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FINANCIAL STABILITY - FUNDAMENTAL PILLAR OF MACROECONOMIC BALANCE AND STABILITY

Leontin STANCIU

"Nicolae Bălcescu" Land Forces Academy, Sibiu, Romania
leontinstanciu@yahoo.com

Abstract: *The financial stability is a fundamental condition for ensuring and maintaining the balance and the stability at macroeconomic level. At the same time, ensuring the macroeconomic financial stability is a priority of the state's economic security as well as of all the public authorities having responsibilities in the field of the macro-prudential regulation and supervision. In this context, our scientific approach aims at systematizing, deepening and developing this fundamental issue of the financial theory and practice.*

Keywords: economic globalization, general economic equilibrium, macroeconomic stability, financial stability, national financial system

1. Introduction

The national financial systems, under the influence of the technological innovation, the liberalization and the economic globalization, are more and more subjected to permanent transformations. This economic reality has prompted specialists to assert that "achieving financial stability is one of the new challenges the contemporary economies have to face" [1].

In recent decades, the connection between the financial globalization and the macroeconomic balance, namely the macroeconomic financial stability has been more evident and increasingly studied by specialists. The national economies are increasingly interdependent as a result of the many channels of spreading globalization. Thus, the integration of the national economies into the global economy is accompanied by the expansion of the multinational companies, the intensification of trade and capital flows, as well as a favorable environment for the phenomenon of contagion, with multiple consequences on the macroeconomic financial stability [2].

2. Theoretical Approaches to Macroeconomic Balance and Stability.

The normal course of the economic cycle and the optimization of the economic performance require macroeconomic stability and, finally, a balanced development of the national economy.

For its part, under the market economy conditions, the overall economic balance is indissolubly linked to the complex interdependencies generated by the behaviors of all "the economic actors" on all the real economy markets.

At the macroeconomic level, the balance underlines that general situation of the national economy where the correlations and the proportions between the macroeconomic

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measurements or variables allow the normal conduct of the real and monetary flows in the economy, an effective functioning of the system that gives satisfaction to the economic subjects [3]. The macroeconomic balance is conceived in economic theory and practice as the result of partial balances, such as: the balance of production, the balance of distribution, the balance of monetary, financial, currency, budget, etc. exchanges, which in fact constitute a system of economic balances.

Within this framework, the combined objective of the promoted economic policies is the macroeconomic balance/stability, which mainly targets the following:

- price stability;
- high level of employment;
- sustainable, non-inflationary economic growth.

A determinant factor for a sustainable economic growth, a financial integration and an efficient macroeconomic coordination is the existence of a sound, efficient financial system operating in an appropriately regulated environment [4].

At the level of the national financial system, its balance mainly implies the following:

- the transparency of the fiscal and budgetary monetary policies;
- exercising banking supervision;
- meeting the standards in insurance field;
- the good corporate governance;
- the transparency of the capital markets and so on.

A solid, stable national financial system allows the distribution of the beneficiaries of globalization to all the economic subjects that are active on the financial markets and its proper functioning can be ensured by appropriate macro-prudential policies.

3. Implications of the Globalization Process on the Macroeconomic Financial Stability.

Over the past few years, the increasingly evident connection between the process of the economic globalization and the stability of the national financial systems has concerned more and more specialists. Globalization in general and financial globalization in particular intensifies the interdependencies between the national economies. In this context, financial globalization has made an active contribution to strengthening and developing the national financial systems, but also it has made them vulnerable to the phenomenon of contagion. Thus, the risks related to the capital flows and the use of the complex financial products have diversified and have generated costly financial turmoil from a social and economic point of view. These effects of the financial globalization have led to an increased solidarity of the financial institutions at national and international level in order to counteract the negative consequences.

The economic globalization in general and the financial globalization in particular have brought both systemic gains and risks to the participants in the process. The following are the potential benefits of the financial globalization for the national financial systems:

- increased earnings as a result of revenue volatility;
- increased profitability of the economic activities, due to the use of modern production techniques;
- diversified financing sources;
- appropriate cash flow for the investment process;
- increased risk protection.

On the other hand, the potential problems that the process of financial globalization can cause to the national financial systems are related to:

- risk management, which may be more difficult to exercise in certain situations due to the legislation's lack of harmonization;
- increased agency costs within financial conglomerates;
- enhanced phenomenon of financial contagion.

After weighing the positive and the negative effects of the globalization process on the national economies, we consider that:
- globalization leads to increased global economic competition, transparency and increased productivity through the transfer of know-how;
- globalization supports, in various ways, global economic growth;
- reducing the macroeconomic volatility was possible due to the globalization process;
- the financial globalization has helped the development of the financial systems of the emerging countries, and the increase of the foreign direct investment which, besides capital and knowledge, bring modern, advanced technologies.

4. The Relationship between the Financial Balance and Stability at Macroeconomic Level.

In the context of the financial globalization, a fundamental pillar for achieving macroeconomic balance and, implicitly, social welfare is to ensure financial stability at a national level. On the other hand, the main objective of the financial stability is to ensure macroeconomic stability.

