, potential risks are associated with the lowering of the residential of the real estate market.

The development of the population indebttness has generated two main risks: debt service has risen very quickly, and the population net creditor position has diminished significantly.

Population financial intermediation has accentuated in 2006, which is reflected by the weigh of credit in GNP. The liabilities have risen more quickly than financial assets, leading to a close monitoring of the event.

Bank indebttness of the population has risen more rapidly than saving. The number of debtors with high value credits (over 20 000 RON) doubled in 2006. The population is maintaining the position of net creditor upon banking sector, but the reduction of this position could generate risks on financial stability in the way that population will reduce their investments in other types of financial assets and redirect the incomes only to consume.

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