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INTERNATIONAL CONFERENCE MEASURING DEVELOPMENT IN TURBULENT TIMES

November 28-29, 2017
Bucharest,
Romania



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Financial capital and economic development

Cristian PĂUN
Florina PÎNZARU



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Abstract:

Starting from the assumption that the financial capital represents one of the most important factors of nations' development, our paper aims to highlight some of the most relevant discussions on the topic as resulted from selected academic literature and to identify some of the most important evidences in the case of Romania.



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Literature review



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- Say's law: before being consumer, one must produce goods or services → a major influencing factor of development is the capital.
- Savings vs. loans vs. FDI
- What contagion risks? (Hayek, 2007)
- There is a positive correlation between savings and economic growth (Wang et al., 2012; Misztal, 2011; Bayar, 2014; Gocer et al., 2016)
- Public investments' efficiency to determine economic development is different (Yao et al., 2013), being more likely to generate positive impact if oriented towards infrastructure (Chotia & Rao, 2016).
- There is a positive correlation between between FDI and economic growth (Bayar, 2014; Cavallo et al., 2016; Gui-Diby, 2014; Pradhan et al., 2014; Mohsen et al, 2013).



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A nation that does not value healthy capital accumulation or does not attach importance to market structures such as money and capital markets, financial intermediation institutions, financial instruments etc. that support and favor savings and investments can not know a development at the level of modern societies.

What we see in developing countries is the consequence of massive accumulation of capital and its investment in efficient and productive processes.



