

EVOLUTION AND TRENDS OF THE FOREIGN MARKET IN ROMANIA

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Abstract: *The foreign exchange market is a component of the financial market and can be defined as the set of financial-foreign exchange relations through which the operations of sale and purchase of foreign currencies (currencies) at international level are carried out. The foreign exchange market ensures the formation of the exchange rate expressed in the national currency. It allows individuals and legal entities access to international exchanges, to travel abroad, provides foreign currency holders with the necessary space to sell, and the exchange rate results from the confrontation with demand and supply. Foreign exchange markets have emerged as an effect of the use of national currencies in international trade regulations. They can also be called centers of currency trading. The article addresses a topical issue, with a major socio-economic impact and aims to analyze the evolution of the foreign market in Romania. The methodology was based on the analysis of some data series in the period 2008-2018, which led to concrete results, presented below.*

Key words: *foreign exchange market, Romania, banks, exchange rate*

JEL CLASIFICATION: *D53, E44*

1. INTRODUCTION

The currency can be represented as the actual currency or the account currency. The actual currency is the currency that comes in the form of cash - cash and is used in a smaller volume in international relations (generally in tourism) [Bran et al. 2020]. Account currency is the currency in the form of cash in accounts opened with banks or other credit financial institutions and is used in a very large volume in international relations. According to the IMF Statute, convertibility is a general right to freely purchase currency from the market and to use that currency for international payments and transactions [Turliuc V, 2013].

Commercial banks carry out most foreign exchange transactions, being the most important market participants. They intervene in the foreign exchange market by selling and buying foreign currency on their own account or on behalf of clients in order to obtain profits [Anghel M., 2002]. Commercial banks can also act as market makers and support the liquidity of the foreign exchange market.

Commercial banks engage in back office and front office activities. The back office section of a bank consists mainly of the administration department. Employees in this department do not have a direct interaction with customers [Cheol S. Eun, 2015]. The back office section ensures that all operations are performed correctly, so that the daily activity works smoothly [Bodislav et al., 2020]. The activities undertaken in the front office section involve direct interaction with customers: access to accounts, providing information about banking services, etc.

Through their intervention on the foreign exchange market, the central banks seek to stabilize and limit the fluctuations of the national currency exchange rate, protect the national currency, manage the foreign exchange reserve, satisfy customer orders but also regulate the interest rate on foreign currency loans [Dima et al., 2020]. Their intervention in the foreign exchange markets depends on the general monetary policy of each country [Răileanu S.M., 2006].

Dealers work on behalf of customers, but also on their own. They centralize the orders received, offset the requests with the offers and transmit on the market the requests and offers of surplus currencies, are informed in due time on the developments that may appear on the market and have at their disposal tools for transmitting, receiving and processing information. their professional activity [Basno C, 2000].

Dealers are also known as market makers, being willing to buy and sell at any time. It is not necessary for them to trade all currencies, as they can specialize in certain currency pairs [Fetiniuc V., 2005]. For transactions carried out on their account, dealers invest their own capital, but unlike the lower profit obtained from selling and buying on behalf of customers, they expect a higher profit [Rădulescu et al, 2020].

Trading companies carry out transactions on the foreign exchange market either by purchasing goods or services from abroad or by investing sums in foreign companies and repatriating profits [Benec-Mincu M, 2009].

By using the foreign exchange reserve, the central bank corrects the exchange rate by preventing either an excessive appreciation or a depreciation trend [Bran P., 2004]. In order to prevent the excessive appreciation of the national currency, the central bank buys foreign currency and sells national currency, and in order to prevent the depreciation of the national currency, it sells currency and buys national currency.

Swap operations carried out by central banks signify agreements between them or between central banks and the Bank for International Settlements whereby the parties involved undertake to borrow in some cases a short-term national currency for certain foreign exchange interventions [Boajă M., 2003].

Noticing the strong influence of the exchange rate on the evolution of foreign economic transactions, the Organization for Economic Co-operation and Development (OECD) recommends that central banks maintain a prudent monetary policy, as disruptive effects such as currency sliding on the slide of long-term devaluation or rising interest rates may occur.

