

The Effects of the Political Decisions on The Financial Market

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Abstract

The evolution of financial markets, and especially of the Romanian capital market, is influenced by several factors, but this paper highlights one of the most important, namely the political factor.

The effects of political measures, the issuance or changes of laws, the issuance of ordinance and other measures are felt by the entire economy.

To emphasize the connection between the events taking place in the political sector and the evolution of the capital market in Romania, we decided to present the effects of the Emergency Ordinance number 114 issued by the Romanian Government in December 2018, on the evolution of stock indices and the main companies listed at the Bucharest Stock Exchange. In that sense we applied several technical indicators on the indices and stocks charts, highlighting the investor's reactions on feelings of fear or pessimism and emotional excess that led to important declines.

Key words: financial market, Relative Strength Index, political decisions

J.E.L. classifications: G41, P16, Y10

1. Introduction

The paper aims to address the effects of political measures on financial markets, in particular, the Romanian capital market. For this we stopped at one of the most important political measures taken in recent years, namely the Ordinance number 114, which was published in December 2018.

The Ordinance was issued by the Romanian Government at the end of 2018, without prior consultation of the National Bank of Romania or the business environment.

The main measures of the Ordinance regarded the banking sector, public investment, electricity sector, gambling and construction sector. In March 2019, after consulting with the representatives of the banks and the National Bank of Romania, was published Ordinance number 19, which brought changes and clarifications on the measures established by Ordinance 114.

2. Literature review

In December 2018 the Romanian Government issued the Ordinance number 114. The tax on the financial assets of the banks is an important measure introduced by this Ordinance. Initially this tax amount depended and was correlated with the ROBOR interest rate and was set up quarterly. In March 2019 after consulting the representatives of the National Bank of Romania, the Government issued Ordinance 19 and changed the calculation method of the tax, no longer depending of the ROBOR interest rate.

The information regarding the establishment of the tax on banks financial assets, the measures of capping the natural gas price in the energy sector, or the ones regarding telecommunications sector and privately administered pension funds brought in December 2018 some of the biggest declines registered by the Bucharest Stock Exchange since 2008 – 2009, the crisis years.

The influence of the political decisions and of the events taking place in the political sector, on the financial markets it's a subject that has been studied by many analysts. Vancea studied and showed the correlation between political events and volatility of financial market, especially the currency market. In his work Bragues makes a point that for economic evolution, it is important to understand the political context. Griffiths went further stating that political and economical events correlate to financial market and can create business cycles.

3. Data processing and results

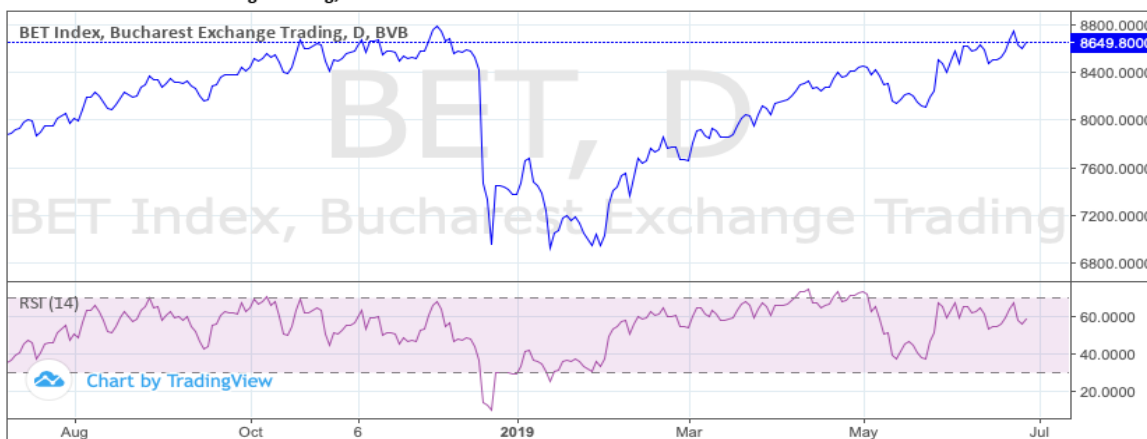
The elements used in this study are the charts of the stock indices, BET and BET-NG and also of the main companies from the banking sector BRD and Transilvania Bank. In order to best describe the correlation between them and the effects of the political decisions we applied a technical indicator RSI – Relative Strength Index and also we highlighted the importance of the volumes traded.

