

THE ROMANIAN BANKING SYSTEM – PAST, ACTUALITY, PERSPECTIVES

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The way crossed by the Romanian banking system until the present time is one governed by profound reforms which have been made in regards to the European Union. The strategies embraced by Romanian banks, in 1990 and until the present time, are meant to develop and to improve the performances so that they can compete with European banks and they can respond in an efficient manner to the customers' needs. The purpose of this paper is to underline the main stages of evolution of the Romanian banking system since 1990 and to lay emphasize the perspectives on its evolution in the context of the actual economic crisis. By going through the stages previously mentioned in this paper, we can see that the Romanian banking system evolved positively, from the moment of the transition to the market economy, but in order for it to be functional and to contribute to the development of the economy as a whole, aspects related to the supervision of the financial stability should be taken into consideration and in order to assure the stability of the financial system, the increase of the administrative capacity of the Central Bank should be considered, as well as balancing the structure of the creditation process, on coins, the improvement of the banking assets' quality, the qualitative study of the NBR's surveillance process, managing the contagion risk, etc. In order to achieve these objectives, the documentation by the investigation of a significant volume of works has been done, by scientifically acknowledged publications, analysis being applied, by deduction method and a significant volume of quantitative information was submitted to professional judgment. Concerns regarding this subject have been found in various paper works and in specialized books. We mention here the doctoral thesis of Elena Teodorescu Georgescu "The evaluation pattern of credit institutions' prudential surveillance efficacy", the author of this work David Delia, with the work "Contributions regarding the improvement of the banking accountancy dealing with credits granted to non-financial clients" and so on. An outstanding attention payed to this subject was the one of the governor of the National Bank of Romania, Mugur Isarescu, who issued a series of articles and books on this subject. Also, Silviu Cerna, Aurelian Paul Berea, Vasile Dedu, Nicolae Danila approached in their books the problem regarding the evolution of the Romanian banking system. The National Bank of Romania offers to its users, information regarding the evolution of the banking industry through the Reports of Financial Stability and The Annual Report. The results of the research and the general conclusions regarding the concern on the evolution of the Romanian banking system are presented at the end of the work.

Key words: commercial banks, banking reform, The National Bank of Romania, development perspectives

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1.Introduction

The transformations suffered by the Romanian banking system until the present time represent the result of profound reforms which had as purpose to comply to the EU norms. The reform of the banking system started actually in December 1990 (Dedu , 2003: 12) focusing the commercial banking operations of the National Bank of Romania into a new founded bank, named The Romanian Commercial Bank. The transition of the mono-bank system complied by the NBR and four specialized banks(the Romanian Bank of Exterior Commerce, The Bank for Agriculture and Food industry, The Bank of Investments, Savings and Checks), to a system structured on two levels: The Central Bank and the Commercial Banks founded as joint stock companies, with the right to perform a large number of operations, with the condition of respecting the requirements established by the National Bank of Romania in the regulatory fields and the surveillance ones. The stages of evolution of the Romanian banking system can be summarized as it follows:

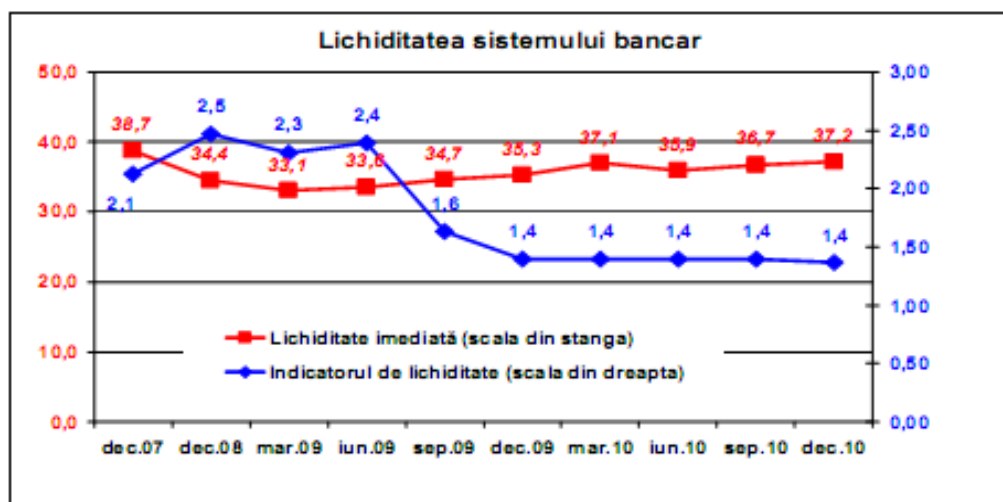
First of all, it's the period between 1990 and 1997, when the foundations of the two-level system were laid in accordance with the specificity of the market economy characteristics. At that time, three important laws were issued: the Banking Act, the Act on the Central bank's status and by the end of the period, it was the Law on the privatization of the banks in which the State is a shareholder. In the second stage, after 1997 the central bank acted to improve its banking laws in harmony with European standards. Also, it initiated a process of improving and strengthening the banking system. This was an essential process needed indeed after the serious problems which existed during 1998-1999, when economic recession hit the banking system weak links. The third step can be assimilated into the European Union integration and it reveals the impact it had on the banking sector. The forth period is represented by the influence of the financial crisis on the Romanian banking system. We aim at presenting in synthesis these aspects and to emphasize the development perspectives of the Romanian banking system.