The actions of the central bank on the foreign exchange market were conditioned by different objectives such as: preventing the induction of increased inflationary expectations by the sharp depreciation of the national currency, increasing the external exchange rate of the national economy, avoiding large fluctuations in exchange rates; last but not least, the achievement of the target related to the volume of foreign exchange reserves of the central bank.

2. ORGANIZATION AND FUNCTIONING OF THE FOREIGN EXCHANGE MARKET IN ROMANIA

2.1. Foreign exchange market sphere and foreign exchange operations

On the Romanian foreign exchange market, foreign exchange operations are carried out at exchange rates freely established by the intermediaries authorized by the National Bank of Romania [Krueger A., 2005]. The foreign exchange market consists of the interbank foreign exchange market and foreign exchange operations with cash for individuals.

Foreign exchange transactions include receipts, payments, transfers, loans and other transactions denominated in foreign currencies by credit institutions depending on the nature of the transactions. Foreign exchange operations are divided into current foreign exchange operations and capital operations [Cerna S, 2012].

Non-residents have the right, just like residents, to obtain and use financial assets expressed in foreign currency and national currency, they can open accounts in foreign currency and in the national currency – the leu – to credit institutions in Romania and can transfer or repatriate financial assets held [Burlacu et al., 2020]. Both foreign currency and national currency holdings held by non-residents and residents can be converted through the foreign exchange market [Bodislav et al., 2020].

3. ANALYSIS OF THE EVOLUTION OF THE FOREIGN EXCHANGE MARKET AND OF THE EXCHANGE RATE IN THE PERIOD 2008 – 2018

In 2008, due to the turmoil triggered by high-risk mortgages in the summer of 2007, the worst international economic crisis since the Great Depression of 1929 – 1933 arose [Făt C.M., 2011]. Most countries with large external deficits were affected, among others. These being counted also Romania.

In December 2008, the exchange rate registered a significant increase according to chart no. 5. This depreciation of the leu has slowed disinflation, with the annual inflation rate continuing to exceed the upper limit of the $\pm 1\%$ range around the 3.8% target.

In 2009, the national currency depreciated against the euro by 2.9% compared to the previous year, but also against the US dollar, the exchange rate evolving unevenly throughout the year. In the following period, the Romanian leu also had a depreciation trend, the volatility of the exchange rate being lower than those recorded by most of the currency exchange rates in the region. Between April and May 2009, the national currency showed an appreciation trend against the euro. During 2010, the fluctuations of the leu / euro exchange rate had a moderate amplitude, their volatility being lower than the exchange rates of the currencies in the region [Voinea M., 2014].

Pressures on the depreciation of the national currency have meant a good argument for strengthening monetary policy, as this behavior has allowed the relative stabilization of the leu / euro exchange rate [Michael D.A., 2010].