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Romania's case



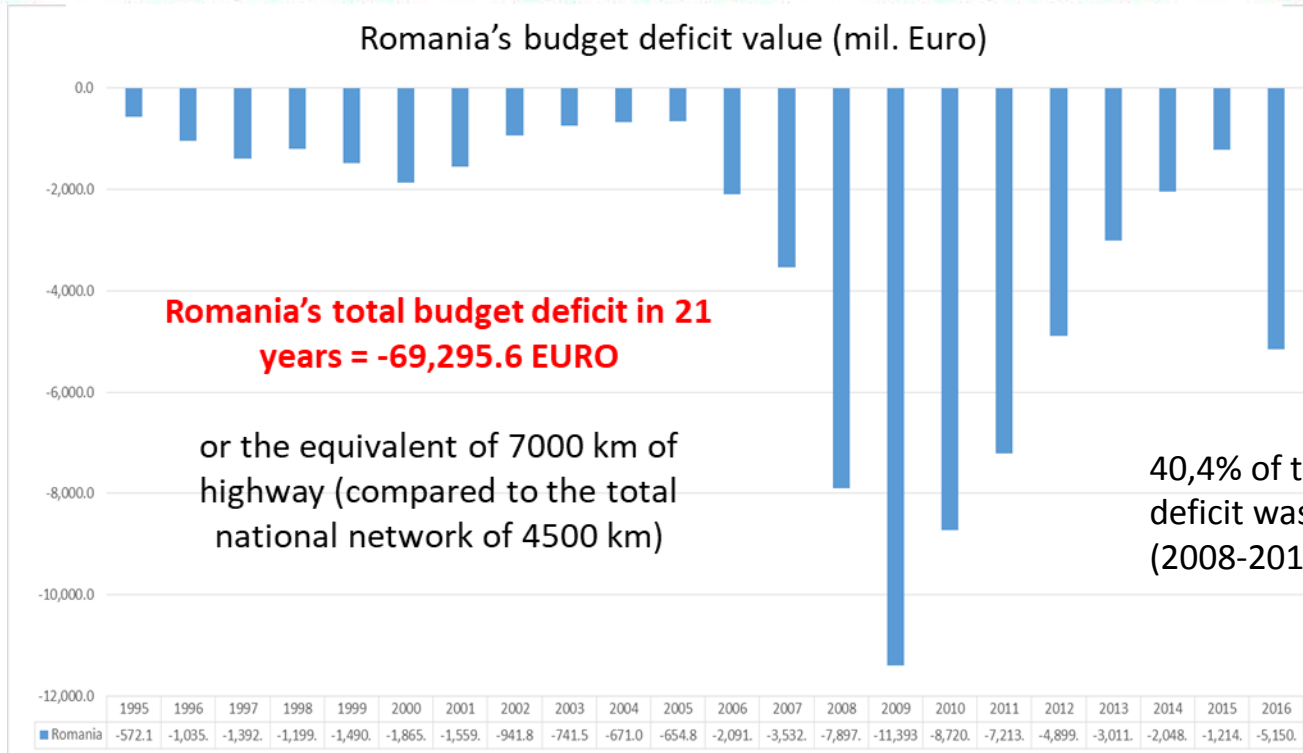
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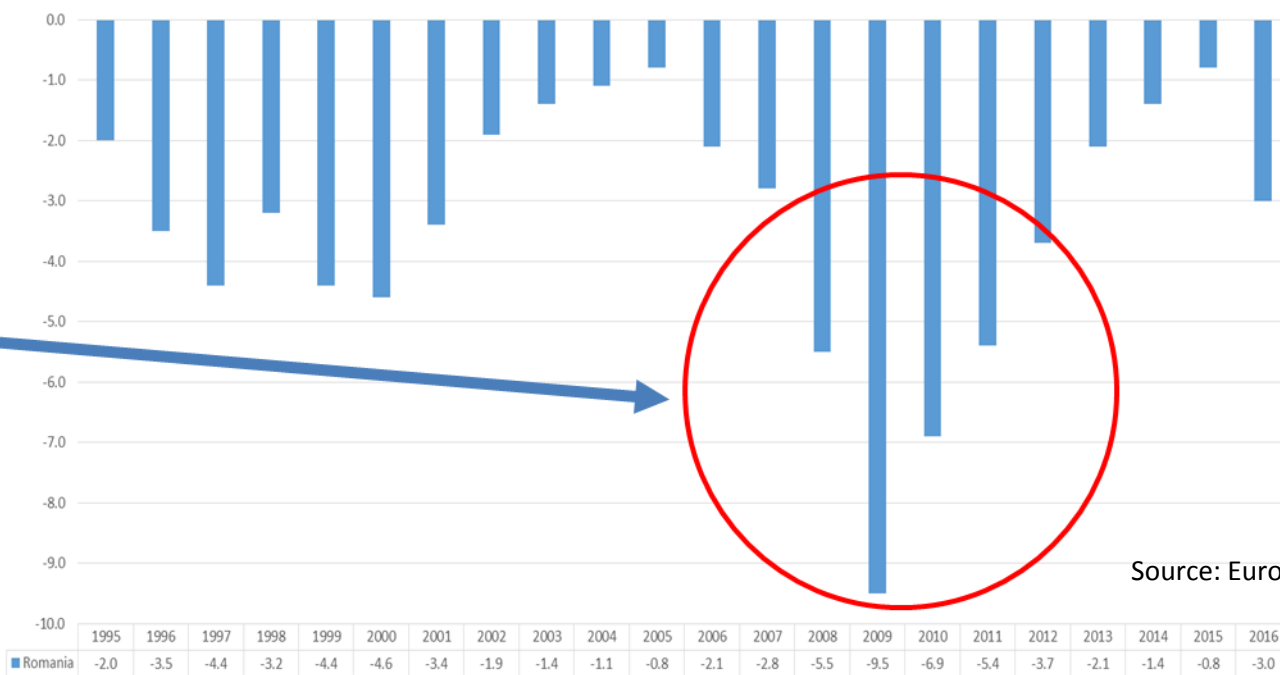


Source: Eurostat, 2017.

In 12 of the 21 years monitored, the budget deficit was more than 3% of the GDP.

We can notice a high volatility of the public budget in times of economic recession → there are important costs that the State cannot easily optimize. **However, the average of the last 5 years of is negative.**

