

THE FACTORS THAT INFLUENCE THE ROMANIAN BANKING MARKET DURING POST-ACCESSION PERIOD

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In a developing economy, like the one of Romania, frequent changes take place in all areas, including the banking market. The Romanian banking environment is frequently influenced by various factors. The article shows the changes that have taken place in the Romanian banking market during the period 2007-2010 as a consequence of these factors. The research consisted in presenting the most important political, economical, social and technological factors which have influenced the banking market after Romania's integration to the European Union. Based on the analysis of these factors' influence, I have presented the developing manner of the Romanian banking market after joining the European Union, but also the problems faced in the context of the current global crisis.

Keywords: banking system, integration, financial indicator, bank marketing.

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Introduction

The banking market in Romania is in a continuous movement since the environment is changing, the customers' needs and the competition are changing. Achieving success on an internal market which constantly changes its dimensions and internal structure, which improves its manner of carrying on its transactions, which uses the new technology in performing its operations, can only be made by adapting it to the external changes which represent its only viable alternative⁵³⁴.

Factors that influence the Romanian banking market

This environment in which the banks perform their activity is influenced by the following factors: political, social, technological and economical.

a) Political environment. The intervention of the politic in the banking activity is extremely detrimental because the political regime influenced the economical development, fluctuations based on governments being registered. During the period 1990-1996, Romania is facing both an economical and a political crisis caused by the politicizing of the positions in most of the government institutions. The banking sector was affected as well by this state of affairs, the government banks being divided between the political leaders as follows: BCR (Romanian Commercial Bank), CEC (Romanian Savings Bank) were administered by PNTCD (Christian-Democratic National Peasants' Party), Banca Agricola (Agricultural Bank) was given to PD (Democratic Party), etc.

The influence of the politic in the economical sector, and banking as well, has not been removed until today. By the agreement made with IMF (International Monetary Fund), Romania must receive almost 20 billion Euros, for a 2 year period. The biggest share of the money, meaning 12.9 billion Euros, must enter the foreign currency reserves of BNR (National Bank of Romania) in order to support the local currency (leu). The first part of 5 billion Euros entered the country in May 2009, and the average interest of the loan from IMF represented 3.5% per annum. From the European Union, Romania must

⁵³⁴ Constantin Rotaru, *Sistemul bancar românesc și integrarea europeană*, Ed. Expert, București, 2008, p.23.

receive 5 billion Euros (with an interest between 2 and 2.5%), a loan which firstly financed the budget deficit, and from the World Bank and from the European Bank for Reconstruction 2 more billion Euros intended for economy and banking system will come⁵³⁵.

At 1st of October 2009, Romania sinks into a new crisis, when the government coalition between the center-right party of president Traian Basescu (PD-L Democratic-Liberal Party) and the Social-Democratic Party (PSD) dissolves, causing an aggravation of the economical crisis.

After 6th of December 2009, the political crisis became even deeper when the final results of the presidential elections overturned the polls and brought out Traian Basescu as leader⁵³⁶.

The agitation in the Romanian political life determined a delay in the finalization of Romania evaluation process by IMF and implicitly a delay in granting the third part of 1.5 billion Euros, offered by IMF and the World Bank, following the delay of the government in the preparation of the consolidated budget for 2010. The banking system has also been affected by this crisis and the results did not delay in showing up: the number of credits granted to customers decreased, especially to SMEs (Small and Medium Enterprises), the number of bad debtors increased, etc.

b) Social environment. The social environment refers to *demographical, cultural and lifestyle changes*, the consumer *attitude and perception* changes. The banks must monitor the demographical tendencies, they must mark their probable impact and they must decide on the needed actions. The absence of the above could create problems for the banks.

The population number and structure of Romania has suffered major changes during the last 15 years.

During the period 2007-2009 the decreasing tendency of the population number continued, reaching from 21.53 million persons in 2007 to 21.49 million persons in 2008 (0.14% less than 2007) and to 21.45 million persons in 2009 (out of which 10.4 million men – 48.7% and 11.05 million women – 51.3%), considering the higher number of deaths compared to the number of newborns, according to the announcement of the National Statistics Institute (INS)⁵³⁷.

Therefore it can be said that the banks acting on the local banking market must consider the decrease of the young population number and the increase of the old population share when preparing its own strategies and the bank products and services as well, since in one way or another, this population represents the bank customers.