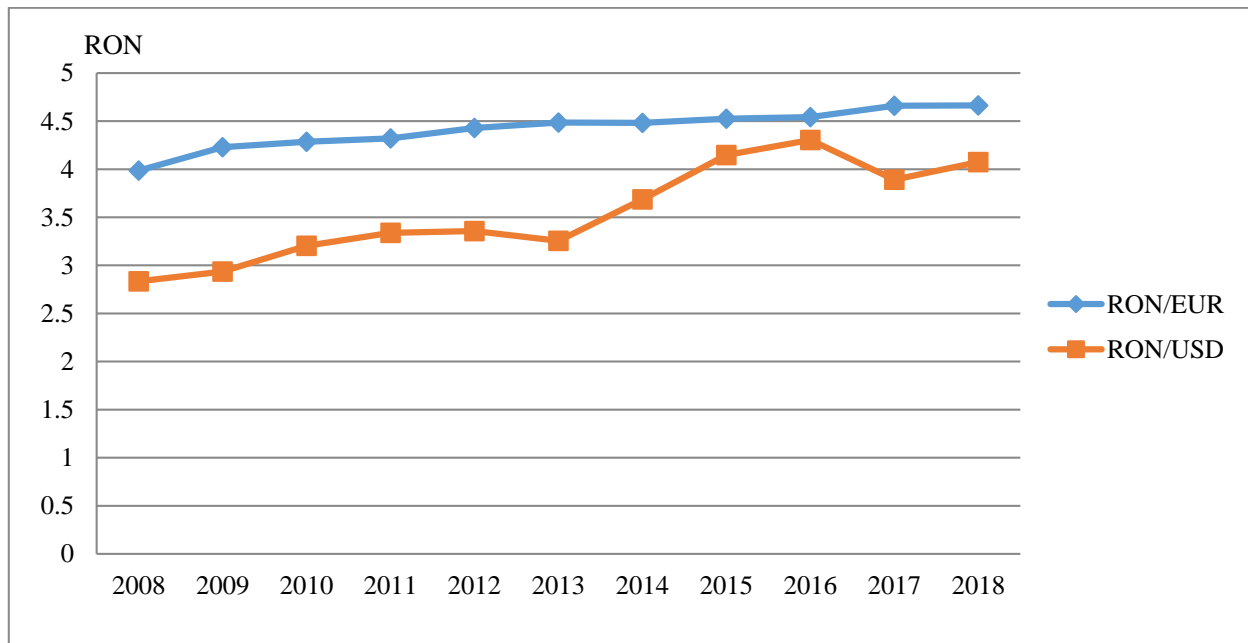


Figure 1- The evolution of the RON / EUR and RON / USD exchange rate, in the period 2008 – 2018

Source: processing after <http://www.bnr.ro>, secțiunea Statistică

In 2018, the national currency remained relatively stable against the European currency, but there were also several episodes of depreciation, and volatility remained at a moderate level [

The volatility of the EUR / RON exchange rate was below that of the Hungarian forint and the Polish zloty, but the Czech koruna had the highest volatility in the region due to the abandonment of the exchange rate threshold in March 2017. These developments took place in the context of trade tensions, but also as a result of the appreciation of the US dollar.

During the period 2015-2017, Romania met all the nominal convergence criteria, without participating in ERM II, but at the end of 2017 the criterion on long-term interest rates was not met.

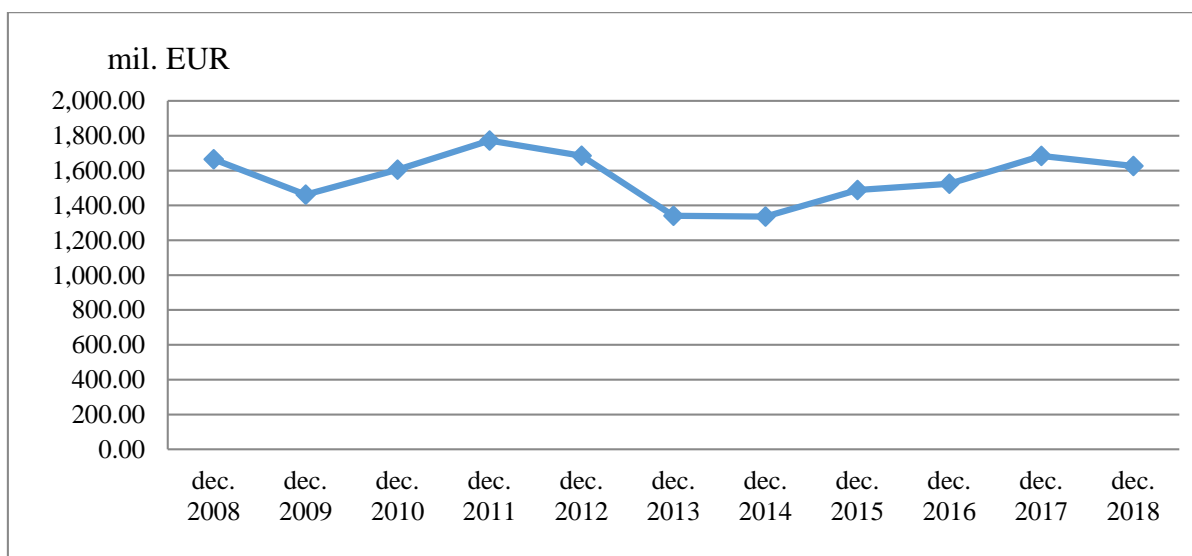


Figure 2- Average volume of transactions, December 2008 – 2018

Source: processing after <https://www.bnr.ro/Operatiuni-pe-piata-valutara-interbancara-5631.aspx>