The evolution of the budget deficit as % of GDP, Romania, 1995-2016

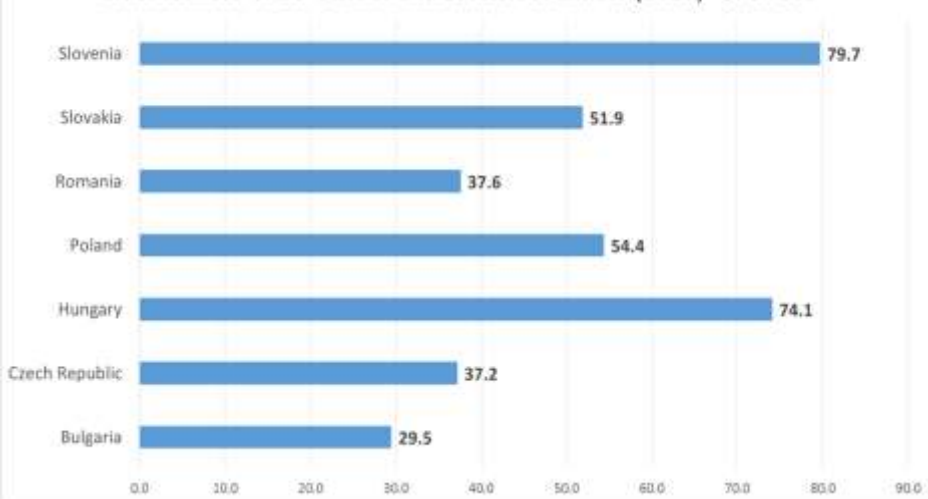


Source: Eurostat, 2017.

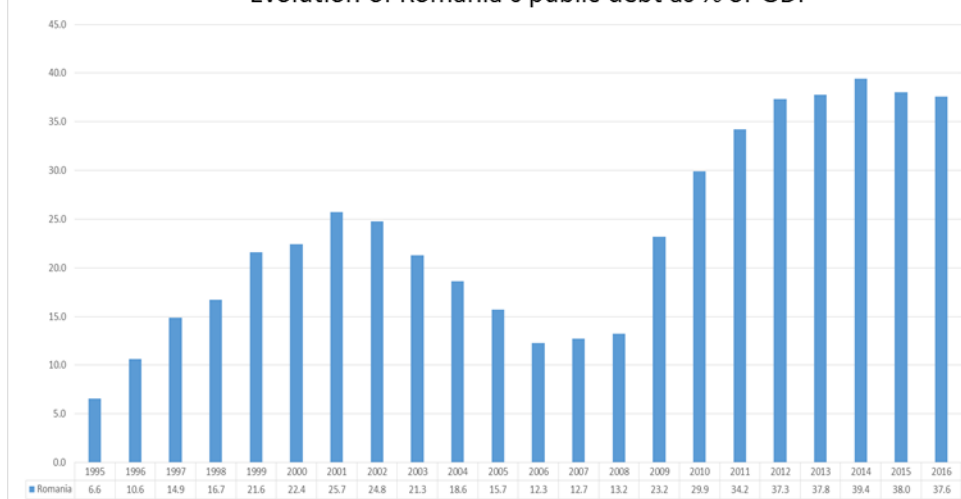


Development through debt?

Indebtedness of EU Central and Eastern countries (2016) - % of GDP



Evolution of Romania's public debt as % of GDP



Source: Eurostat, 2017.



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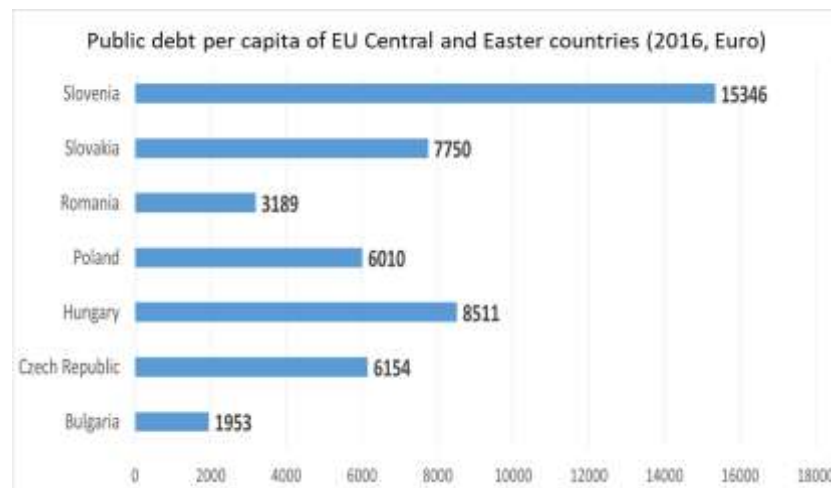
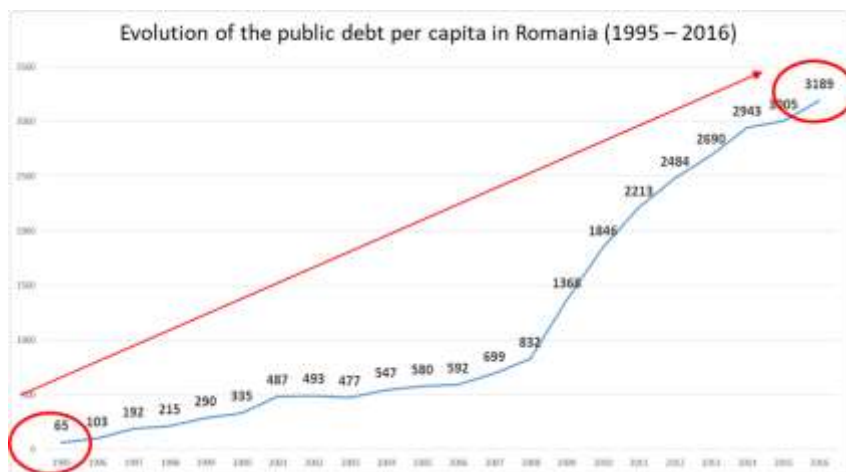


