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FINANCIAL STABILITY – A PREREQUISITE FOR SUSTAINABLE DEVELOPMENT OF NON-FINANCIAL ECONOMIC ENTITIES

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Abstract: *In a dynamic and volatile economic environment, the financial stability of non-financial entities is an essential pillar of overall economic health, with direct implications for the banking system, capital markets and investment dynamics. In this context, financial stability remains a strategic priority for any non-financial economic entity, as it is a prerequisite for their survival and sustainable and durable development. The ability of a non-financial economic entity to maintain its financial equilibrium also becomes an indicator of its performance and adaptability. This article aims to identify and highlight, in the first part, theoretical issues specific to financial stability in general, and to the financial stability of non-financial economic entities in particular, such as: the conceptual framework, the determinants, the link between financial stability and sustainable development. In the applied part, the author aimed again to analyze, statically and dynamically, using specific financial indicators, the degree of financial stability of some non-financial economic entities in Romania. The study also emphasizes the importance of an active, adaptive financial management in order to ensure stability and business continuity at microeconomic level.*

Keywords: non-financial economic entity, financial stability, financial indicators, systemic risk, sustainable development

1. Introduction

In the current economic context, dominated by uncertainty and rapid transformations, financial stability remains a strategic priority for every non-financial economic entity, being a prerequisite for their survival and sustainable long-term development. At the same time, the ability of a non-financial economic entity to maintain its financial balance becomes a performance and adaptability indicator.

The global financial crisis of 2008 to 2009 brought the concept of systemic risk to the attention of the decision makers. This refers to the situation in which an adverse financial event generates major negative externalities in other components of the financial system, simultaneously and significantly affecting the activities of the real economy. In this context, the decision makers have become aware of the role and the importance of the financial stability for both the general economic equilibrium and the well-being of the society.

Until 2008, the idea advocated at the macroeconomic level was that the price stability was a sufficient condition for ensuring financial stability, because as long

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as inflation remains on a stable trajectory, there are no reasons for concern. Subsequently, the global financial crisis proved the opposite, namely that financial stability is an endogenous component of the general economic equilibrium.

In order to maintain financial stability, new policy instruments, new analysis and monitoring indicators, etc., have been developed and applied, which were the elements of a new public policy, namely the macroprudential policy, which has been implemented at national level by the macroprudential authority. Thus, in Romania, this authority is the National Committee for Macroprudential Oversight. In order to improve the financial health of the non-financial economic entities, it issued a series of recommendations aimed not only at the stability of the financial system, but also at promoting a sustainable and long-term economic development.

2. Theoretical Approaches to the Financial Stability of the Non-Financial Economic Entities

2.1. Conceptual framework

In the literature, the concept of financial stability does not benefit from a unanimously accepted definition yet, nor from a generally accepted analytical evaluation model or framework. The most common and easily implementable approach in the academic literature is the one that claims that at the macroeconomic level a financial system is stable when there are nonfinancial crises. Analyzing this approach, we can see that it can be misleading, because the "seeds" of financial instability are usually planted during good times, and when unfavorable developments occur, the vulnerabilities can amplify and even generate financial crises. From the perspective of the strategic decision-makers, actions taken only when financial instability occurs do not achieve their goal, being often procyclical. For this reason, maintaining financial stability at the macroeconomic level requires taking firm and coherent action, from the moment the signs of a possible crisis emerge, even if the main "health" indicators of the system are not seriously damaged.

At a macroeconomic level, we consider that a financial system is stable only when the following conditions are simultaneously met:

● it has the capacity to undertake activities of financial intermediation of the financial resources drawn from the economy, which are not accompanied by financial frictions (such as the practice of returns that determine financial exclusion);

● it adequately manages the financial risks it faces, in order to reduce the accumulation of vulnerabilities that could seriously disrupt it;

● it has the capacity to absorb any adverse shocks, without transferring them to other partners.

The complexity of the field and the interconnections that form within a financial system require monitoring both the banking and the non-banking financial institutions (the leasing companies, the pension funds, the insurance companies, etc.), the financial infrastructures (such as: payment systems, settlement systems), the financial markets (the money market, the foreign exchange market, the capital market, etc.), as well as other sectors closely related to the financial system and which may generate significant risks (the government sector, the real estate sector, the corporate sector, the population sector, etc.)

At a microeconomic level, the financial stability reflects the ability of an economic entity to honor its financial obligations, to sustain its current activity and to cope with the possible external or internal economic shocks. This implies there is a balance between the assets and the liabilities, a sufficient liquidity, an appropriate level of indebtedness and the capability to generate constant profits over time. Financial stability is not limited to maintaining solvency, but involves an optimal financial structure, a good cash flow management and an effective risk response capability.

