

## CONSIDERATIONS ON PRECIOUS METALS INVESTMENTS IN ROMANIA DURING 1990-2013

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**Abstract:** In times of crisis, investments in precious metals are considered the safest. It is assumed that gold provides good coverage against inflation. This is true, but on very long term. Gold is not necessarily the solution for those who avoid risk. The price of gold has a quite high volatility and the price of gold is a direct result of the financial system. In this paper we try to analyze the evolution of investments in gold in both periods of economic boom and crisis in Romania, when and if it is better to invest in gold.

**Key-words:** precious metals, crisis, inflation, risk

### 1. THE PRICE OF GOLD IN THE WORLD BETWEEN 1994-2013

Between 1994 - 2013 the price of gold in the world, according to spot quotes, recorded various developments. If in the early years of the analyzed period

(until 1997) the price of gold has remained fairly constant around 300 ... 400 USD/ounce, in the next five years, the price knows a decline, falling below 300 USD/ounce with a minimum of 252,8 USD/ ounce (Figure 1).



Source: <http://www.goldprice.org/spot-gold.html>

Figure 1. The evolution of the gold price in the period 1994 - 2013

This analysis is based on data submitted by <http://www.goldprice.org> site that shows real time quotations per spot for precious metals market.

Economic and social developments registered after 2003 have increased almost continuously the gold price until the end of the period. At the beginning, during

the 2004 – 2006 period, the increase is about 30%, without significant fluctuations (Fig. 2), after this period, growths increasingly larger accompanied by significant fluctuations, especially after the economic crisis, the gold prices reaching historical maximum above 1880 USD / ounce in 2011.



Source: <http://www.goldprice.org/spot-gold.html>

**Figure 2. The evolution of the gold price in the period 2004 - 2013**

**2. THE PRICE OF SILVER IN THE WORLD BETWEEN 1994-2013**

Silver price (USD / oz) showed a similar trend of gold price movement (Figure 3). Thus, during 1994-2004, the price of silver has not important fluctuations, stalled at around 4 ... 5 USD / ounce.

After 2004, the silver price has experienced significant fluctuations with a strong upward trend,

reaching to a maximum of \$ 48.58 for an ounce of silver, so over 10 times higher than the earlier period (Fig.4).

In the same period, the price of gold at the end of the analyzed period was over seven times higher than at the beginning of the period, reaching a maximum of 1889.7 USD / ounce.

20 Year Silver Price in USD/oz

Last Close: 23.30



Source: <http://www.goldprice.org/spot-gold.html>

**Figure 3. Silver price development during 1994 - 2013**

10 Year Silver Price in USD/oz

Last Close: 23.30



Source: <http://www.goldprice.org/spot-gold.html>

**Figure 4. Silver price development during 2004 – 2013**

**3. EVOLUTION OF THE RATIO BETWEEN GOLD AND SILVER PRICES**

Implications of socio-economic developments in the period under review, especially after the economic

crisis, have influenced the preferences of players on the stock exchange and the public in general for the two precious metals.

Price movements of the two precious metals, especially after the economic crisis, are quite different. To highlight the developments of the two indicators discussed

above, in figure 5 I will compare the dynamics in the price of gold and silver price between 2005 - 2013.



Source: Processing <http://www.goldprice.org/spot-gold.html>  
 Figure 5. Evolution of gold and silver prices during 2005 - 2013

As can be seen, until the beginning of 2011, gold and silver price trends are very similar characterized by a slight increase in the period 2005 to 2008 followed by several months of decline. Economic crisis, in the last quarter of 2008, triggered a sustained increase the prices of gold and

silver, leading up to mid-2011, to a double for the gold price and increased to about 4 times the price of silver, followed by a period with strong fluctuations especially in price of silver. These issues are well highlighted by the development of the ratio of price of gold and silver.