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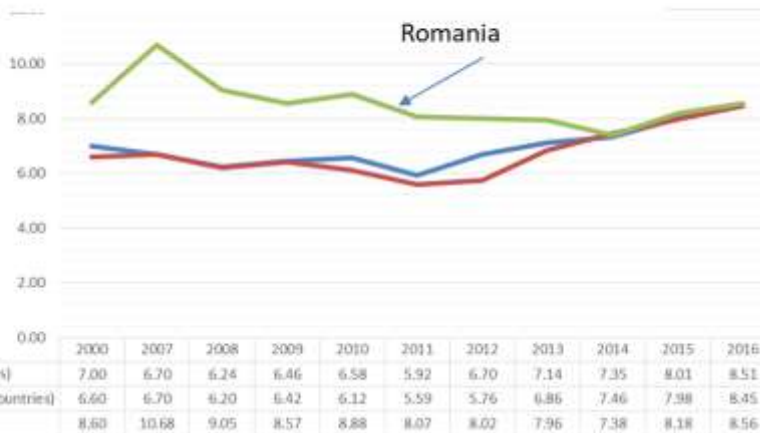
Even if the public debt per capita of Romania is lower than the one of similar countries, its current level is equivalent of 1.8 years of revenues of a family with minimum wage (2 adults, 2 children).



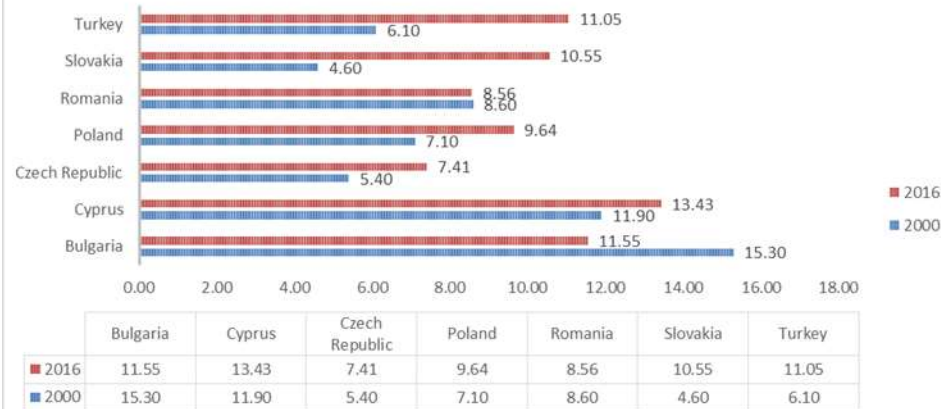
Source: Eurostat, 2017.

Is the Romanian banking sector sufficiently capitalized to support sustainable development in Romania?

