

## APPRECIATION ON THE EVOLUTION OF EXCHANGE RATE COMPARED TO GOLD QUOTES IN ROMANIA DURING FINANCIAL CRISIS

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**Abstract:** *What is better to invest during financial crisis: foreign currency or precious metals? This paper will examine the evolution of major currencies in Romania both absolutely and relatively, compared to the evolution of the Romanian market quotations gold, trying to show major differences in euro or dollar profitability investment compared to precious metals. Also, the paper present the evolution of central bank reserves at this time.*

**Keywords:** *exchange rate, gold, crisis*

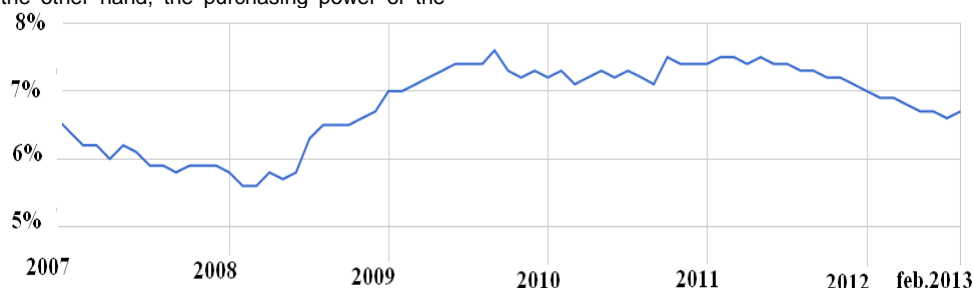
### 1. CONSIDERATIONS ON THE ECONOMIC CRISIS IN ROMANIA

What is better to invest in times of financial crisis? It is better to treasure or to invest in precious metals or currencies? The global financial crisis that hit Romania after 2008, emerging as an effect rather than a cause, has led to a regrouping of the investments and particularly investors, both international and national. Obviously, the flow of foreign capital and foreign investment dropped dramatically, especially noticeable but not limited to real estate. On the other hand, the purchasing power of the

Romans dropped dramatically. Lower living standards and reducing public sector wages by more than 25% were felt in the purchasing power of the Romans and thus in consumption also.

We draw a parallel evolution of the purchasing power, unemployment, inflation and consumer price indices during the crisis.

In Romania, in the period 2008-2013, the economic crisis on the unemployment rate was not very high (Figure 1).



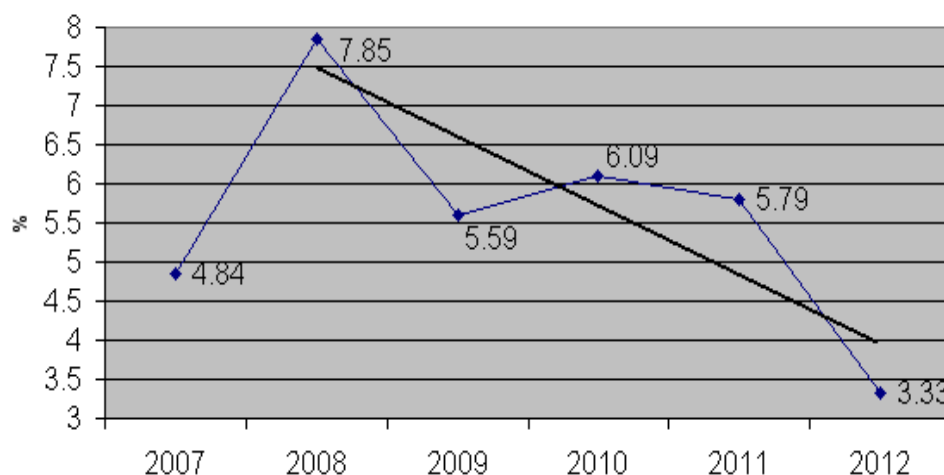
Source: <http://www.google.ro/publicdata>

**Figure 1. Evolution of unemployment rate in Romania in 2007-2013**

Regarding the inflation rate and the default on consumer price indices, the economic crisis has had, in 2008, a significant impact. From a level of 4.84% in 2007, in 2008 it reached 7.85% (an increase of 75.22%). This significantly

influenced both the purchasing power of the population and its ability to save or invest.

Starting with 2009, the general trend is to reduce the inflation (Figure 2), reaching in 2008 below the level at the beginning of period.



