

EVOLUTION OF THE ROMANIAN BANKING SYSTEM AFTER THE INTEGRATION IN THE EUROPEAN UNION

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The development of the banking system in Romania has been, these latest years, “spectacular”, because of the credit quick dynamics maintained by a strong economic growth and the European integration prospect. The article presents the whole of the regulations voted within 2007-2009 regarding the Romanian banking system reorganization and progress and, implicitly, its alignment to the European Union directives. The research consisted in the presentation of the best banks depending on the market share, profitability and the financial indicators and banking prudence in system. Based on the analysis of the financial-banking results, I have described the Romanian banking system expansion after the European Union integration and also the problems faced in the framework of the international financial crisis.

Keywords: banking system, integration, financial indicator.

JEL Classification:G21, G0.

Introduction

Because of the historical evolution and peculiarities engendered by the requirement of the integration in the European Union, the Romanian banking system has its own features and problems which are common to the banking systems from other countries. Taking into account the model of the European structure of a banking system, a banking system on two levels has been created: the National Bank of Romania, as the central bank, and the commercial banks. In consideration of the role and importance held by the banks in the good operation of the economic agents and economy as a whole, it has been necessary, during the period after the Romanian banking system new regulations definition till present, for a modern system to be created, which meets the requirements of all the categories of economic agents in the market economy as well as of the physical persons – beneficiaries of credits, depositors, s.o.

A remarkable evolution of the Romanian banking system can be noticed within 2000-2004 when, through the Law no.200/2002 regarding the credit cooperatives organization and operation, amendments of the Laws 101/1998, 83/1998, 58/1998, the new bank law issued in 2003 and other NBR's regulations the following achievements have been registered: an alignment of the Romanian banking system to the European Union directives by means of a domestic and international transparent reporting system, adoption of the Basel I regulations, increase of NBR's³⁷³ authority as surveying body of the banking activity and a clear definition of the bank adjudging bankrupt.

Within 2004 - 2006, through the Law no.312/2004, concerning the adoption of the National Bank of Romania articles of association, law no. 253/2004 regarding the final character of the settling up in the payment systems and in the settlement systems, Law no. 278/2004 and Government Ordinance no.10/2004 concerning the judicial reorganization and bankrupt procedure for the credit institutions, Government Emergency Ordinance no. 98/Dec.6th 2006 concerning the over survey of the financial institutions included in financial conglomerates, the Romanian banking system development went on. By means of the above mentioned regulations, the main responsibilities of NBR have been established, the Credit Office became operational in August 2004 and the judicial reorganization and bankrupt procedure of the credit institutions has been established as well as the over survey of the financial institutions included in financial

373 <http://www.bnr.ro/Legislatie-financiar-bancara-735.aspx>.

conglomerates³⁷⁴. Other projects carried out during the same period have been: implementing the provisions of the New Agreement of Capital – Basel II, whose most important objectives have been the assurance of a more flexible framework for the capital needs establishment to coincide with the credit institutions risk profile and premises creation for the financial-banking system stability funding, ReGIS, SaFIR and SENT systems development for the central bank operations, inter banks transfers, payments in LEI, settling up in real time and with an immediate finality, as well as for the deposit and settling up of the public securities and deposit certificates issued by NBR³⁷⁵.

Evolution of the banking system after the integration in the European Union

The process of the Romanian banking system modernizing has been going on within 2007 – 2009 and new regulations have been adopted, the most important of them being: Law no.227/2007 and the Emergency Ordinance no.25/2009 regarding the approval, supplement and modification of the Government Emergency Ordinance no.99/2006 concerning the credit institutions and their adequate capital. In January 2007, NBR has published on website the monthly Gazette of the European Central Bank. As a result of the integration in the European Union, the banking community of Romania is represented in EPC structures by the Banks Romanian Association and take an active part in the SEPA project implementing and the accounting regulations meet the requirements of the European directives, applicable to all the credit institutions, non-banking institutions and deposit warranty fund inside the banking system. At the same time, the following actions are carried out: classification and provisioning of the credits and investments, certification of the credit institutions, Romanian legal persons and Romanian branches of credit institutions from third countries, transformation of the financial institutions in credit institutions, appraisal of the origin third country surveying framework compliance and checking the equivalence of the survey done by the qualified authorities from third countries with the one governed by the provisions of Government Emergency Ordinance no.99/2006 concerning the credit institutions, their adequate capital and credit institutions status modification, Romanian legal persons and Romanian branches of credit institutions from third countries.