Evolution of the capitalization of the banking system
(Romania vs. EU / Euro Area, 2000 – 2016)



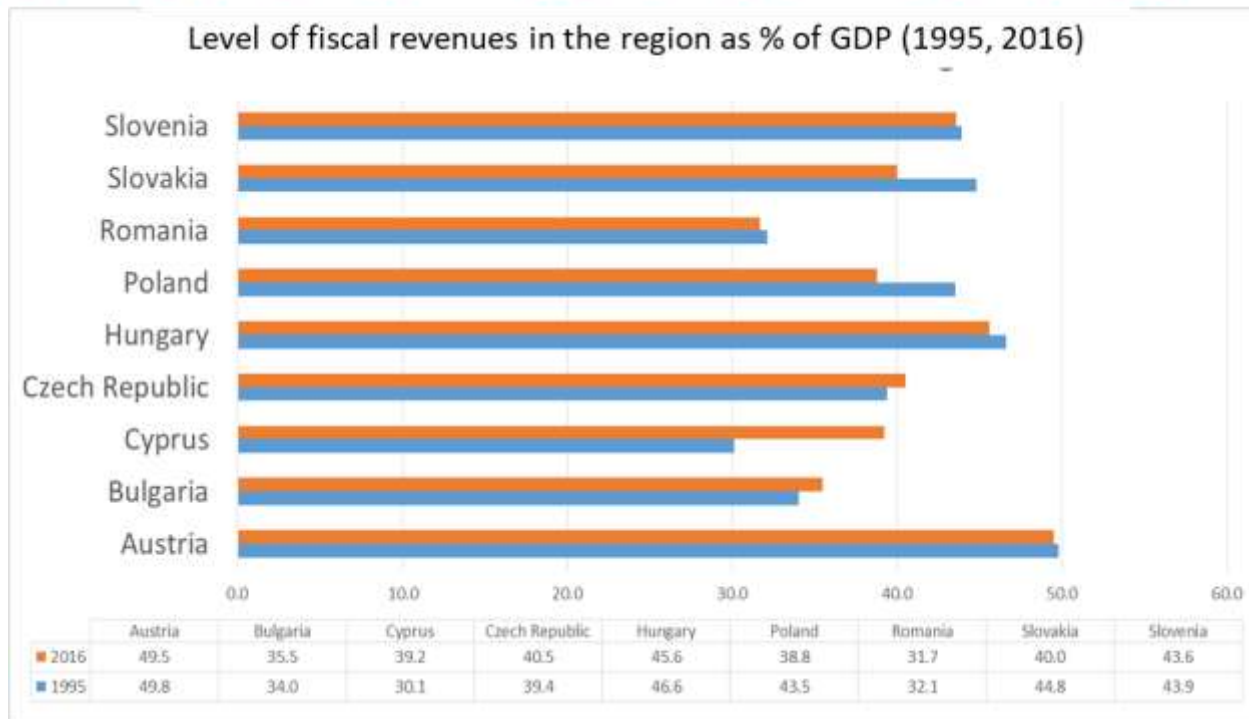
Capitalization of the banking systems in the region
(2000, 2016)



Source: Eurostat, 2017.

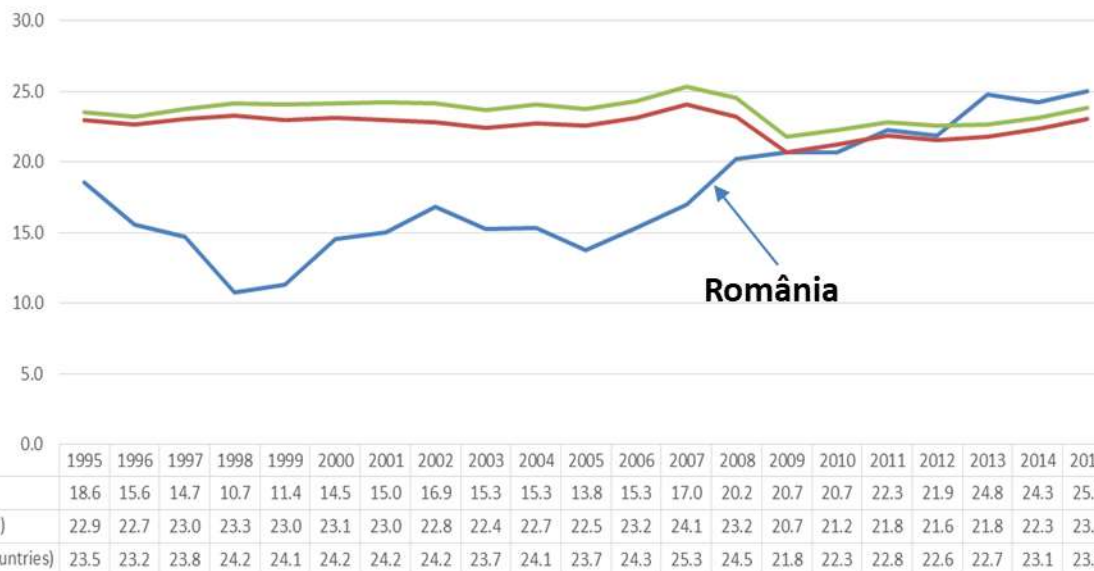
Is the public budget sufficient to support sustainable development in Romania?