2.The reform of the Romanian banking system

According to the opinions expressed in the specialized literature, both in country and abroad (Corrigan, 1982:24), the role of the banks is if not unique, at least a special one, in comparison with other economic agents from the banking industry, the financial development assuring, at last, the necessary structure for the market economy. The transition of Romania, to the market economy, in 1990, generated important changes of the banking industry, these having a significant impact on all the other fields of activity. Until 1997, in terms of the structure of assets, the banking system is characterized by a pronounced focus on the four main state banks - Agricultural Bank, the Romanian Commercial Bank , the Romanian Bank for Foreign Trade (Bancorex) and the Romanian Bank for Development (BRD). This has been a tendency to blur, however, due to the emergence of new private banks. Thus, as a percentage of total assets at a system level, the balance of the four banks decreased from 83 percent in 1991 to 62 percent in 1998. Another feature of the banking system during 1990-1997 has been maintaining a high degree of segmentation - reflected by a priority guidance of the state banks to finance the public sector, of the ones with Romanian private equity, to finance domestic private economic agents while foreign banks worked mainly with large foreign companies which were present in our country. The reform moved on and the transformations were consistent. In order to ensure a healthy economic base of the banking system and its functioning on a competitive basis, the Central Bank adopted a policy of cautious approval, which was a favorable setting to a relatively small number of banks. Even though these banks weren't many, they were strong, with solid capital. The general enthusiasm towards establishing new banks should be taken into consideration when assessing accurately the position of the Romanian National Bank in the issue (a phenomenon recorded in other post-communist countries), and on the other hand, the insufficient knowledge of the risks of the banking industry within Romanian societies. In the

90's, the experience has shown that, apart from the existence of an adequate framework for prudential regulation and supervision, the health of the banking system requires mainly the proper functioning of the economy in general. Structural failures, recorded in the real sector of the economy - especially the high degree of indebtedness to state of a large number of enterprises and service providers and the decline of 1997-1999 period were reflected in the quality impairment of the banks' loan portfolio, especially of those banks of large exposure. The cases of the Agricultural Bank, the Bancorex Bank and the Column Bank became notorious-like. The solution to protect banks from such influences and to ensure sound corporate governance was provided by privatization. Although through the stand-by agreement for the period 1994-1995, the Romanian authorities have already pledged to the IMF to privatize the two companies with majority state-owned bank within a year, actual results have only appeared a few years later. The stagnation of the privatization process had as reason the interests previously mentioned. Since 1997, when this orientation was given up, the economic has led to substantial changes in the banking system. In the second stage, after 1997 the Central Bank acted to improve banking legislation and to align to the European standards. At this stage, the deed directions were influenced by two major moments: the banking crisis during the years 1998-1999 and the invitation of Romania in Helsinki (December 1999) to start EU accession negotiations. It initiated a process of strengthening and improving the banking system. This was absolutely necessary because of serious problems in the years 1998-1999, when economic recession hit the weak links in the banking system seriously. The main threat to the viability of a banking system was, at the time of 1998, the failure of large banks, the state capital (Bancorex and Agricultural Bank). In 1999, the National Agency for Bank Asset Recovery (AVAB) was founded and it took over the bad loans from these banks and off-balance sheet assets from the same category in order to successfully carry out the restructuring process. The improvement procedures on the banking system led finally to the elimination of nonviable entities, getting in time to a correct assumption of the intermediation function. Since the restructuring of the banking system outran, the restructuring of the real economy and banks, in a first stage (2000 - 2002) have adopted a reserved attitude towards lending to the economy which has drawn complaints from the authorities and the public. The Central Bank intervened in this situation trying to explain that the prudential attitude they have shown is due to the large volume of bad loans accumulated by 1998. Subsequently, the lending activity has evolved both qualitatively and quantitatively. The restructuring activity, which has as purpose to clean up the banking system, was based on the banking supervision function and it was conducted from various points of view: legal regulatory, organizational and from the point of view of the efficiency in checking and sanctioning banks. Despite all this, banks remained the most important financial mediators. In the late 2000's, the Romanian banking system held more than 90% of total assets of domestic financial system. After BRD, Bancpost, the Agricultural Bank and the Commercial Bank of Romania have been successfully privatized by the taking over of the majority shareholding by foreign financial institutions with enhanced reputation, the foreign capital has become dominant in the Romanian banking market. Romania thus falls under the globalization trend although, in this case, "regionalization" would be a more correct term to use because the foreign capital currently in the Romanian banking market comes from European Union countries. From this perspective we can say that we are more integrated than other countries such as Sweden, Ireland, where more than 50% of the banking system is national property. European financial market trends begin to make their presence felt on the national banking market. Also, it is very important the fact that once with the accession to the EU and the market liberalization, a number of 207 foreign institutions have notified their intention to provide and conduct banking business in Romania. The percentage of assets held by banks with majority private capital in the Romanian banking system in the total assets at the end of 2009, 92.7%, while banks with majority state owned or held a share of only 7.3%. After the accession to the EU, the link with modern banking practices