However, the *population attitudes and perceptions* did not change too much. Thus the population with the age over 46 continues to keep the savings at home, they prefer to pick up the money from the bank operator, they prefer to receive/send money by post-office and when applying for credits they prefer the credit cooperatives.

Unemployment rate. According to the latest data of the National Agency for Employment, the unemployment rate in December 2009 reached 7.8%, the total number of unemployed persons being of 683,123 persons, out of which 298,091 women. Romania is thus getting near the prognosis of IMF, who was estimating the number of unemployed persons at over one million persons for 2010. The effects of the current crisis have been felt by the local banking system not by wage reductions, but by the reduction of bonuses, benefits (which generally represent 15-25% of the yearly wage) and number of employees.

⁵³⁵ <http://www.fmi.ro/index.php?pid=116&lg=ro&presa>.

⁵³⁶ <http://media.ft.com/cms/bb0999bc-eba2-11dc-9493-0000779fd2ac.pdf>.

⁵³⁷ <http://www.insse.ro/cms/rw/pages/calendar/publicatii/mai.ro.do>.

Up to now, OTP Bank dismissed 5% of the employees and from Citibank around 100 persons were laid off. The number of unemployed persons coming from banking environment is over 7,000 persons⁵³⁸.

Real net average earning. The real earnings of the Romanians started on a descendent path since April 2009, and in October they reached the value of 1,375 Ron. In October 2009, the index of the real earnings was of 99.3%, the equivalent of a decrease in the real average earnings of 0.7 percentage points. In the below figure, the evolution of the real earnings during the period February 2000 – October 2009 can be observed⁵³⁹.

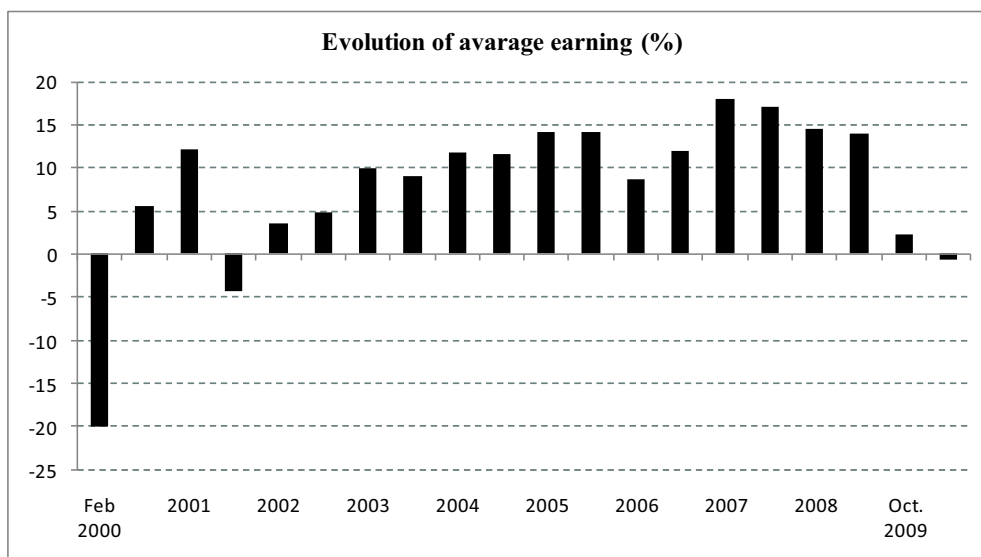


Fig. 1. Evolution of average earnings (%) during 2000-2009

Source: <http://www.insse.ro/cms/rw/pages/arhivaBuletine2009.ro.doc>.

The gross average earning in 2009 was of approximately 1,881 Ron⁵⁴⁰. During the last years, the bank employees have been among the best-paid in the economy sector, according to the data provided by the National Statistics Institute, which indicates a gross average earning of 5,983 Ron (1,503 Euro) in the banking sector, almost three times higher than the average earning for the whole economy of 1,881 Ron, followed by the one of the employees in the pharmaceutical sector (918 Euro) and IT sector (880 Euro), according to Paywell study performed by PricewaterhouseCoopers (PwC).

