

## DERIVATIVES AND FINANCIAL CRISIS IN ROMANIA

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**Abstract:** *The present paper tries to focus the opportunities in the derivatives market in Romania, in the context of global financial crisis and also in the consolidation tendencies in the financial field in Europe. The Swot analyse and the statistical processing the data are the main research methodology. The conclusions bring into the light the key aspect that has to be used in order to consolidate the Romanian derivatives market and, also, to offer to the Romanian investors the right products for risk management, very useful in financial crisis times.*

**Key words:** *derivatives, financial market, Sibex, financial consolidation*

### 1. INTRODUCTION

The statement of the present paper is about pointing our vision in regards to the evolution of derivatives trade practice in Romania, in the contemporary context of financial market globalization and integration. The moment of drawing these perspectives, comes in the context of global financial crisis. However, in Romania, these instruments, financial derivatives, were traded in lower volumes, at a smaller scale, hence, not being associated to the financial crisis. Specialists (Warren Buffett, 2007) launched a serious warn on the dangers that “the explosion” of financial derivatives trading represents a cause of a potential global financial crisis. In their opinion this phenomenon is a true “clock bomb”. Based on these previsions, the financial analysts in the USA debated the idea that we will witness the “death” of financial derivatives. Although these statements are pessimistic, in our opinion, there are perspectives of survival for the Romanian Derivatives trade practice, especially for the development of this practice through the introduction of new underlying assets, and without revealing their lethal side; even though, they are considered the most sophisticated financial instruments in the regulated capital market.

In this context, the present research what to find out the place of the Romanian derivatives market in Europe, presented such an diagnostic of our regulated financial instruments market. We also try to find the strategic perspectives for derivatives market development potential.

### 2. DATA BASE

#### 2.1 Derivative market trading volume at Sibex

Sibex is the main derivative market in Romania, since 1997, having practically no national competitor, because at Bucharest Stock Exchange the derivative trading volume represents, beginning from 2007, only 2% from the Sibex.

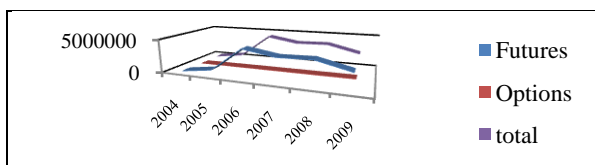


Fig.1. Derivatives volume in Romania

year	Total derivatives volume	Options percentage in total derivatives	Futures percentage in total derivatives
1997	778777	0%	100%
1998	1933336	0.0%	99.93%
1999	1751428	8.69%	91.31%
2000	2052888	22.77%	77.23%
2001	1889733	28.43%	71.57%
2002	2923699	23.02%	76.98%
2003	1879144	10.31%	89.69%
2004	751744	3.02%	96.98%
2005	7077388	1.64%	98.36%
2006	4268710	0.86%	99.14%
2007	3490923	0.99%	99.01%
2008	3618766	1.11%	98.89%
2009	2483287	2.1%	97.90%
Total	15965497	2.39%	97.61%

Tab. 1. Derivatives volume trading at Sibex

The official data, presented in Table 1, evidenced the low percentage of Option contracts traded at Sibex compared to futures contracts trade in total transactions, in the whole time interval from 1998 -2009.

#### 2.2 Derivative market trading volume in Europe

Concerning, the positioning of derivative trade market in Romania, in the context of financial instruments markets consolidation in Europe, we noted that the Romanian market’s place is not sufficiently well contoured, as its disintegrated, emergent status does not represent an bonus in the European competition.

To support such opinion, we performed a comparative study among the traded volumes in Romania and other European countries (Table 2).

Bourse	TOP 2006	Total derivatives	TOP 2007	Total derivatives	TOP 2008	Total derivatives
	2006		2007		2008	
BudSE	10	919774	9	1529195	9	1163279
Eurex F.	1	308132128	1	374507588	1	479541744
Euronext.Liffe	2	185067744	2	262042800	2	308574176
OMX	3	73004611	3	68667209	4	58601651
BME	4	33708649	4	34887802	3	64552996
Borsa Italiana	5	23083605	5	26728802	5	24474128
Oslo Bors	6	8869744	6	7476729	6	5740672
ATHEX	7	2493681	8	3203450	7	3896023
<b>SIBEX</b>	<b>8</b>	<b>4268710</b>	<b>7</b>	<b>3490923</b>	<b>8</b>	<b>3618766</b>
Aust.Deriv.Market	9	1065669	10	1045735	10	855002
Warsaw SE	11	123812	11	114094	11	331646
Prague	12	0	12	3143	12	1740

Tab. 2. Sibex versus European Exchanges

### 3. DATA PROCESSING

In the global financial crisis context, we asked ourselves the question: what are the chances, that a Derivatives market on

new underlying assets will be developed in Romania in the near future? Trying to answer such question, we undertook the former quantitative research results (Vancea, et al., 2009) related to the volume of derivatives traded in Romania that prove an decreasing trend of derivatives. This result we try to point in a European context. It is known that the most traded derivatives in Romania is the futures contract, although, at Sibex, are traded Futures Options, and from late 2009, energy CFDs (this are traded in insignificant value and volumes).