In our view, the financial stability of the non-financial economic entities also ensures a high degree of independence from the exogenous financing sources. It is known that the current assets of an economic entity are formed based on the current liabilities and equity. If, for example, half of the fixed assets are formed based on the endogenous financing sources, and the other half based on the exogenous financing sources, then the payment of the borrowed financial resources is guaranteed. On the other hand, if the entity in question does not have sufficient own financial resources to cover its costs incurred by the continuous development of the production process, it is forced to resort more to borrowed financial resources, thus increasing its financial dependence on exogenous financing sources.

2.2. Determinants of the financial stability of the non-financial economic entities

Financial stability is influenced by a series of internal and external factors. Thus, at the microeconomic level, we argue that the main *internal factors* that greatly influence the financial stability of the economic entities are the following:

● the capital structure (the choice between equity or debt financing can significantly influence the level of the financial risk);

● the investment policy (well-planned investments, with calculated risk, contribute to the consolidation of future income and reduce uncertainty);

● the working capital management: efficient management of inventories, receivables and short-term liabilities improves liquidity and prevents financial blockages;

● the management quality: the strategic decisions of the managing team, their experience and skills have a direct impact on the financial well-being of the company;

● the internal control system: the implementation of rigorous control procedures reduces the risk of fraud and errors, ensuring an efficient allocation of resources;

● the operational performance: the level of productivity and efficiency in using the resources influences the profitability and the self-financing capacity.

We consider that the following factors can be included in the category of external factors that have a major influence on the financial stability of the non-financial economic entities:

● the macroeconomic environment: the inflation, the interest rates, the unemployment rates and the national GDP influence the customers' purchasing power and the financing costs;

● the legislative and the fiscal framework: the regulations on taxation, financial transparency and reporting can impose additional costs or restrictions on the companies;

● the access to finance: the availability of credit, the lending conditions and the policy of the banking institutions affect the capacity to invest and develop;

● the financial market volatility: the sudden market fluctuations can lead to significant losses and uncertainty in financial planning;

● the geopolitical risks: the political instability, the regional conflicts and the international sanctions can disrupt the supply chains and increase the trade risks.

A deep understanding of these determinants and their integration into the decision-making processes for the non-financial economic entities are essential for maintaining and strengthening the financial stability at the microeconomic level.

2.3. The connection between the financial stability of the non-financial economic entities and the sustainable development

The financial stability is the basis for a sustainable development, as it supports the continuity of the economic activity and the entity's ability to invest in green technologies, social responsibility and energy efficiency. A financially stable organization is able to allocate resources not only to maximize the short-term profit, but also to long-term strategic objectives, such as reducing the environmental impact, creating sustainable jobs and developing the human capital. This implies a holistic vision of performance, which combines the economic with the social and the environmental dimensions.

Furthermore, the financial stability ensures resilience to external shocks, such as economic crises, pandemics or natural disasters, increasing the ability of the companies to adapt their business model to the new realities and to contribute to the well-being of the local communities.

In conclusion, there is an interdependent relationship between the financial stability and a sustainable development: the former provides the framework and the resources necessary for sustainability, while the commitment to sustainable development contributes to strengthening the reputation and trust of the investors, customers and partners, thus consolidating long-term stability.

2.4. Indicators of the financial stability of the non-financial economic entities

In order to assess the financial stability of anon-financial economic entity, the specialized literature offers a series of indicators, among which the most important are the following:

- the general and immediate liquidity ratio: measures the company's ability to pay its current debts with the current assets;
- the debt ratio: highlights the share of debts out of the total used resources;
- the general solvency ratio: reflects whether the total assets can cover all the debts;
- the return on equity (ROE): provides an image of the efficiency of using its own resources;
- the operational cash flow: signals the financial health through the entity's ability to generate cash from its basic activity.

Table 1. Indicators of the financial stability of the non-financial economic entities

No.	Indicator	Calculation formula	Interpretation
1.	Current liquidity	Current assets / Current liabilities	**>1**indicates satisfactory liquidity
2.	Degree of indebtedness	Total liabilities / Equity	**<1**indicates a sustainable level
3.	General solvency	Total assets / Total liabilities	**>1,5**indicates a good financial condition
4.	Return on equity	Net profit / Equity	The higher, the better
5.	Operational cash-flow	Receipts – Payments from the operating activity	Positive, indicates self-financing

Source: Own processing

3. Case Studies on the Financial Stability of the Non-Financial Economic Entities in Romania

3.1. Case study Number 1

3.1.1. Brief overview of the analyzed economic entity

S.C. INDUSTRIAL AGRO S.A., operates in the field of grain processing and distribution of agricultural products. The company has been operating on the Romanian market for over 20 years. In the context of the macroeconomic instability, the main objective of the management has become the consolidation of the financial stability.