The first year of integration in the European Union resulted with the growth of the economic activity which has consequences for the banking area as well. The bank market registers the highest increase in the Romanian banking history by the establishment within three quarters 2007 only of four new banks: Millennium Bank, La Caixa, Fortis Bank and Finicredito.

Romanian banking system structure and features

On the whole, 2007 has been an excellent year for the bank market, the assets weight in GDP grew with 11.5% reaching a level of 61.8%. The banking concentration maintained a high level, the first five banks from the system owing 56.4% from the total of the assets, since the Romanian majority capital owed a market share of 12% from the assets, with 0.6% more than in 2006, in contrast with the foreign banks branches which registered a fall of 5% in the assets weight.

2008 is the year of the surprises for the banking area. On the one hand, as a result of the competition increasing, on the other hand, because of the banks incomes decreasing due to the external financing slowing down and depreciation of the ratio credits-deposits, so fewer customers have been drawn into the banks.

The banking system included another member – BCR Bank for dwellings (from Erste Greek group), which is present on a niche weakly covered, the one of the bank market for dwellings, and so the number of the institutions present in the NBR register became 37.

374 <http://www.bnr.ro/Publicatii-ocazionale-3231.aspx>.

375 Constantin Rotaru, Sistemul bancar romanesc si integrarea europeana, Ed. Expert, Bucuresti, 2008, page 74.

Table 1. Type and number of credit institutions

Types of credit institutions	Number
- commercial banks	37
- branches of foreign banks	10
- cooperative credit	3

Source: <http://www.banknews.ro/cauta.php?s=15&q=bnr>

During 2008, the domestic banking system assets reach a level of 73.4%. The concentration degree of the banking system registers a decreasing trend, the first five banks concentrating more than half of the banking system assets - 54.6%, 3% less from the market share compared to the second quarter of 2008. The first three banks in Top (see table 2) owe an impressive share of 42.1%, even if an important decreasing is registered compared to the previous period.

In 2008, the Top 10 structure remains the same as in 2007, even during the whole year 2008 the banking system knew a permanent moving, the classification registering important modifications from a quarter to another. Since some banks registered a linear growth, other ones enjoyed short lasting victories, failing to strengthen the reached position at a moment.

The first three banks in Top 10 in 2008 are BCR, BRD and Volksbank. A good evolution registered the Volksbank and Alpha Bank banks, which were on the positions 8 and 7 in Top 10 of 2007 and in 2008 are on the positions 3 and 5, registering a rapid progress. Other banks as: Raiffeisen Bank, Banca Transilvania, Unicredit Tiriac and Bancpost have lost one - two positions compared to the previous year.

BCR, the first position in Top 10, registers the most abrupt diminishing of its assets in 2008, from 26,2% in 2006 to 20,4% in 2007. Even if BCR is under an in progress reorganization process, it continued its expansion: through the opening of specialized centers for loans on mortgage granting – *Centrum Imobiliare* – a contract signed with the Agency for Payments and Agriculture in order to finance the farmers, increasing the number of the installed ATMs, diversifying its offer for bank products and services (fixed interest credit), approaching various niches from students to investors, but also launching social responsibility programs (CSR) such as the partnership with the H Foundation.

Table 2. Rankings of banks based on market share

Nr crt	Banks	Market share of banks %							
		Year 2007				Year 2008			
		March	Jun.	Sept.	Dec.	March	Jun.	Sept.	Dec.
1	BCR	26,0	26,4	26,0	23,8	23	21,7	20,8	20,4
2	BRD	16,0	16,2	15,9	15,5	15,7	15,5	15,0	14,9
3	Volksbank	3,3	2,9	4,3	5,1	5,7	5,9	6,3	6,1
4	Raiffeisen Bank	7,9	6,5	8,0	6,3	5,8	6,0	6,3	6,1
5	Alpha Bank	4,6	4,9	5,8	5,1	5,0	5,4	6,2	6,0
6	Banca Transilvania	5,0	5,2	5,3	5,5	5,7	5,7	5,6	5,4
7	Unicredit Tiriac	na	6,0	5,3	5,1	5,2	5,4	5,4	5,2
8	Bancpost	4,4	4,9	4,9	5,3	4,9	5,1	5,1	5,0
9	CEC Bank	4,2	4,2	4,1	4,2	4,4	4,4	4,4	4,4
10	ING Bank	na	na	na	3,2	na	na	na	3,1

