PARTICULARITIES OF THE ROMANIAN BANKING SYSTEM IN THE EUROPEAN BANKING SYSTEM

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Rezumat: the integration in the European Union does not involve only the economical sector, even if it is the most important, but also a redressing of the other components of the social life, assured by the constant increase of the GIP, of the stopping of the inflation and the reduction of the depreciation of the national currency.

Romania must have a solid bank system, whose action directions must direct to the finalisation of the privatisation process, the harmonisation of the national legislation with the communitarian legislation, the institution of some prudential regulation adequate to the economic environment and the selection of the most dynamic orientation on the market in the competition domain.

Key words: rating system, bank capital regulation, Operational risk; Basel II; capital requirement.

The process of integration of the Romanian bank system in the European bank system began quite late comparatively to the other candidate countries, given the presence in the Romanian landscape of some important banks in the European Union, such as ING Barings and ABN Amro and continued with the privatisation of BRD, the Bancpost and Bank Agricola privatisation, to these summing the apparition of some important banks of the region in the Romanian bank system.

An important premises of the integration in the Romanian bank system of the European Union is represented by the intensification of the economical activities with European partners, remarking thus an increase in the volume of the exports and imports with European partners, the increase of the weight in the exterior commerce of Romania and the economical flux to and from the European Union and the increase of the level and the weight of the European capital subscribed to the Romanian society, including the bank sector.

It is observed a consolidation of the position of the banks with foreign capital, which become majority in the Romanian bank system from the point of view of the activity volume and the social capital.

	Number of banks	
	30.09.2006	30.09.2007
1. Banks with integral or majority state capital	2	2
2. banks with majority private capital (including Creditcoop and the branches of the foreign banks)	36	39
Total 1+2 (of which:)	38	41
Banks with majority autochthonous capital	8	6*
Banks with majority foreign capital, of which: - branches of the foreign banks	30 6	35** 9***

The bank system structure

* **the Romanian Commercial Bank** and **Romexterra Bank** passed from the majority autochthonous capital to the majority foreign capital

** **the Romanian Commercial Bank** and **Romexterra Bank.**

The authorisation of the **Bank of Cyprus** branch from December 2006 and the enter in the 3rd trimester 2007 of the two branches **LA CAIXA** and **Fortis Bank**, based upon the notification, through the application of the principle of the unique European passport.

The fusion in June 2007 between **HVB Ţiriac** and **UniCredit**, compensate numerically, with the authorisation of the Portuguese bank **Millennium Bank** in September 2007.

*** **Bank of Cyprus**, **LA CAIXA** and **Fortis Bank**

Source: The National Bank of Romania

The participations to the foreign capital in accordance to the origin country is reflected in the next table:

September 2007

	The participations of the foreign capital	
	% total foreign capital	% total capital
Austria	29,6	22,3
Greece	29,3	22,1
Holland	10,0	7,5
Italy	5,3	4,0
France	5,1	3,8
Hungaria	6,6	4,9
Germany	1,7	1,2
Cyprus	2,1	1,6
Portugal	1,7	1,3
Total E.U.	91,4	68,7
USA	1,8	1,4
Other countries	4,9	3,9
BERD	1,9	1,4
TOTAL	100,0	75,4

The participations of the foreign capital in accordance to the origin country

Source: The National Bank of Romania

As for the bank system, the European integration process supposed the harmonisation of the autochthonous legislation with the requirements of the European Union and the adopting of some institutional measures which aim for the enforcement of the administrative capacity of the national Bank of Romania of supervision and modernisation of the payments system, their realisation pursuing the increase of the competitiveness and the stability of the bank sector and of the capacity of the bank to assure an efficient financial intermediation.

The enforcement of the supervision capacity represents one of the major preoccupations of the National Bank of Romania, through which we pursue the increase of the competitiveness, of the stability and the credibility of the bank sectors, and also of the capacity of the banks to assure an efficient financial intermediation.

The transition to the supervision based upon risks represented a necessity of the process of monitoring of the bank system, focusing on the alignment of the best international practices in the field for the identification and the compensation of these risks.

At the level of the bank sector, the main challenge is represented by the implementation of the Basel II agreement, which allows a better evaluation of the risks exposure, introducing the operational risk and the market risk, the risk exposures being evaluated according to some methods based on historical observations.

The new capital agreement gave the credit institutions a much larger flexibility in the risks administration.

Many banks did not wish to apply for 2007 the stipulations of the Basel II Accord, but from 2008 we will preponderantly pass to the standard approach. Some of the autochthonous banks, especially those which belong to some European bank groups, expressed their intention to pass as fast as possible even to the internal models regarding the determination of the capital requirements, fact motivated by the need of the Unitarian approach of the risks at the level of the entire group they belong to.

Basel II started however to be practiced in many countries of the world, including in the E.U. from the end of 2006. “The migration from Basel I to Basel II represents the most important event in the history of the bank supervision”, declared the NBR Governor Mugur Isărescu.

