ANALYSIS OF ECONOMIC IMPACT OF THE FINANCIAL RISK

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Abstract: *Indebtedness has two fundamental features for a company: on one hand the obligation to regularly pay certain interests, which means financial expenses, which will diminish the results, and on the other hand the use of credits may cause a surplus of profitability, which if it is greater than the cost of the borrowed capital, makes the company to be in advantage.*

The profit obtained by using credits appears as such as a retribution for the risk assumed upon contracting them. The cost of borrowed capital is lower than the cost of the company's equity, which fact results from the possibility of fiscal deduction of the indebtedness related financial expenses, which justifies the use of indebtedness as a possible way to increase profitability. But the increase of the indebtedness means an increase in financial risk, which generates the attitude of shareholders to increase profitability requirements, also, the lenders are becoming increasingly sensitive to the risk related to the company's indebtedness and calls for increasingly higher interest rates.

Keywords: *financial risk, market risk, interest, interest rate, currency risk, liquidity risk, credit risk, operational risk.*

1. Introduction

Companies use for carrying on their activity both equity capital and borrowed capital. There is an optimal funding policy, whereby, benefiting of an optimal level of indebtedness, the financial risk is highlighted and accepted by both the shareholders and the creditors and other partners from the company's external environment.

The financial risk occurs when loans are not generating financial efficiency, i.e. the economic rate of return obtained by using loans is lower than the interest rate on loan capital

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