Romania remains the country in the region with the lowest level of fiscal revenues as % of GDP (31.7%).



Source: Eurostat, 2017.

Gross savings as % of GDP (Romania vs. EU & Euro Area (1995-2015)



Are savings sufficient to support sustainable development of Romania?

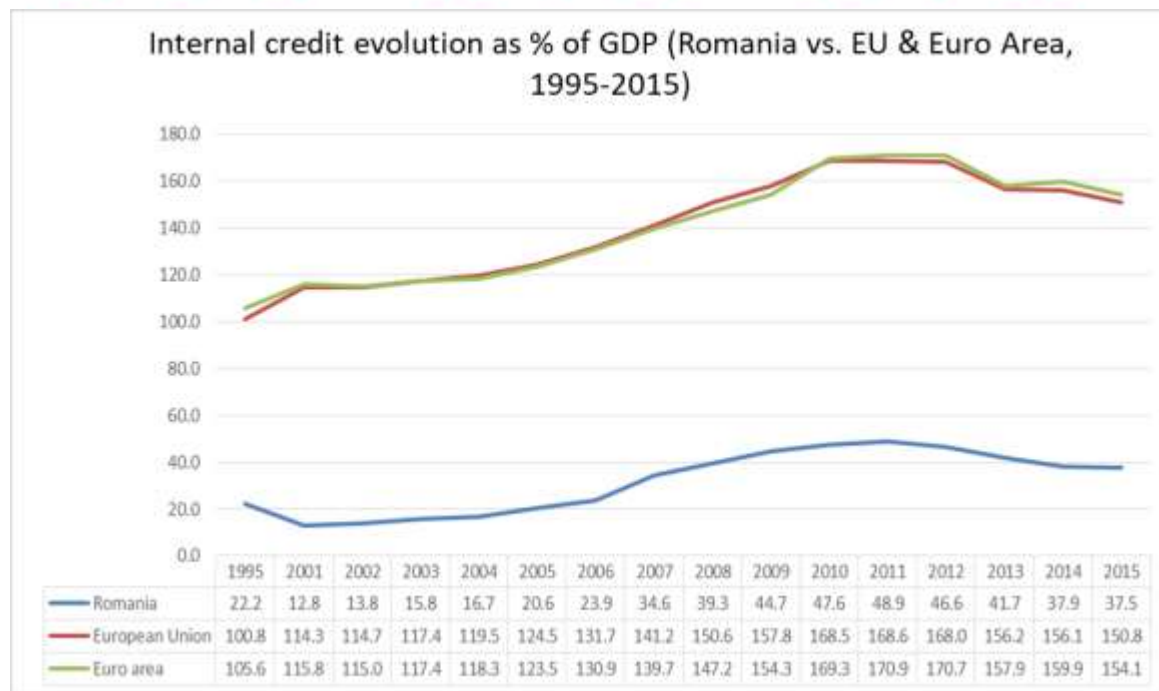
Savings increased in Romania after the economic crisis, which is a positive signal for growth.

Source: Eurostat, 2017.

Is development based on credit?

Credits in Romania have doubled in the last 20 years, reaching around 40% of GDP;