**Figure 2. Inflation rate in Romania in 2007-2013**

### 2. IMPACT ON EXCHANGE RATE LEU/USD AND LEU/EURO

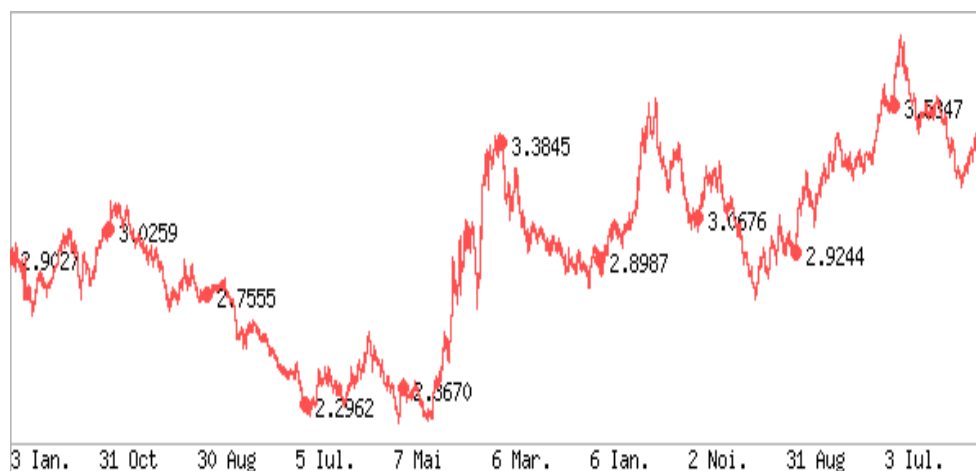
In the period under analysis, the RON / USD fluctuated significantly (Figure 3). Although at 2.9027 lei / USD on 3 January 2005 it reached at 2.2816 RON / USD on 3 May 2013, which represents an increase of 13.05%,

the overall trend is upward, can be identified at least three distinct periods.

The first period, January 2005 - May 2008, is characterized by a general downward tilt, the RON / USD rate, after a slight increase of around 10 bani, in October 2005, when it reached 3.0259 USD falls to July 2007,

reaching July 5 values of 2.2962 lei (down 24.12%). In the next 10 months, there are few oscillations superimposed

on an almost constant trend (from 2.2962 lei on July 5, 2007 to 2.3670 lei in May 7, 2008..



Source: <http://www.cursbnr.ro/grafic-valute>

**Figure 3. The evolution of the RON / USD in the period 2004 - 2013**

A second period, May 2008 - March 2009, is characterized by an explosion of the report EUR / USD. If on 7 May 2008 it was 2.3670 lei, in ten months, on 6 March 2009 reached at 3.3845 lei, increasing by 42.95%. Between May 2008 and March 2009 the exchange rate recorded the largest devaluation of the leu against the USD throughout the period.

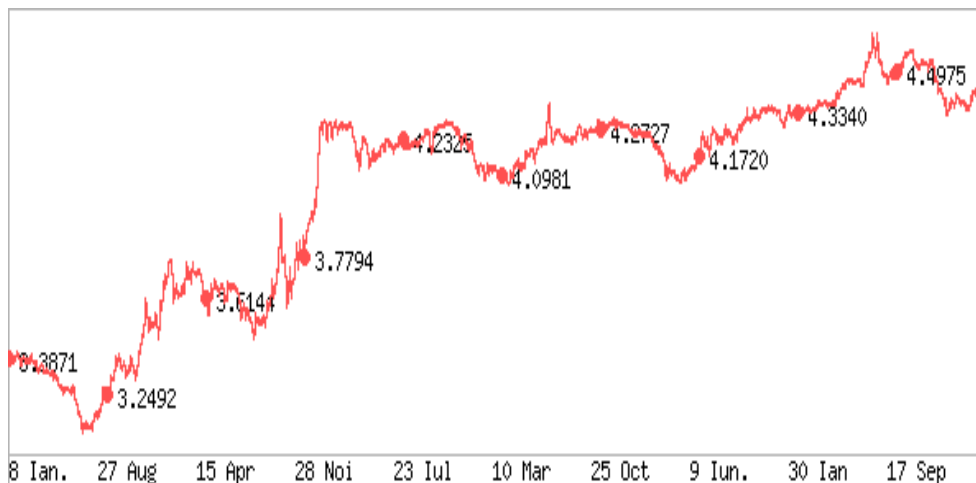
The third period March 2009 - May 2013 is characterized by large fluctuations superimposed on an upward trend. During this period, the RON / USD tries to stabilize oscillation amplitude, while it decreased slightly.

In the first part of the period, the RON / Euro had a similar pattern of the quotations RON / USD. An initial

increase in the RON / Euro takes place in the second half of 2007 (Figure 4), followed by a slight decline in the first half of 2008.

The second part of 2008 is characterized by an explosion of the exchange rate from about 3.5 to 4.3 lei in just six months, which is a devaluation of the leu against the euro to 22.86%.

After the jump recorded since 2009, the RON / Euro evolve on a slightly upward trend without significant fluctuations, developments to differ totally from that of the RON / USD analyzed above.



Source: <http://www.cursbnr.ro/grafic-valute>

**Figure 4. The evolution of the RON / EUR in the period 2007 - 2013**

### 3. PRICE EVOLUTION OF THE GRAM OF GOLD

This chapter shows a parallel between the evolution of stock piles of gold on international markets and quotation grams of gold on BNR.