The implementation of these requirements supposes increased efforts both from the Central Bank, and also from the credit institutions, which must allocate increased resources in this regard. To a certain extent, the demarche is made easier in Romania by the fact that almost the entire banks systems is held by banks from the Occident, which have already passed this test and, hence, they will be able to facilitate the transition of the subsidiaries to the new capital requirements. And in certain cases the mother-banks will be able to supply even their own internal methods of risks evaluation.

The new capital accord is based on three pillars: minimum capital requirements, the bank supervision and transparency.

As for the first pillar, next the banks must reach a solvability rate greater than 8%. This indicator is calculated as report between the own capital of the credit institution and the taken risk. What changed drastically is the way the banks administrate the risk. If before the financial institutions considered only the credit risk and the market risk, from now on they will have to quantify the operational risk too. Beside this aspect, the way the first two risks are evaluated changed fundamentally.

The credit risk is evaluated through some fix weights, established for the main loans categories. In exchange, Basel II will give the banks the possibility to choose between one of the three available variants: the standard-method, the internal basic models and the advanced models.

The standard-method is the simplest one and it is similar to the one used by banks, with the specification that the weights are stable and much better detailed. A special attention is paid to the loans for the population which receive smaller risk weights. The same treatment could be extended at the level of IMMs also if certain requirements are respected.

The method of the internal models reflects the best the innovative aspect of the new capital accord, being available in two versions: a basic one and an advanced one. The internal models are differentiated from the standard method through the fact that the weights through which they evaluate the risk of each asset are no longer the same for the entire bank sector, but they are individually established, by each institution on its own. The advantage is, in this case, that the risk is evaluated much more correctly and the overdimensioning situations of the capital requirements are eliminated. Thus, the banks should constitute fewer reserves, so hat they will have more money for the crediting.

In order to analyse these methods, however, the banks must fulfil certain criteria, through which they can prove to the supervision authority that their own evaluations are correct and complete. Also, the supervision activity is based upon new principles, which underline the necessity that the banks evaluate by themselves the necessary of capital in report to the assumed risk. In exchange, the role of the supervision authorities is to analyse and take the necessary measures in report to these individual evaluations. The analysis of the Central bank will force this way the credit institutions to develop more solid methods of risks evaluation. In the context of the unique market, the application of the new accord will stimulate the cooperation between the supervision authorities from different state members, in the case of the monitoring of the international groups.

Through the promoted policy, N.B.R. created a sector made of more and more powerful banks capable to assure a financial intermediation on efficiency criteria, where the private bank segment becomes preponderant.

The risk exposure of the bank system can be pointed out also through the evolution of the main financial and bank prudence indicators, presented in table no. 3.

Indicators	Dec. 2006	Dec. 2007
Capital risk		

The solvability rate (> 12%) Own capital rate (own capital / total active)	18,1 8,6	12,7 6,8
The credit risk Due and doubtful credits (net value) / total credits (net value) Due and doubtful debts (net value)/Total active (net value) Due and doubtful debts (net value) / own capital (from the prudential reporting of the own funds) Credit risk rate* General risk rate	 0,2 0,1 2,8 53,0	 0,2 0,2 4,0 57,0
C. The liquidity risk The Liquidity indicator (actual liquidity/necessary liquidity)	 2,3	 2,1
D. Profitability ROA (Net profit /Total active) ROE (Net profit /Own capitals)	 1,3 10,2	 1,1 10,4

The evolution of the bank prudence indicators

* unadjusted exposure, afferent to the credits and the interests classified in the doubtful and loss categories/ Total credits and classified interests, exclusively elements outside the balance sheet

Source: the National Bank of Romania "Monthly Bulletin" December 2007

According to the criteria established by N.B.R. within the bank *rating* system, in December 2007, noticeable modifications were produced at the level of the assets held by the banks classified in rating 2 and 3. the weight of the balance assets of the banks contained in rating 3 increase 11,5 percents as compared to the same period of the previous year, disfavoring the *rating* 2 ones, whose weight reduced by 11,9 percents. As in the previous periods, the requirements imposed by the maximum *rating* were fulfilled by none of the existing credit institutions. By analyzing the evolution of the main prudentiality indicators during 2007, the weight of the due and doubtful credits remained unchanged, while their weight in total active increased by 0,1 percents as compared to December 2006. The weight of the due and doubtful debts in the own capital registered an increase by 1,1 percents, up to the level of 2,6 %. The rate of the credit risk increased by 1,2 percents (up to 4%), while the general risk rate increased by 4 percents (up to 57%). As for the profitability indicators, the ROA level diminished by 0,2 percents (reaching 1,1%), and the ROE one increased by 0,2 percents (up to 10,4%). The integration of the Romanian bank sector in the E.U, will generate an increased competition among the different credit institutions, which will lead to the increase of these institutions' efficiency, to the diminishing of the costs and their intermediation margins, to the diversification of the financial instruments supply, to the reduction of the financial risks, to the intensification of the bank intermediation process.

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