The BET Index recorded on December 19th the largest decline, -11,21% of all the indices from Bucharest Stock Exchange, due to the declines registered by the companies from the banking sector.

Figure no.1 BET Index – Bucharest Stock Exchange – 1 year chart

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BET Index - Bucharest Exchange Trading, D O:8594.9000 H:8669.9300 L:8588.2500 C:8649.8000



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Source: www.interfinbrok.ro - ArenaXT Bucharest Stock Exchange

Thus, BRD Group Societe Generale – BRD and Transilvania Bank – TLV declined on December 19th 2018, by 16,62% and 19,91%, respectively, during the trading session, after the investors heard the news regarding the tax on banks’ assets.

The charts illustrate the impact of political measures on the evolution of stock indices. The stock market capitalization decreased by 14 billion lei, in a single trading session, due to the decreases of the stock indices on high liquidity.

Figure no.2 BRD-Group Societe Generale – 1 year chart

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BRD - BRD-GROUPE SOCIETE GENERALE BUCURESTI - ROBRDBACNOR2, D O:12.4000 H:12.4600 L:12.2800 C:12.4000



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Source: www.interfinbrok.ro - ArenaXT Bucharest Stock Exchange

The Volume is an important indicator often used in technical analysis to determine how significant a buy or a sell signal is. Kirkpatrick highlighted in his book that „a falling market attracts a rising volume when the rate of decline starts accelerating”. Also he stated that the volume of trading activity is used „as a confirming indicator”.

Investors react on feelings of fear or pessimism and emotional excess leads to important declines called panics. High volatility occurs at periods of stress, fear, uncertainty, emotion.

On BRD-GSG and Transilvania Bank – TLV one year chart one can observe the increasing volume on the strong movement occurred on December 19th. The investors have panicked and massively sold.

Figure no.3 Transilvania Bank – TLV – 1 year chart

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TLV - BANCA TRANSILVANIA CLUJ NAPOCA - ROTLVAACNOR1, D O:2.3500 H:2.3700 L:2.3450 C:2.3550



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Source: www.interfinbrok.ro - ArenaXT Bucharest Stock Exchange

An important technical indicator is RSI – Relative Strength Index. RSI’s formula contains the average price rise during up days usually over 14 days, divided by the average price fall during down days. RSI ranges between 0 and 100. Kirkpatrick highlights that a reading of 70 or above indicates a market is moving into overbought area, and a level of 30, or below suggests that the market is moving into oversold zone.

Analysts went even further and noticed the divergences between the price of the stock or the index and RSI. Kirkpatrick showed that „a new low in the share price that it is not confirmed by a new low of the RSI indicates that the downward momentum is slowing down”.

We applied RSI on the chart of the indices and stocks to show the effect that the Ordinance 114 news had. On December 19th under the pressure of investors selling, RSI moved into the oversold area.

The price of stocks, BRD-GSG and TLV, continued to decrease and registered new lows in January 2019, which were not confirmed by new lows in the RSI indicator. In fact, in February 2019, the indices started an uptrend, as a result of news regarding changes of Ordinance 114. In March 2019, after consulting with representatives of the banks and the National Bank of Romania, Ordinance 19 was published and brought changes and clarifications on the measures established by Ordinance 114.