provided by the banks with foreign capital together with the increasing customer requirement led to rapid uptake and development of services involving advanced technology. Due to technical progresses, Romania has been able to overcome relatively quickly the period of checks and paper-based instruments and to subscribe to the phase of the electronically processed tools, phase that took decades to other countries. The influence of the process of regionalization is the trend of innovation shown by local banks, reflected in the continued diversification of product range offered to customers, either by opening branches with a distinct profile (insurance, brokerage, leasing), or by providing new products (credit property, credit for vacations, etc..). At the moment, we notice that banks perform very complex activities and this is the reason why the management of the risk tends to perform “crossover” both in the type of the transactions and in the stored portfolio and the credits managed by the bank. This approach of the risks is familiar for both the banks which perform activities at a national level and the banks which perform activities internationally (Breban, 2006:23). The global economic and financial crisis, manifested intensively in 2009 represented the main negative context in which both the real and the financial sectors operated, in Romania. Due to stable levels of liquidity and solvency indicator, the banking sector has absorbed these shocks better, but the financial performance was much reduced and the risk of growth of bad loans was emphasized. The changes arose in 2009 in the field of the prudential regulatory background, had as goal not only to sort out the immediate effects of the crisis but also to assure long-term stability for the financial system. Therefore, The National Bank changed the manner through which it calculates the liquidity indicator. The methodology issued by the Norma NBR nr. 7/ 2009 determines for 31st of December, 2012 a decrease of the liquidity indicator. This is calculated as a report between the effective liquidity and the necessary liquidity, which records the value of 1,38 in comparison with the level of 2,47, corresponding to the year 2008, superior to the minimal limit(1)., trend influenced mostly by the new methodology of calculation.



Source: NBR

At the end of June, 2011, according to the Report of Stability published by NBR, the liquidity indicators reveal appropriate values. Hence, the liquidity indicator calculated in accordance with the actual regulations had the level of 1,37 being superior to the minimum value of 1. As far as the immediate liquidity is concerned, its value is 36,6% in decrease in comparison with the one existent in December, 2010, when it was of 0,6%. In analytic purpose, the National Bank uses the leverage effect as a measure of the degree in which the resources of the credit institutions finance the banking activity. According to capital requirements Basel III, the indicator was included in the prudential regulatory framework, being applicable at a community level. The analysis of this indicator on groups of banks depending on the criteria of the held assets' size reveals the following: the maintenance of a lower auto-finance degree in the case of large banks(7,1% in

June, 2011); equalization in the case of average and small banks (approximately 10% during the current year).

The evolution of the indicator was influenced among others even by the increase of proper funds of level 1 and the restraint of the volume of the banking assets in the case of many banks from the system because of keeping unsure conditions in the analyzed period. As far as the tendency of globalization is concerned, even though the term of regionalization would be more adequate as the foreign capital existent at the moment on the Romanian banking market comes from countries found in the EU, we can state that we are more integrated than other countries, the foreign shareholding within the structure of the Romanian credit institutions was of 76,9%, at 31.12.2010. In conditions of risk and incertitude manifested abroad, the following conclusions can be reached: in Romania the financial stability remained robust and the levels of capitalization, provisioning and liquidity were maintained at adequate levels by the exclusive effort of the banks. The testing to stress indicates resistance on the behalf of the credit institutions to important economic and financial shocks.