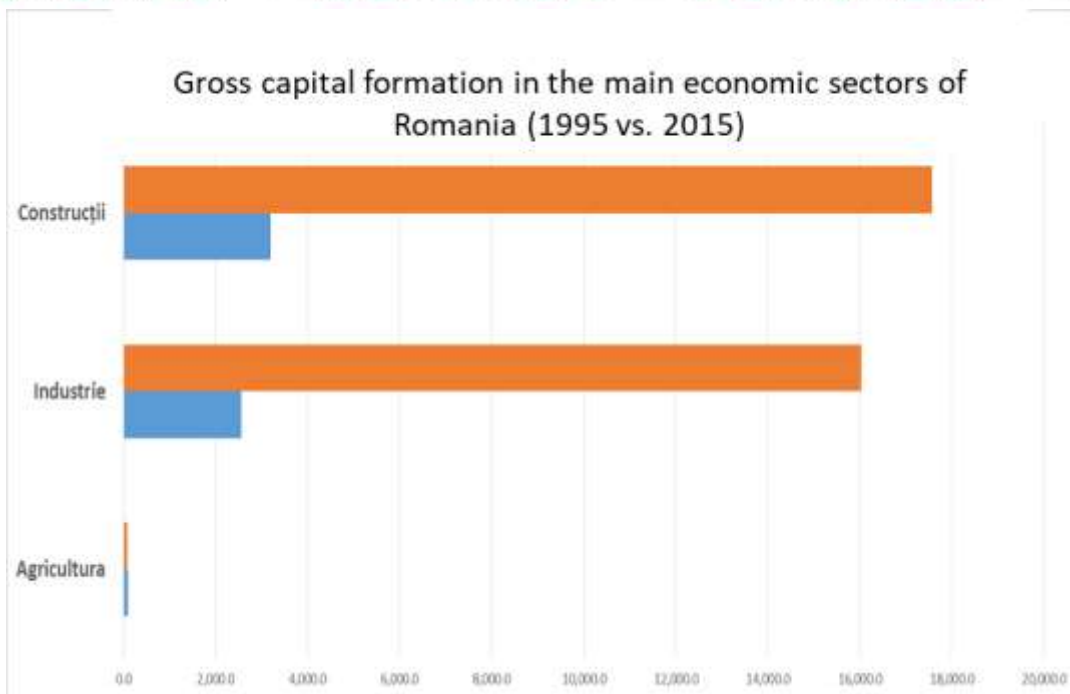
The level of internal credit in Romania remains far below the European average and the Euro Area



Source: Eurostat, 2017.

Are investments oriented towards economic sectors that support sustainable development?

The gross capital formation is quasi-inexistent in agriculture and much lower in industry compared to constructions.

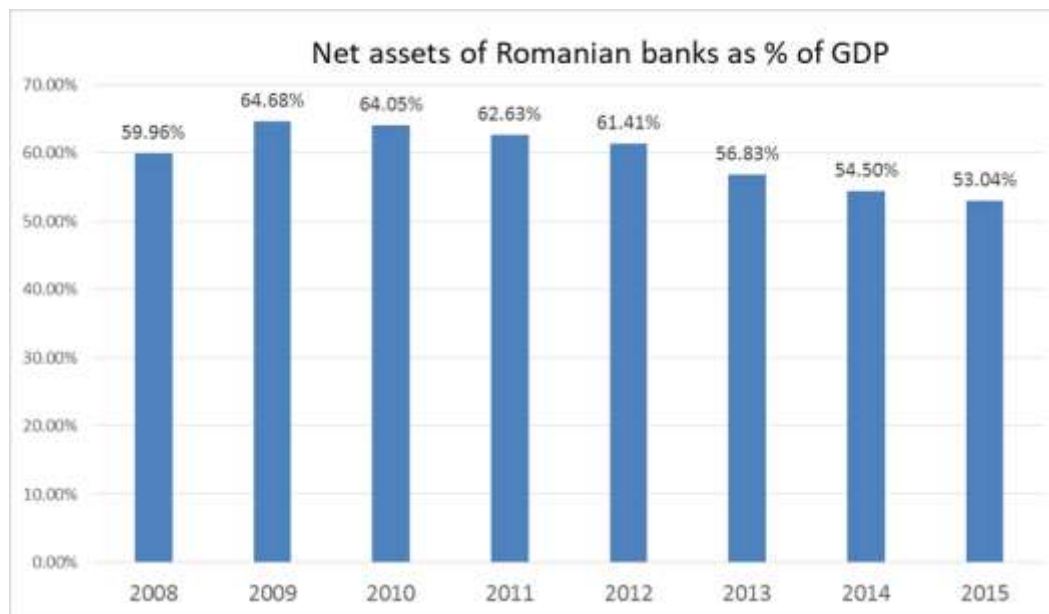


Source: Eurostat, 2017.

Is the banking system strong enough to support sustainable development?

Net assets of Romanian banks as % of GDP continued to decrease.

The financial power of banks declines without being compensated by the growing importance of the Romanian capital market.



Source: Eurostat, 2017.

Instead of conclusions





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