3.1.2. Financial structure analysis

Table no. 1 Evolution of assets and liabilities (million lei)

No.	Year / Indicator	2022	2023	2024
1.	Total assets	38.5	41.2	44.0
2.	Equity	13.2	15.0	17.1
3.	Total liabilities	25.3	26.2	26.9

Source: Own calculation

3.1.3. Liquidity and solvency assessment

Table no. 2. Liquidity and solvency indicators (million lei)

Indicator / Year	**Current liquidity**	**General solvency**	**Operational Cash-flow**
2021	**1.3**	**1.52**	**+ 3.1**
2022	**1.5**	**1.57**	**+ 3.4**
2023	**1.6**	**1.63**	**+ 3.7**

Source: Own calculation

3.1.4. Profitability and sustainability of the financial performance

Table no.3. Profitability indicators (%)

Indicator / Year	**ROE**	**ROA**
2021	**8.1**	**4.2**
2022	**9.3**	**5.0**
2023	**10.7**	**5.9**

Source: Own calculation

3.1.5. Recommendations for strengthening the financial stability of the analyzed entity:

- optimizing the capital structure by reducing the degree of short-term debt;
- diversifying the financing sources by drawing European funds or issuing corporate bonds;
- implementing an integrated risk management system;

- continuously monitoring the financial indicators and comparing them with the sector average.

3.2. Case Study Number2

3.2.1. Brief overview of the analyzed economic entity

S.C. ALPHA SRL, operating in the field of trade in household appliances, has registered an increase in turnover in the last 3 years, but with significant variations in the profitability margin. In the context of the macroeconomic instability, the main objective of the management has become the consolidation of the financial stability.

3.2.2. Summary data of the analyzed entity for the year 2023

Table no. 4

No.	Indicator	Value
1.	**Turnover**	**12,400,000 lei**
2.	**Net profit**	**670,000 lei**
3.	**Current liquidity ratio**	**1.21**
4.	**General solvency ratio**	**2.8**
5.	**Debt ratio**	**58%**

Source: Own calculation

3.2.3. Analysis of the financial stability of the analyzed entity

- Current liquidity (1.21) indicates a limited capacity to cover current obligations, suggesting the need for more rigorous cash flow management;
- General solvency (2.8) confirms a good financial autonomy and long-term self-financing capacity;
- High debt ratio (58%) reflects vulnerability to interest rate fluctuations and additional pressure on profitability;
- Net profit evolution is positive, but remains influenced by the volatility of the operating costs and the external market conditions.

3.2.4. Evolution of the turnover and the net profit of the analyzed entity

Table no.5(lei)

Year	Turnover	Net profit
2021	**9,800,000**	**410,000**
2022	**11,200,000**	**570,000**
2023	**12,400,000**	**670,000**

Source: Own calculation

3.2.5. Financial SWOT analysis of S.C. ALPHA SRL

Strengths	Weaknesses
• Constantly growing turnover	• High debt ratio(58%)
• Strong overall solvency (2.8)	• Current limited liquidity (1.21)
• Well-positioned product portfolio	• Volatility of operating costs

Opportunities	Threats
• Diversification of higher margin products	• Macroeconomic instability and high inflation
• Digitalization of processes and sales	• Competitive pressure of the online market
• Access to European funds for SMEs	• Possible increase in financing costs

3.2.6. Recommendations for strengthening the financial stability of the analyzed entity:

● renegotiating the contracts with the suppliers to optimize the cash flow;
● introducing a cost control system and monthly budgeting;
● diversifying the product portfolio with higher profit margins;
● refinancing a part of the long-term debts;
● making selective investments in digitalization and optimizing logistics.

4. Conclusions

The financial stability is a fundamental pillar of the long-term development of any non-financial economic entity. The conducted theoretical and applied research confirms that a strategic approach to financial management, together with a careful monitoring of the relevant indicators, contributes significantly to strengthening a company's position on the market. The research also highlights the importance of the active adaptive financial management in order to ensure the stability and continuity of a company. In the absence of well-founded decisions and rigorous financial monitoring mechanisms, the risk of imbalance and vulnerability increases significantly.

In the current economic context, dominated by uncertainty and rapid transformations, the *financial stability remains a strategic priority for any non-financial economic entity*, because, in a competitive and particularly versatile economic environment, it provides a series of advantages, such as:

● stable relationships with the business partners who, based on trust built over time, are willing to offer better commercial and financial conditions;
● the possibility of obtaining bank loans at lower costs; ● an increase of their appe alto the potential investors;
● good general liquidity of assets, which ensures their rapid transformation into cash in order to settle payment obligations, to make more profitable financial investments, etc.;
● sustainable and long-lasting economic development, etc.

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