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A RETROSPECTIVE ANALYSIS AND CONSTRUCTION OF A FINANCIAL STABILITY INDEX FOR ROMANIA IN THE 2010S

Abstract:

Often it is implied that financial stability is synonymous with macroeconomic stability, but the two concepts do not reflect the same context. A composite Financial Stability Index (FSI) should accurately represent the components of a financial market. In Romania, the money market along with the capital market, the insurance market, and the private pensions market form the entirety of the financial market. A macroeconomic stability index should represent the overall situation of all economic markets within a country. The main purpose of this paper is to design a better, more suitable aggregate index that best describes the notion of financial stability. The composite Financial Stability Index signals through its components, the general financial conditions of a nation's economy. This paper explores the constituent economic variables for Romania that would lead to the completion of an improved aggregate index and the evolution of said index. Romania entered the last decade in the middle of a financial crisis that delayed its economic development and the accession to the euro area. To determine the trend of the financial market in Romania during the last decade, a VAR model and Principal Component Analysis (PCA) are used to conduct an econometric analysis for the 2010-2019 period. The results of this study demonstrate that, even though the Romanian financial market was weakened from the beginning of the analyzed period, it gradually managed to reach financial stability in the more recent years, although residual instability still remains a possibility in the near future. The modeled econometric data was collected from various international and national databases, such as Thomson Reuters Eikon platform, The National Bank of Romania (NBR) database, and The Financial Supervisory Authority (ASF) reports.