Source: The Financial Market no.11/ November 2007, December 2008

A very good evolution registered BRD Groupe Societe Generale in spite of the reducing with 3.4 p.p. of its market share. The highest profit, a ratio costs/incomes of 39%, an almost unitary ratio

between deposits and credits (88%), the most extended territory network after the giant CEC – these are few of the BRD's strengths. The bank maintains its equilibrium in the two business credit lines – retail and corporate and succeeds to cover all the financial services developing its own brand on the insurance market – *BRD Life Insurance*.

The latest in the top is Volksbank, an outsider in 2007, whose aggressivity allowed jumps of even four positions. Using a strategy on the retail sector, Volksbank reached in 2008 a market share of 6.3% compared to 6.1% in 2008.

Table 3. Banks in Top 5 percent in the total system (%)

Nr crt	Indicators	Banks in Top 5 percent in total system %							
		Year 2007				Year 2008			
		March	Jun.	March	Jun.	March	Jun.	March	Jun.
1	Active	60,1	59,1	58,0	56,4	55,9	54,7	54,6	53,9
2	Credits	62	61,2	59,1	57,1	55,1	53,8	53,4	52,1
3	Deposits	59,5	59,8	61,9	60,0	54,1	53,2	53,7	52,5
4	Equity	53,2	54,1	48,6	50,1	51,4	49,6	47,9	45,7

Source: The Financial Market nr. 5/May 2008

Sharing the third position for the first time since its holding, Reiffeisen Bank registers a relative defeat, owing a market share of 6.1%, the same as Volksbank. In spite of this situation, the bank had an effervescent activity, directed towards all the business lines and strengthening its position of universal bank. This last period, Reiffeisen brand became more and more visible thanks to the numerous CRS and partnership campaigns with various organizations (such as Bucharest Police institution for the bank frauds prevention).

Table 4. Indicators of prudent financial and banking system (%)

Nr crt	Indicators	Indicators of prudent financial and banking system (%)							
		Year 2007				Year 2008			
		March	Jun.	March	Jun.	March	Jun.	March	Jun.
1	Report solvency	16,16	14,90	14,03	13,78	12,94	12,72	11,79	12,34
2	The rate of equity	8,44	8,18	7,91	7,32	7,02	6,92	6,51	6,23
3	Arrears and doubtful loans/ total loans	0,23	0,29	0,29	0,22	0,20	0,29	0,24	0,28
4	Arrears and doubtful loans / total assets	0,17	0,22	0,24	0,17	0,18	0,24	0,22	0,26
5	Arrears and doubtful loans / equity	2,00	2,65	2,91	2,28	1,90	2,66	2,36	2,75
6	The liquidity (effective liquidity / liquidity required)	-	-	2,31	2,13	-	-	na	2,56
7	ROA	1,46	1,51	1,9	1,02	1,74	1,65	1,81	1,78
8	ROE	11,63	12,62	10,3	9,40	12,45	16,9	19,71	18,67

Source: The Financial Market no.11/ November 2007, December 2008

For the banking system, the first year of integration in the European Union has been one of expansion of the territorial units, as well as of the banks personnel number. To the 58,090 banks employees registered at the end of 2006 for 4,401 bank units, 7,565 employees are added for the 1,080 units open within 2007. Even the effects of the financial crisis at the end of 2008 were felt

on the Romanian market, the banking institutions had continued to open other 927 bank units, employing other 6,264 employees who do not have their activity object these latest months.

The bank assets weight in GDP rose from 50.3% in 2006 to 61.8% in 2007 and diminished to 39.6% at the end of 2008. The banking system shareholders have been rewarded for their invested capitals with a return slowly reduced by 2 p.p. comparing to 2006 up to 10.21% in 2007, level assured by the 757.8 millions euro in the banks net profit accounts. In 2008, although the bank capital shareholders returns slightly diminished to 14.92%, however it is clearly higher compared to the results of 2007.

