

**ROMANIA INVESTMENTS GRADE**

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Asistăm la o perioadă de răscruce în economia mondială. Lucruri care până în august 2008 erau interzise de facto astăzi se prezintă ca o realitate simplă. Fuziuni între bănci care nu respectă în nici un fel regulile privind concurența, naționalizări ale unor bănci, ajutoare masive de stat pentru marile firme private, injecții de capital uriașe în sectorul financiar bancar, anularea impozitelor pe tranzacțiile bursiere, creșterea plafonului maxim de garantare a depozitelor persoanelor fizice la nivelul general al Uniunii Europene, sau chiar garantarea integrală a depozitelor populației, așa cum au făcut unele state membre ale EU (Irlanda, Italia, Marea Britanie, Austria).

Autorul abordează aspecte ale investițiilor și ale acoperirii riscului în perioada actuală de recesiune pentru persoanele din clasa medie de venituri.

At present we witness a crucial period of world economy. Things that appeared to belong, in August 2008, to the field of science fiction, have become real. Mergers among banks that do not comply with any rules regarding competition, the nationalization of some banks, the huge state subventions for great private companies, the huge capital injections in the financial and banking sector, the cancelation of taxes for stock transactions, the increase of the maximum threshold for the guarantee of the deposits of natural persons from 20 000 EUR to 50 000 EUR at the general level of the EU, and even the full guarantee of the deposits of the population, as it happened in some member states, such as Ireland, Italy, Great Britain and Austria.

The rescue plans of the economies, made by the American Federal Reserve, conjugated with the plans of the greatest powers of world economy, the Central European Bank, the Central Bank of England, the Central Bank of Japan.

We are in a period of crisis. What shall we do with the money? Where will we invest it? The banks are reluctant. Credits are difficult to obtain. The increase of the salaries casts a burden on the budget. And in this maze of problems, people no longer understand anything.

**Bank deposits**

Banks have interests which vary between 9 and 12%. It seems a lot, but if we correlate it to the 8% inflation, we get a net profit of 4%. The theoretical gain is also modified by the 16% tax on interest. To these costs we must also add a 0.5% for withdrawals. We can, of course, choose to withdraw the money from the ATM machines, where the fee is generally 0.2% of the amount. But in this case banks have withdrawal limits, and in case the customer needs the entire amount, this limitation will interfere with his plans.

The liquidity crisis has created huge problems for banks. These problems may have two causes. It is a real, tangible one and another one due to the confidence crisis. The first refers to the exposure of the European banks in comparison with their American counterparts. If the exposure percentage is smaller, the risk will also be smaller. For example, the fact that a couple of strong Austrian banks operate in Romania is a good thing. This is good for us because these banks have not worked with the American ones, and consequently they have a low degree of exposure to risks. The confidence crisis, although subjective, has a huge impact at the level of the depositors, who prefer to redirect their money from banks to other financial instruments.

In the same order of ideas, the arbiter of the Austrian financial market forbade, beginning with October 27 2008, for a month, the short selling of the shares of two great banks, Erste and Raiffeisen International (the banks have a big market share in Romania, being situated on the first, respectively on the third position in the Romanian banking system – 25.6% BCR-Erste and 7.9% Raiffeisen Romania) and of two important insurance companies, Uniqa and VIG, in order to help them resist the market pressures. Short selling represents the sale of shares borrowed by investors from brokers, in order for them to be subsequently purchased at a smaller price. This action is meant to defend the above mentioned institutions from financial speculators.

**The Stock** is another institution where many persons have tried to invest. Unfortunately, this instrument is not very current either for the persons who deposit their savings and need short term liquidities. For now,

stock shares have registered stagnation or a decrease, which has determined many natural persons to look for other investment modalities.

**Life insurances** with fixed capital or study scholarships for children represent a third saving mechanism. Nevertheless, at present, this financial means is not recommended due to the low profit rate. This sector has also registered asset decreases, and thus, many of the persons who deposited money, saw their investment portfolio decrease.