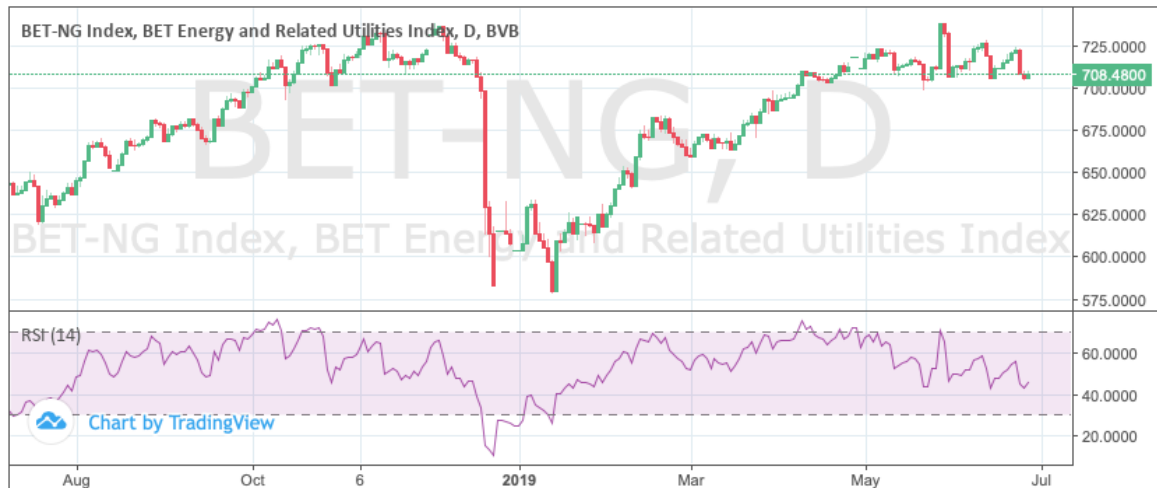
The energy sector index BET-NG registered a significant decrease of 9.93% after the news regarding the measures introduced in this sector after the issuance of Ordinance 114, namely the capping of the natural gas price sold by the producers to the suppliers household customers and heat producers, at 68 lei per MWh.

On BET-NG chart we can observe the same pattern, important losses on December 19th and the days that followed, RSI in oversold area. In January 2019 the index descending trend continues, but the RSI indicator is on an uptrend, making a divergence that suggests the downward momentum is slowing down, followed by an uptrend of the index in the next months.

Figure no.4 BET-NG – 1 year chart

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BET-NG Index - BET Energy and Related Utilities Index, D O:705.6100 H:710.1700 L:705.3500 C:708.4800



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Source: www.interfinbrok.ro - ArenaXT Bucharest Stock Exchange

The companies in the energy sector recorded some of the biggest decreases in the last years, Romgaz -9%, Transgaz -9,64%, Electric Power Company -10,09%, OMW Petrom -12,97%, Transelectrica -8,77%.

Figure no.5 SNGN Romgaz Medias SNG – 1 year chart

Published on TradingView.com, June 27, 2019 02:12:19 EEST

SNG - S.N.G.N Romgaz Medias - ROSNGNACNOR3, D O:31.9000 H:31.9500 L:31.5000 C:31.8000



Created with TradingView

Source: www.interfinbrok.ro - ArenaXT Bucharest Stock Exchange

4. Interpretation of results

The evolution of the capital market reveals the correlation between the political decisions taken by the Romanian Government in December 2018 and the strong declines of the stock indices occurred after news regarding Ordinance 114.

Investors need more security and greater legislative predictability, else they react on feelings of fear or pessimism and emotional excess leading to important declines. But once the political decisions became more clear along with a new Ordinance in March 2019, the stock market returned on an uptrend. The declines in December took RSI indicator in the oversold area, and the return of the trend in 2019 was anticipated by the RSI indicator due to the divergence between the lows registered by the stock indices not confirmed by new lows in the RSI.

5. Conclusions

The strong declines occurred in December 2018 after news regarding Ordinance 114 measures, highlight the fact that the political measures have a major influence on financial markets.

We can observe a fast and strong impact of the capital market, of the BET index, a normal aspect if we take into consideration the fact that the measure taken by the Government is regarding the banking sector directly.

Our study confirms the results of other studies highlighting the fact that political measures have a major influence on financial markets and there is a strong correlation between them.

6. References

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