Between 2008 and 2018, the foreign exchange market was relatively constant in terms of the average daily volume of transactions. Regarding the chart no. 7 we can observe that in 2011 the highest volume of average daily transactions was registered, respectively 1772.40 million euros, and in 2014 the lowest average daily volume of transactions was registered, respectively 1335.90. The data used are for December of each year.

This stability of the foreign exchange market was due to the decisions on the conduct of monetary policy, the NBR preserving over the years an adequate way of managing liquidity. In 2017, the position of the foreign economy deteriorated, so the leu / euro exchange rate had a slow upward trend.

During the entire analyzed period, the foreign exchange market in Romania registered numerous fluctuations, the national currency was in a continuous state of depreciation, this fact being due to the crisis of 2008. Overall, the exchange rate had a relatively stable evolution.

4. CONCLUSIONS

Following the analysis of the foreign exchange market and the exchange rate in Romania, a series of conclusions can be drawn regarding the current economic situation and the consequences of the economic policies promoted by the Romanian state.

According to the law, the NBR establishes and monitors the functioning of the foreign exchange regime on the territory of the country, having the role of concretizing the creation of the premises for overcoming the continuous fall of the national currency. This has as its main advantage the creation and functioning of an institutional framework and a currency regime with a very liberal character.

The role of the foreign exchange market is mainly determined by the possibilities it offers to participants in economic exchanges to choose and obtain the most convenient means of payment and credit. These exchanges result in a price called the exchange rate which depends on the conditions of supply and demand on the market and may be legally limited.

The foreign exchange market is subject to national regulations, so the Romanian foreign exchange market is different from the German foreign exchange market, for example, but in addition to national foreign exchange markets that have legislation specific to each country, there are also international foreign exchange markets that serve certain interests. areas such as economic areas of great interest: Tokyo, London, New York.

Foreign exchange markets are becoming a barometer of international economic exchanges, so the introduction of certain currencies such as the euro has produced significant changes in foreign exchange markets and increased competition between the area of influence of the US dollar and the euro. Romania enjoyed the benefits, but also the costs of the full liberalization of the capital account: abundant external financing led to the growth of gross domestic product, but the effects of the financial crisis made its growth rate slower.

During 2018, the NBR pursued a series of countercyclical policies: it increased the monetary policy interest rate three times and introduced new prudential measures regarding debtors and creditors.

On the Romanian foreign exchange market, foreign exchange operations are carried out at exchange rates freely established by the intermediaries authorized by the National Bank of Romania. The foreign exchange market consists of two segments: the interbank foreign exchange market and the exchange house market which have essential characteristics that were mentioned during the paper.

During the entire analyzed period, the foreign exchange market in Romania registered numerous fluctuations, the national currency was in a continuous state of depreciation, this fact being due to the crisis of 2008. Overall, the exchange rate had a relatively stable evolution. The continued depreciation of the national currency against the euro and the US dollar was due to a

large number of internal and external factors such as the increase in the money supply without the correlated increase in domestic production. Pressures on the depreciation of the national currency have meant a good argument for strengthening monetary policy, as this behavior has allowed the relative stabilization of the leu / euro exchange rate.

The evolution of the exchange rate is one of the vectors of economic analysis due to the power of synthesis that the price has in the economy, in general, but also the price of the national currency in relation to other currencies.

The exchange rate, in cases where it is established on the market, systematically shows some signals on the purchasing power of the currency, the degree of confidence in the future of the economy, economic stability, the situation in the international exchange sector, as well as the performance of economic policy

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