Source: <http://www.goldprice.org/spot-gold.html>  
 Figure 6. Evolution of the ratio between gold and silver prices during 1994 - 2013



Source: <http://www.goldprice.org/spot-gold.html>

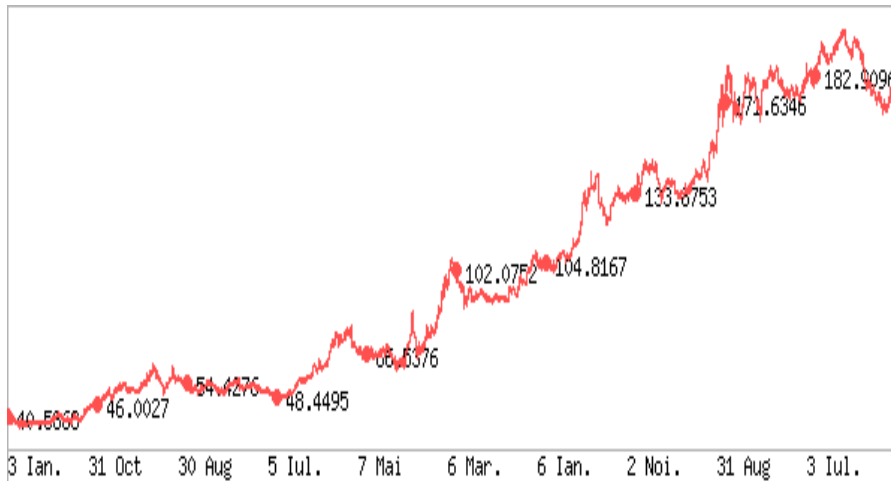
Figure 7. Evolution of the ratio between gold and silver prices during 2004 – 2013

In 2013, there is a decrease in the price of precious metals, so an ounce of gold reached a quotation of 1460USD on 05/06/2013 (47012 USD / Kg) and silver at 24 USD / ounce (760 USD / kg).

Gold fell, therefore, that an increase from 600 USD/ounce in 2007 to 1600 USD/ounce in 2013 after passing through a maximum of 1889 USD/oz in 2011, it allows large price corrections.

#### 4. THE PRICE OF GOLD BETWEEN 1994-2013 IN ROMANIA

According to statistics published by the Central Bank, in the chart below illustrates the price of gold grams in Romania. Note that the variation grams of gold, according to the National Bank quotation, follow the global trend, with spectacular growth of more than 4.5 times, from a quote of 40 USD / gram to 180 USD / gram in 2004-2013.



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

Figure 8. Evolution of prices of gold (XAU) in lei/g, in Romania, between 2004-2013

#### 5. CONCLUSIONS

Gold is seen as a tool to hedge against inflation and this is true but only in the long and very long term. It is one of the few active that investors perceived as a refuge in conditions of economic crisis and market volatility. Not to ignore the fact that the gold price has experienced periods of decline. Even more, because gold has no price given by the demand and supply related utility, which is similar to any financial asset related transactions and anticipation speculators. The structure of global demand for gold is shown in the graph of [www.finanteazi.ro](http://www.finanteazi.ro) site. Note that over 43% of demand is due to the need for gold jewelry and over 36% of investment transactions and 10% for banks and 10% for technology needs [4].

Gold price increase was induced by investors' expectations that the National Bank of China, and other central banks to increase their gold reserves. Currently, they are only 1.8% of China's foreign exchange reserves, although the country has the largest reserves in the world.

In comparison, the U.S., Germany, Italy and France, which has the largest gold reserves in the world, gold occupies over 70% of total reserves reads the World Gold Council statistics. According to experts, gold is in a bubble growth, but likely will continue to increase due to the current economic crisis worldwide.

This is obvious and the evolution of the current gold price has dropped significantly in the last month, over 14%, due to both the developments in Cyprus and its decision to sell gold to cover the deficit and also to normal correction of an asset exchange traded as gold is the case[7].

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