The severe competition of the market and a structure of the assets found under the retail credit major influence can explain not only the important reducing of the solvency ratio up to 13.7% in 2007, 2.34% in 2008, but also the marginal growth of the volume of remaining and not sure credits volume reported per the bank assets³⁷⁶. The costs of the excessive speed of brokerage increase meant the provisions increasing with 300 millions euro in 2007 to 462 millions euro in 2008, which represents the highest nominal increase in the costs structure at the banking system level. As a matter of fact, in the banking costs structure, the provisions costs weight increased from 19.8% to 23% in 2008, dynamics which starts to put under a question mark the future level of the profitability. On the first place in the speed of the banking costs increase there are the administrative and investment costs with 89.9%, the banks spending in 2008 around 325 millions euro for their market position strengthen.

As a result of the expansion bank strategy practiced at the system level, the ratio costs/incomes was deteriorated from 72.9% in 2006 and 75% in 2007 up to 78% in 2008.

From the system profitability point of view, the banks structure in Top 10 is unchanged, the first places being occupied by BCR and BRD with a quota of 33.6% and 28.2%.

Table 5. Banks with more than 1% of net profit per unit (%)

Nr crt	Banks	Net profit on the system (%)							
		Year 2007				Year 2008			
		March	Jun.	March	Jun.	March	Jun.	March	Jun.
1	BCR	32,1	33,3	38,6	18	39,1	39,8	33,8	33,6
2	BRD	25,7	29,9	36,2	33,5	26,5	26,9	28,7	28,2
3	Volksbank	1,8	2,4	3,2	1,9	2,2	2,8	3,0	3,0
4	Raiffeisen Bank	na	10,6	na	11,5	na	14,2	Na	13,5
5	Alpha Bank	2,3	2,4	3,6	4,2	5,4	5,3	4,1	4,1
6	Banca Transilvania	4,7	5,7	7,1	12,4	4,2	5,8	10,9	10,7
7	Unicredit Tiriac	na	10,9	12,5	9,6	na	9,3	7,7	7,5
8	Bancpost	na	1,7	na	3,8	3,5	1,1	3,6	3,4
9	CEC Bank	3,0	3,4	3,7	3,3	3,6	1,5	9,0	8,7
10	Piraeus Bank	na	na	na	2,1	4,8	na	na	2,0

Source: The Financial Market no.4/ April 2009

As a conclusion, realizing this system of banks organization, an important bank activity increase and development potential has been created, not only for the area of the juridical persons customers, but also for the area of the physical persons for medium and long term.

The development of the specific operations, services and instruments will allow, in time, to diversify the bank activity. This will have as result the competition increase, the former sectors being replaced by a real banking specialization which will depend on the carried out operations nature and volume, customer category to whom each bank will address and, not at last, offered

376 Financial market no.11/November 2007, no.5/May 2008, no.12/December 2008, no.4/April 2009.

services quality. The new banks have the possibility to carry out, from the beginning, a modern bank activity, using computer systems and also can attract the most efficient new companies as customers.

The bank market main goal will remain the offer of additional advantages to the banks customers, advantages which will result from two important grounds:

1. The customer will benefit of the choice freedom increase by means of the redirection of the activity towards institutions which offer for smaller prices products and services better meeting the customer needs or some services previously not available.

2. The prices (tariffs, interests, commissions) for the most of the financial products and services have to diminish as a result of a bigger domestic market. The competition will be the main factor in the prices reducing.

At the same time, the banks must embrace new models of business which include features such as: a trustworthy brand, distribution steady partnerships, a diversified and continuously renewed products portfolio and efficient operational structure regarding the costs. More flexible models of business and of organization of the financial-banking institutions will allow them to easier adapt to the market changes and to rapidly renew their products, the banks having as an advantage the dimension, products portfolio diversification and various financing sources. Due to the lack of external financing strongly felt because of the financial crisis, the banks should pay more attention to the selling activity. The specialized entities belonging to the banking groups can be concentrated on the marketing and risk management and can help the banks in diversifying their portfolio and also in the refinancing activity.

The banks present on the market must mainly rely on flexibility and innovation and, at the same time, to assure themselves financing sources at reduced costs taking advantage of the opportunity to strengthen their position on a market where the majority of the competitors are in abeyance.

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