The main methodology used in the present research is the statistical data process, in order, we noted that, although in general, the Sibex derivative market has an ascending trend (see graph 1), Option contracts trading in total transactions is relatively constant, on the two selected time intervals: 20% on the time interval 2000 – 2003 and 1,5% on the time interval 2004 – 2009. In order to stress the impact of the global financial crisis, we developed an SWOT analyse for the derivatives market in Romania.

#### 4. CONCLUSION

In regards to *the place of the Romanian Derivatives market* in the European context, we noted that this is not sufficiently contoured, because the Romanian market status of disintegrated, emergent market does not represent a advantage in the European and global competition. Such statement is supported through a comparative approach for Derivatives trade volumes within a few derivatives markets in Europe and Romania. Based on this comparative analysis, we formulated the following conclusions: 1) In the context of Romania's integration in the European Union, we observed that there are opportunities to increase this market, supported by the economic interdependencies, competition for capital inflows and the tendency for financial instrument markets consolidation. 2) A comparison regarding of the trading volumes on the financial instrument markets from Romania and the countries that recently joined the European Union, proves us that although the traded volumes in Romania are on a increasing trend in the time period 2003 – 2006, these volumes are still 20% of the traded volumes in Hungary and Poland. 3). In our opinion, one of the explanations for this discrepancy is the fact that in the compared European markets, these instruments are available in the same trading platform for risk evaluation, while in Romania there are two different burses: one for spot trading shares and one for derivatives.

In regards to the *Romanian regulated financial instruments market*, we noted that, currently, *is favoured by*: 1) The infrastructure and modern systems, comparable to those from reputable European markets; 2). The educational activity addressed to potential investors, which in the last years proved to be on an ascending trend and the relatively constant preoccupation for launching new products.

In regards to the perspectives for Option market development potential, *we demonstrated that there are viable strategic opportunities, generated by factors, such as*: 1). The current tendency for capital markets consolidation at European and pan – European levels, allows us to consider the Romanian market as an *eligible candidate in the process of eastern European capital markets consolidation*. In our opinion, this process facilitates the introduction of new financial instruments on the market, possibly Options on shares or indices. 2). The competitive advantage that Sibex has, being the single operator on the Romanian Options market, can be leveraged in the way making use of Sibex specialists expertise in administration of derivatives transactions, so that the introduction of derivatives on other underlying assets is a natural continuation of others derivatives trading. 3). The behavioural factors related to the Romanian investors' aversion for risk taking which is on a

decreasing trend, correlated with derivatives characteristics as instruments for protection against risks.

Since we considered the favouring factors, we need to take into consideration the disfavouring factors as well. As such, *in our opinion, the threats presented by the external environment in derivatives market development are related to*: 1). the competition posed by the other eastern European markets for capital flows and potential investors; 2) the Romanian legal frame which impedes the creation of a consolidated capital market in Romania; 3) the low notoriety of derivatives and the presence of substitute products on the market (which satisfy similar needs).

In our opinion, *we considered that we identified measures which would minimize the unfavourable factors and would leverage the existing opportunities*. These measures mainly refer to: 1). increasing derivatives notoriety through realization and distribution of marketing materials to promote the benefits of this instrument; 2). exploitation of possibilities for consolidation/ merger of the two Romanian market operators, Bucharest Stock Exchange and Sibex, which implies finding solutions for changing the legislative frame and harmonizing the interests of their shareholders. The information presented in table 2, allows us to note that in regards to Options trade in special, Sibex, although with an insignificant transaction volume, and places itself ahead of comparable burses such as the ones from Hungary and Czech Republic.

This type of information is useful to position Sibex in the context of European competition related to the strategies for consolidation of capital markets, in the context of financial crisis and in the *only European region, geographically approached, in which the consolidation process is in its infancy, the central and eastern European region, with countries that recently joined the European Union, whose burses do not function within a common trading platform*. Obviously, our research has certain limitation derived from the subjectivism of the professional thinking used in SWOT diagnose used as one of the research methodology.

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