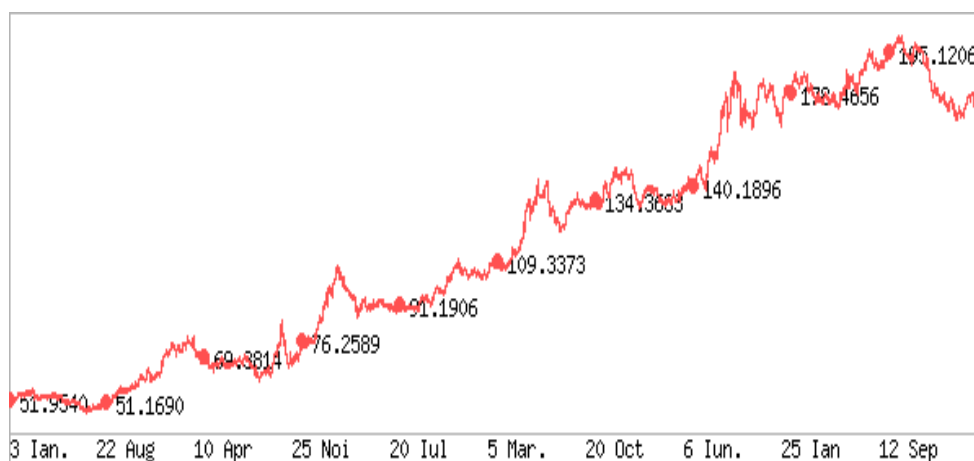
Variation in price of gold on world markets in euro / g during the financial crisis 2008-May 2013, is shown in the graph below:



**Figure 5. The evolution of the gold price in the period 2008 - 2013**

During this period, gram gold increased from a value of 17.21 euro to 44.34 euros, thus exceeding 2.5 times and had a strong ascending trend until 2013.

In the same period prices gold gram in Romania at the BNR followed a trend similar to the world, as shown in Figure 6.



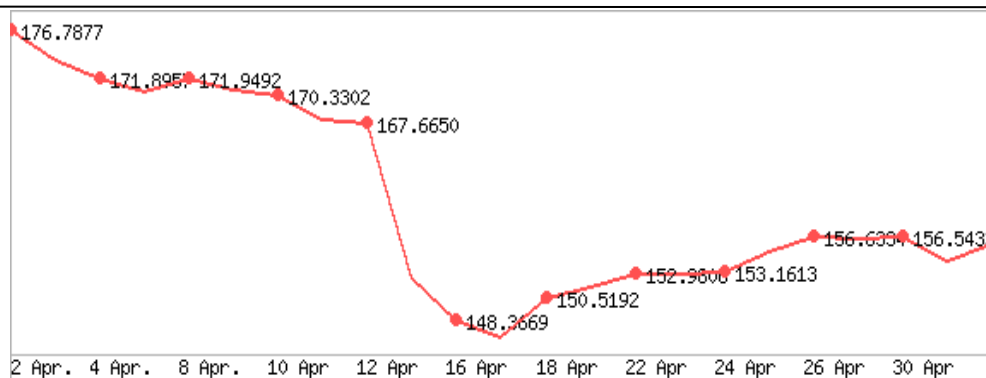
**Figure 6. Gram of gold price development in Romania (XAU) BNR quotation (Ron / g) in the period 2007-May 2013**

The gram of gold increased from 51.16 Ron in August 22, 2007 to 195.12 Ron, so over 3.8 times in September 2012.

It shows a significant decrease in gold prices last month mainly due to the crisis in Cyprus, including selling large quantities of gold in the market but also because of corrections. Gold prices fell last month of 2013 because an increase of 600 USD / ounce in 2007 to 1600 USD / ounce in 2013 after passing through a maximum of 1889 USD in 2011, leaving room for significant corrections.

In Romania, quote grams of gold, the date of National Bank for the month of April 2013 is shown in the graph below (Fig.7). Thus, gram gold fell from 176.78 to 148.36 Ron April 2 April 16, so over 16%, and a slight rebound to 156, 54 Ron in April 30, 2013.

But even with this correction gram of gold still had a net increase of 2.9 times more than the major currencies, the dollar and euro in the same period of time.



Source: <http://www.cursbnr.ro/grafic-valute>

**Figure 7. Evolution BNR quotation Gold (XAU (lei/g)**

At the same time, the NBR reserve gold on April 30 stood at 103.7 tones. The change in international prices, its value stood at 3.755 billion euro.

#### **4. CONCLUSIONS**

Gold prices increase over 10 years and still expect significant returns on the asset. Investing in gold can be directly and physically own it, or indirectly via financial assets at their base.

Gold provides good protection against inflation. Statistics has shown us that the theory is valid only in the long term, gold recorded in past periods of stagnation or decline.

In times of crisis financially, investors, central banks, governments are turning to precious metals as a reserve asset, and their price will likely increase until global economies will have a clear upward trend. Then gold will decrease because gold remains just an investment, it is an asset, the market price of transactions generating mostly gold symbol, without covering it with gold actually in many cases.

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