Nevertheless, the earnings average has been “pulled down” by the entrance of a great many new employees into the system, since the earnings for the entry-level positions from the banking sector are not very high. However, during the last years, the earning increases have not been spectacular in banks: 10% in 2007, 9% in 2008 and 5% in 2009 considering that the market increased with 12-15%.

Consumption prices. The average increase of the prices per total in 2009 compared to 2008 determined based on CPI (Consumer Price Index), but also the one determined based on the harmonized index of consumer prices (HICP) was of 5.6%. Comparing 2009 with 2008, the highest increase of the consumer

⁵³⁸ <http://www.banisiafaceri.ro/analize>.

⁵³⁹ http://www.financiarul.com/articol_36837/efectele-crizei-salariul-mediului-net-real-s-a-redus-pentru-primii-data-in-ultimii-opt-ani.html.

⁵⁴⁰ <http://www.insse.ro/cms/files/statistici/comunicate/castiguri/a09/cs12r09.pdf>.

price index has been registered in services (8.97%), followed by non-food items (6.22%) and food items (3.25%)⁵⁴¹. Under these conditions, the situation deterioration of the persons distributing over 80% of their income to cover the basic needs is natural. The living standard constantly decreasing, the population's trust in banks and national currency is diminished, this being reflected in the structure of banking products inquiry.

c) Technological environment. In the development of the market economy, the banks are the biggest users of information technology (IT). It influences the offer of banking services as well as the efficiency of the banking processes. In the technology world, fast developments have occurred, new hardware and software products have been released, the operations which were manually performed are now computerized, the information systems being introduced at a large scale.

The technology had a deep impact on the sector of banking services in Romania as well. The increase of the competition, the more and more sophisticated inquiries from customers and a larger range of products will benefit from an improved technology. An example is given by the new technology for chip card reading, which was introduced in December 2009 by Citibank and BRD banks, while most of the POS systems on the Romanian banking market operate by magnetic stripe reading only⁵⁴².

d) Economical environment. The second year of Romania's participation to EU mechanisms has been marked by a series of events, both external and internal, which have complicated the mission of the authorities to ensure macro-economical stability.

Internationally, the turbulences triggered in the summer of 2007 by the high risk mortgage loans (*subprime*) transformed during 2008 into the most severe international economical crisis since the Great Depression of 1929-1933. The crisis mainly affected the countries with high external deficits, including Romania. Internally, the economical aspect has been complicated by the parliamentary elections in November which have caused an unprecedented relaxation of the income and fiscal-budgetary policies⁵⁴³.

The budget deficit reached the highest level of the last decade (5.4% of GDP), the expansion of the government sector cancelling almost integrally the external adjusting effort undertaken by the private sector and thus contributing to maintaining the current account deficit to a level perceived by the foreign investors as being much too high (7.4% of GDP in 2009). This evolution manifested itself in all emerging countries of EU, but in different proportions (Table 1).

Table 1. Evolution of current account deficits in emerging EU

	<i>percent of GDP</i>							
	<i>BZ</i>	<i>CZ</i>	<i>EE</i>	<i>LV</i>	<i>LI</i>	<i>HU</i>	<i>PL</i>	<i>RO</i>
Average 2002-2006	-9,0	-4,4	-12,2	-12,5	-7,4	-7,8	-2,4	-6,3
2007	-22,5	-1,5	-18,3	-22,5	-15,1	-6,2	-5,1	-13,5
2008	-24,8	-3,1	-9,1	-13,6	-12,2	-8,4	-5,3	-12,3
2009	-18,8	-3,2	-1,1	-1,5	-1,9	-5,0	-4,7	-7,4
2010	-17,2	-3,3	-3,1	-1,9	-0,7	-4,8	-3,7	-6,1

Source: <http://www.insse.ro/cms/rw/pages/arhivaBuletine2009.ro.doc>.