3. Discussions

Looking ahead, the development of the Romanian banking system has some predictable ways and others in which developments may be less reliable. In the category of predictable falls the significant reduction of the bank intermediation costs. First of all, I refer to the reduction of the cost for transfer payments, once with the introduction of the Electronic Payment System (EPS) in order to get an approach of these costs to the level of costs in the European Union. As far as the cost of the large payments is concerned,, it will cut several times per unit of payment. Another measure is related to the obligatory minimal reserves in lei. The fight against inflation had to be led through diverse instruments, which the NBR had to use at a full extent, but with high unavoidable costs, generally for financial consulting, especially for crediting the national currency. The reduction of reserve requirements is a process that has already been initiated, it will continue in the next period and it will result in both cost savings and commercial banks to avoid a dangerous mismatch between main savings in lei and the majority credit still in currency. Within the category of evolutions less certain is the number of banks that will be operating in Romania during 2012-2015. There are contradictory views regarding this issue. On one hand, they say the number of banks will be reduce and this is supported by the argument that, at the moment, half of the existing banks in Romania, have less than 10 percent of assets. It is obvious that something needs to happen here. They will either increase their market share or merge or be acquired. It is less certain that this will reduce the number of banks, as it happened in 2004, there may be new categories of banks (banks specialized in house acquisitions, car purchases). On the other hand, those who believe that banks will not decrease the number come with the argument that the degree of financial intermediation (number of inhabitants per one unit banking) is still small. For example, in Switzerland, there is a bank to 1500 people. This argument is not sufficient because the number of banks may fall, but their territorial network (branches, agencies) can expand strongly. As for the number of banks in Romania, during 2012-2014 (when the euro will be adopted), this will be the result of complex processes in which, not least, the competition among banks as well as the major policy market players will play an important role on the development of regional networks and their credit profile. In the future, quality of service offered by the Romanian banking system will be more important than the number of banks. As far as the next period is concerned, the NBR has as main objective the stability of the prices respectively the reduction of the inflation at a comparable level with the EU member status of the European System of Central Banks. In order to assure a discount of the inflation while maintaing the sustained economic growth, the NBR experts, diverse specialists and independent analysts calculated that the Romanian economy can maintain the accelerated growth in the conditions of the decrease of an inflational pressure, even with a current account deficit of 8-10% from the

PIB. (Dumiter, 2011). Both in present and in the previous periods, the NBR policy assured an appropriate level of the inflation rate, as this is at the moment at a level of 2,59% in comparison with 3%, the estimated level. Another important objective of Romania is to adopt the euro currency. In accordance with the NBR's governor Mugur Isarescu, as far as the economic situation of Romania and the role that the banking system has in the economic development of the country are concerned, the authorities established as strategic purpose of economic politics to achieve an economic long-term increase through which to "recover rapidly the disparities of socio-economic development in comparison with the UE", one of the goals being to fulfill those conditions which allow the adoption of the euro as national currency in 2014. This is one objective which can be achieved with the condition to adopt and maintain a coherent mix of economic policies, capable to support both the nominal convergence and the real convergence with the countries in the Euro Zone. Reaching nominal levels and framing into the convergence criteria established by the Maastricht Treaty (the stability of the course, low inflation, interest rates similar to the ones of the countries from the Euro Zone, moderate budget deficit and the balances of the public duty) represent at the moment objectives difficult to be reached in the context of the economic crisis which has already affected the Romania economy. Also, the year 2014 shall be discussed about, even in the situation in which the levels stipulated by the Maastricht Treaty, it is possible to resize, as a consequence of the crisis.

4. Conclusions:

In order for the Romanian Banking System to be functional and to contribute to the development of the economy as a whole, we have to take into consideration the following aspects:

- Supervising the financial stability in order to: enhance the capacity of efficient allocation of the resources, the absorption of possible shocks on the real economy;
- The growth of the banking system's administrative capacity which will assure the main objective of this one of assuring the stability of the prices;
- Qualitative study of the surveillance process through: the adaptation of the NBR's regulations to the risk profile specific to each credit institution, giving a greater importance of the role that the management of the institutions has it in managing the bank's risks;
- Managing the contagion risk which manifested due to the evolution of international markets as a consequence of the supreme debt crisis;
- Improving the quality of the banking assets;
- The balance of the on coins structure of the crediting;
- The perspectives of the banking industry and of the national financial system depend mostly on the remaking the trust, on the success of a sustainable release of the economy and not at last on the international evolutions.

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