The stability of the national financial system is important for the achievement of the macroeconomic balance/stability due to the fundamental role that the financial markets play in the real economy. Thus, through the financial markets and their institutions specific activities unfold with major importance for the economic activity such as funding, payments, foreign exchange and so on. The malfunctioning of the national financial system would generate systemic crises that would cause blockages of the real economy, a slowdown in the economic growth, or even economic recession.

In any efficient national economy, the stability of the financial system is a fundamental objective of all the strategic decision makers because:

- it provides the necessary framework for the attraction, accumulation and efficient use of capital;
- it guarantees the financing of all the investment opportunities;
- it makes a decisive contribution to a sustainable economic growth.

At international level, there is no exhaustive definition to highlight the scope of the financial stability, both conceptually and empirically. There is also no consensus on the role of the central banks in ensuring the stability of the national financial systems, even if their concern for supporting it has become a reality for a long time [5].

Given the diversity of concepts and its role in ensuring the macroeconomic balance and stability, we consider that a national financial system is stable and healthy when it simultaneously fulfills two fundamental conditions, namely:
-its efficient functioning provides a sustainable economic growth;
- it contributes to achieving and maintaining the macroeconomic balance and stability.

Therewith, we also argue that the involvement of the central bank, namely the National Bank of Romania, in ensuring the stability of the national financial system is an objective necessity.

5. The Role of the Central Bank in Providing Macroeconomic Financial Stability.

Most specialists argue that the central bank plays an important role alongside other statutory institutions in ensuring financial stability at macroeconomic level. In this context, it is considered that the following functions of the central bank contribute substantially to achieving and maintaining the macroeconomic stability:

- regulating and supervising the banking system;
- guaranteeing the bank deposits;
- last resort creditor;
- managing and monitoring the payment systems.

Over time, the instability of the action conducted by the commercial banks necessarily led to them being controlled by the central bank. Thus, it had to regulate and refinance the activity of the second-ranked banks in the situation where they could not cope with their assets and reserves - massive demand for withdrawal of deposits. Also, the Central Bank's function of creditor of last resort has emerged and is being exercised in order to guarantee the systemic liquidity and solvency. It has been complemented by the central bank exercising the role of prudential regulatory authority development and enforcement. To this historical evolution of the functions of the central bank a number of economic phenomena are added (such as: globalization, deregulation, intensification of technological innovations, etc.), which strengthen the connections between the components of the national financial system.

The defragmentation of the capital markets has determined the central bank to assume new responsibilities of ensuring financial stability at macroeconomic level, such as:

- monitoring the evolution of the financial assets' prices;
- supervising the financial conglomerates;
- monitoring the operations with derivative financial products.

There are opinions according to which the central bank should first ensure the macroeconomic stability, and then develop and implement the monetary policy. The main argument of this approach is that an effective monetary policy is based on predictable transmission mechanisms, specific to a healthy and stable financial system.

Summarizing the main approaches to the role of the central bank in ensuring financial stability at macroeconomic level, we consider that it is supported by the following arguments:

- the central bank is the only issuer of the primary currencies and banknotes, respectively of the legal means of payment within the national territory;
- the central bank is the institution that promotes and monitors the proper functioning of the national payment system;
- the banking sector is the main institutional component of the mechanism of transmitting the effects of the monetary policy on the real economy;
- there are interdependencies between the monetary stability and the macroeconomic financial stability.

6. The Macro-prudential Policy and the Financial Stability. The Case of Romania.

The economic reality demonstrates that a stable, healthy financial system contributes substantially to a country's economic development, ensuring macroeconomic balance and stability. From this perspective, the financial stability is a "global public good characterized by equity and non-exclusion". [6]

The market, the central bank and the other state institutions contribute to the macroeconomic financial stability, according to the legal regulations. Also, ensuring financial stability also requires an international approach in coordinating the policies in the field.

At the level of the European Union, the **European Systemic Risk Board (ESRB)** was established in 2010. This body, being responsible for the macro-prudential oversight of the European financial system, contributes, through its recommendations and warnings, to the prevention or mitigation of the systemic risks and to the efficient functioning of the internal market. Thus, through Recommendation ESRB/2011/3, the Member States are required to designate in their national law the authority which is entrusted with the application of the macro-prudential policy, generally represented by either a single institution or a committee composed of authorities whose actions have a substantial impact on the macroeconomic financial stability.

In **Romania**, the macroeconomic financial stability is ensured through the joint effort of several national institutions and the coordination of the macroeconomic policies. Thus, in order to implement the recommendations of the ESRB, Law no.12/2017 on the macro-prudential supervision of the national financial system was adopted. According to its provisions, the **National Committee for the Macro-prudential Oversight** (NCMO) was set up, consisting of representatives of the National Bank of Romania, the Financial Supervisory Authority and the Government.

7. Conclusions

In the context of the economic globalization and the increased financial market integration, financial stability is an important and complex problem for both the specialists in the institutions with responsibilities to this purpose, as well as for the academics.

In the last decades, the financial systems have experienced multiple vulnerabilities, and these, by rapidly propagating, have increased the fragility of the national economies.

For this reason, as a final conclusion, we advocate that ensuring financial stability must be a fundamental objective of the economic policies, as they decisively contribute to achieving the stability, the balance and the sustainable economic growth.

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