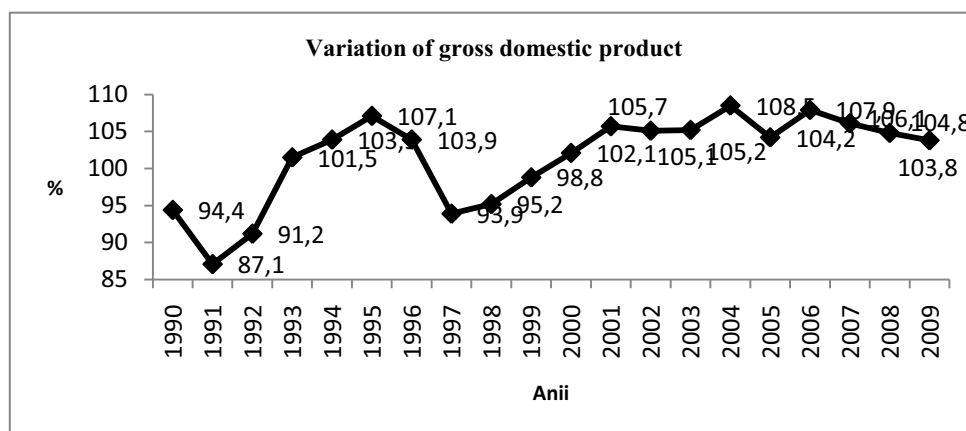
⁵⁴¹ <http://www.insse.ro/cms/files/statistici/comunicate/ipc/a09/ipc12r09.pdf>.

⁵⁴² <http://www.zf.ro/banci-si-asigurari/citibank-isi-securizeaza-cardurile-de-credit-cu-cipuri-5317658>.

⁵⁴³ http://www.insse.ro/cms/rw/resource/rom_cifre_2008_ro.pdf.

The correction of the current account deficit brings two important challenges: financial situation deterioration of the companies, especially those with import-export activity and the risk for the adjustment to take place especially by diminishing the investments.

After a decline period (1997-2001) of the *Gross Domestic Product (GDP)*, the economical growth re-launched starting with 2002. The growth has been determined significantly by the increase of the activity volume in the field of banking services, constructions and industry.⁵⁴⁴



Source: http://www.insse.ro/cms/rw/resource/rom_cifre_2009_ro.pdf

Considering that the financial intermediation is still at a low level and taking into account the share of the bank assets in GDP compared to other countries in EU, the Romanian market potential remains high. Besides, the last years have been marked by a pronounced stimulation of bank activity and an increased competitiveness, the share of the banking system assets rising to 50.1% of GDP at the end of 2006, to 60.9% in 2007 and 62.4% in 2008.

Investments. At the end of 2007, the investments made in the national economy registered a remarkable increase of 151.7% compared to 2000. In 2009, on the main activities of the national economy, a higher concentration of the investment funds took place in the industry sector, including electrical and thermal energy, natural gas and water (40.6%), and in the services sector (44.1%). The foreign investments in Romania have reached a record level of 9 billion Euros in 2008.

In the banking system, after years in which the crediting achieved record levels, the moment of the payment has arrived and the authorities reached the point of borrowing from the International Monetary Fund (IMF) in order to cover the financial gaps, in the context of the financial corporations stopping the capital flows to Romania.

The analysts believe that the high external vulnerabilities of Romania, so negative in the context of the current financial and economical crisis, as well as the economical disarticulation by the unsolvable disequilibrium between consumption and production, is first of all the deed of the foreign banks and not the foreign investments.

In conclusion, among the changes that took place on the Romanian banking market after joining EU we can mention the following: the banks continued to improve the technology for a large range of products, they renewed their customer database and they used more aggressive strategies for customer segmentation and for the promotion of their own banking products; the decrease in the living standard diminished the trust of the population in banks and national currency, this being reflected in the decrease of the inquiry for banking products; the economical and political crisis in the Romanian

⁵⁴⁴ <http://www.insse.ro/cms/rw/forum/post535.ro.do>.

economy materialized by the decrease in the number of loans granted to the population and especially to SMEs, as well as the increase in the number of bad debtors; the number of unemployed persons at national level increased, a relatively small part coming from banking environment; the gross average earnings of the Romanians increased while the earnings in banks remained relatively constant; the global economical crisis and the internal elections caused a relaxation of the income and fiscal-budgetary policies; in 2009 the highest budget deficit in the last decade was registered (5.4% of GDP) which contributed to maintaining the current account deficit at 7.4% of GDP, thus causing the decrease of the foreign entrepreneurs' interest in investments on the banking market and other fields of economy as well; the volume of foreign investments decreased and the authorities had to borrow from IMF in order to cover the financial gaps in the economy.

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