**Currency exchange.** Euro, dollars, Swiss francs. This is a solution, although not a very profitable one. In a crisis situation, the above mentioned currencies do not depreciate as much as the currencies of the emerging countries. Consequently, the depreciation risk of the euro is much smaller than the depreciation risk of the RON. Nevertheless, the profit rate is not very high, 5% at most, from which we deduct, of course, the withdrawal fee and the tax owed to the state. These percentages apply for the euro. For the dollar, the interests are at half that value. It would still be an intelligent move for the National Romanian Bank to withdraw the *leu* from the market, thus preventing a too significant depreciation. We must also take into account the fact that winter is coming, and the elections too... The elections are a pain for the economy. Not due to the costs borne by the budget, but to the electoral free gifts offered on this occasion. Thus, the increase of the salaries of public employees, of pensions, or the increase of the level of the minimum wage are damaging practices which tend to affect the profitability of small and medium companies either directly (by increases the minimum wages) or indirectly (by increasing taxes, this measure being necessary in order to cover the increase of the wages of public employees). Or, if we pressure companies, they will go bankrupt and will reduce their activity by dismissing a high number of employees, who will become unemployed. This vicious circle continues with the budget money necessary for the unemployment benefit and ends with the increase of taxes, necessary in order to cover additional expenses. This leads to other limitations, other unemployed persons and so on.

**Investment in gold** has been and will always be profitable. Gold can be a saving solution. True, for those who have lots of money.

**Purchase of public securities.** These securities are 100% guaranteed. Their disadvantage consists in the fact that their maturity term is remote.

**Money under the mattress.** Another option for people with money is a private money chest. It is not recommended, although many persons prefer it.

**Rental of money deposits.** It is justified in case one does not want to keep one's money at home (due to the involved risks), but, at the same time, refuses to let it at the disposal of banks which use it for giving loans. The rental of such deposits is justifiable only if the amount a person has at its disposal exceeds the minimum limit guaranteed by the state for all the existing banks.

**Purchase of real estate.** First of all, we must make a distinction between land and buildings. The purchase of land will always be profitable due to an extremely simple reason. The population is growing, whereas the land surface remains the same. This is the simple law of offer and demand. As far as flats and houses are concerned, there are several aspects worth mentioning. In the case of new buildings, prices can be sustainable if the real estate developers reduce their profit rate to a reasonable limit of 10-15%. This is harder because they have grown accustomed to profits of 100-300%. Old flats will depreciate, and this is due to two reasons. The first would be that the average life duration of a block of flats is of 50-60 years after its erection. Otherwise, they will be classified as blocks with high earthquake risks and the value of the flats will consequently decrease. The second reason is that people have become fed up of staying in “match boxes” and want spacious flats. The old ones remain for a social class with low revenues, and their prices will decrease accordingly.

We can take as example the real estate market in Iasi. A dynamic market, with powerful players and the participation of many business persons from Republic of Moldavia. The prices increased at an astonishing rate until the beginning of 2008. This was followed by the decline. The data provided by the Land Register and by Advertising certifies it: there is a real blockage of the real estate market in Iasi. In September 2008, there were registered 15% less real estate transactions in comparison with the same period of the previous year.

In the current situation, it seems that we are rotating in a vicious circle: real estate agencies say that the transactions level diminished due to the draconic terms imposed by banks. In their turn, the managers of the banks state that the National Romanian Bank should be blamed, since it tries to moderate consumption. All this takes place in the context of the world crisis. It did not take long for the first effect to become visible: the prices of old flats have started to decrease.

The descending trend of real estate transactions can be observed in August 2008. A number of 2 086 transactions were registered with the Land Register, in comparison with the 2 149 transactions registered last August. And this was only the beginning. In September 2008, BNR announced the enforcement of draconic terms for people who want to obtain loans from banks. It did not take long for the effect to appear. Many banking institutions blocked the loaning process until the issuing of new norms, in October. The consequence? „In September there were 1 718 transactions (lands and flats) compared to 1 994 transactions registered in the same month of 2007. The decrease, expressed in percentages, is of almost 15 per cents.

The causes are simple: the new lending terms imposed by banks, due to the new BNR crediting norms, and the high price requested for the sale of flats. In addition, the financial crisis also affected Romania, and the banks increased over night the interests for the already granted loans. The tension was further transmitted to the customers who wanted to take loans, but are now waiting, in order to see the way this phenomenon will evolve.

In the statistics of the specialists of the Land Register, there is an extremely interesting detail. The transactions on the market of agricultural lands go very smoothly. The proof is given by the reports sent by the OCPI in Pascani, Harlau, Raducaneni, where there was registered a number of 4 100 transactions in August and September 2008, in comparison to 3 800 during the same months of last year. The explanation: massive investments are made in agricultural exploitations and zootechnical farms.

**Increase of the degree of energetic independence.** This is an option used primarily by those who do not have much money to invest or to save. The thermal rehabilitation of the flat, for example, reduces the utility expenses of a flat by approximately 40%. In the context of the constant increase of the giga-calory, the diminution of these expenses can add comfort and financial safety for the future (for retired persons, for example). The purchase of electric household devices with reduced energetic consumption (A+ class), the use of economic light balls, and so on, are already widely used by the citizens of the European Union, for the same reasons.

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