

FDI IN ROMANIAN BANK SECTOR - THE PRESENCE OF FOREIGN BANKS

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Romanian banking system experienced, especially after 1996, a constant growth of foreign capital's involvement, either directly, in the form of banks located in Romania, or indirectly, in the form of foreign claims. In this paper we analyse the physical presence of foreign banks in Central and Eastern Europe, and particularly in Romania: the origin country of the capital as well as a picture of the main foreign banks active in Romania.

Key words: Romania, foreign banks, capital origin, main banks

JEL code: G21

1. Foreign banks' presence in Central and Eastern Europe

Foreign credit to Central and Eastern Europe (CEE) economies takes place more and more by the physical presence of foreign banks in region. Operations' evolution of multinational banks in CEE in the last 20 years reflects the rise of multinational banks' activity after 1990, and it's "explosion" after 1995. If in 1990 CEE was counting with 5% of the credit supplied by multinational banks in developing economies, in 2005 it reached 23% of these. In nominal values, the credit supply by multinational banks in CEE increased from 2047 million USD in 1985 to 187,278 million USD in 2005²⁶⁰.

Foreign banks reached to dominate nowadays the national bank market of these countries. After 1994 and to the present, the weight of foreign banks in total credit institutions in CEE raise from 20% (share in total number of banks) and 55% (share in total assets) to, respectively, 60% and 70% (see Chart 1).

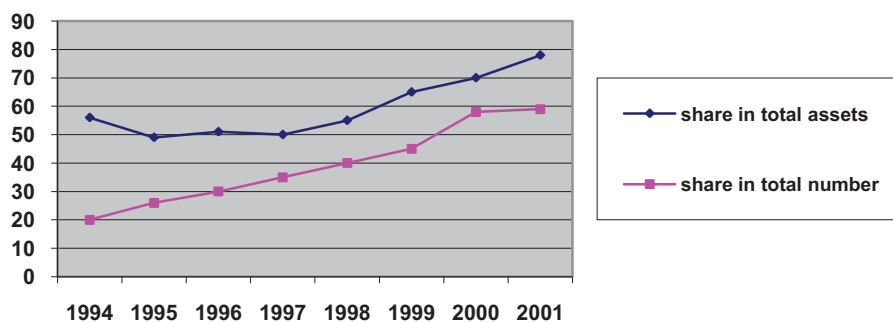


Chart 1. Foreign banks' participation in countries in CEE, 1994-2001

Source: Uiboupin, J., *Implications of Foreign Bank Entry on Central and Eastern European Banking Market*, in „Kroon&Economy” no. 1/2004

In countries like Estonia, Slovakia and Croatia, domestic banks are essentially owned by foreigners, in Czech Republic, Lithuania, Romania and Hungary the weight of foreign capital is about or even more than 80%. The only important exception is Slovenia, with less than 30% presence of foreign banks. The dominant presence of foreign capital is relied on the privatization of formerly state-owned banks, the most preferred entry way being the settlement of subsidiaries by acquiring local banks and less the creation of branches.

260 author's calculations based on data from Consolidated Banking Statistics, BIS, different years

The main foreign banks operational in CEE, ranked by the total value of assets in region, are: UniCredit Group (present in all countries in CEE), Erste Bank (present in 6 countries in region), KBC Bank NV (present in 5 countries in region), Raiffeisen International (present in 15 countries in CEE), Société Générale (present in 10 countries in region), Intesa Bank (present in 9 countries in CEE) and, maybe surprising (being a bank from Hungary, not Western Europe, as the others), OTP Hungary (present in 6 countries in region)²⁶¹. It is interesting to notice that the first 7 “players” in the banking sector of CEE concentrate 26% of the market in region.

We can notice a certain regional specialization of foreign banks. The great Scandinavian banks (Swedbank and Skandinaviska Enskilda) are practically monopolizing the bank market of Baltic states, while the Greek banks (National Bank of Greece, Piraeus Bank, Alpha Bank, Emporiki Bank of Greece) are involved only in Balkans states. At the same time, the Austrian banks (Erste, HVB before it’s take over by UniCredit, Raiffeisen) control important market shares in all countries in CEE, except Baltic states. There are also some examples of banks from CEE buying banks in other countries in region: Hungarian OTP made acquisitions in Bulgaria, Slovakia and Romania, and the Latvian Parex bought the Lithuanian bank Lithuanian AB Industrijos Bankas²⁶².

2. Foreign banks’ presence in Romania

2.1. The origin countries of the capital

A first image about the foreign capital in Romanian banks by country of origin is provided in the next table:

Table 1. Share of foreign capital by country of origin (December 31, 2007)

<i>Country of origin</i>	<i>Participation of foreign capital in total capital of banks in Romania (in %)</i>
<i>Austria</i>	<i>22.0</i>
<i>Greece</i>	<i>21.7</i>
<i>Netherlands</i>	<i>7.7</i>
<i>France</i>	<i>5.0</i>
<i>Hungary</i>	<i>4.9</i>
<i>Italy</i>	<i>3.9</i>
<i>Israel</i>	<i>1.9</i>
<i>Cyprus</i>	<i>1.8</i>
<i>EBRD and IFC</i>	<i>1.7</i>
<i>USA</i>	<i>1.3</i>
<i>Portugal</i>	<i>1.2</i>
<i>Germany</i>	<i>1.2</i>
<i>UK</i>	<i>1.1</i>
<i>Other countries (Turkey, Monaco, Switzerland)</i>	<i>0.3</i>

Source: RNB, Annual Report 2007

261 Banking and Finance Monitor, 2006

262 idem

The picture of the countries of origin of the social capital of foreign banks settled in Romania must be interpreted very carefully and with regard to other information, because it hides a lot of aspects less visible and not related with the real involvement of the big bank group in the Romanian economy. Methodologically, we mention that the foreign capital penetration can be measured both by the number of foreign banks and their assets.

In the case of Romania, we will find a lot of similarities with all CEE in regard with the presence on the market of countries like Austria, France, Netherlands, Greece, both in the number of participant banks, and in shares on the market or on the total social capital, data speaking in time of the participation of the bank capital from these countries in Romanian bank sector. A more detailed analysis, respectively the variations of the shares, sometimes significant from year to year, inside the same country refers to mergers or acquisitions, or to capital increase, future buying of residual packages (or settlement of new banks). Achieved in different periods of time, they can alter sometimes considerably the share from one year to another. For example, the Austrian capital's share was in 2000 3.16% of the total bank capital in Romania, but in the next year exceeded 20%. France went down from 11% in 2000 to 5% in 2007, in the context of spectacular increase of local banks acquisitions and other investment made by the capital from other countries, while France remained with the majority participation in BRD-GSG.

Some other cases can be noticed: Greece doubled it's participations to Romanian bank capital in few years, from 2001 to 2005; Italy grew from 0.35% in 2000 to 5.8% in 2005 (now 3.9%); Hungary, not in top 10 a few years ago, is now on the fifth place; Turkey went from 6.39% in 2000 to a insignificant position now. For every country, these variations are explained by the different extension (or contraction) activities, by organic growth or acquisitions and they will be analysed separately.

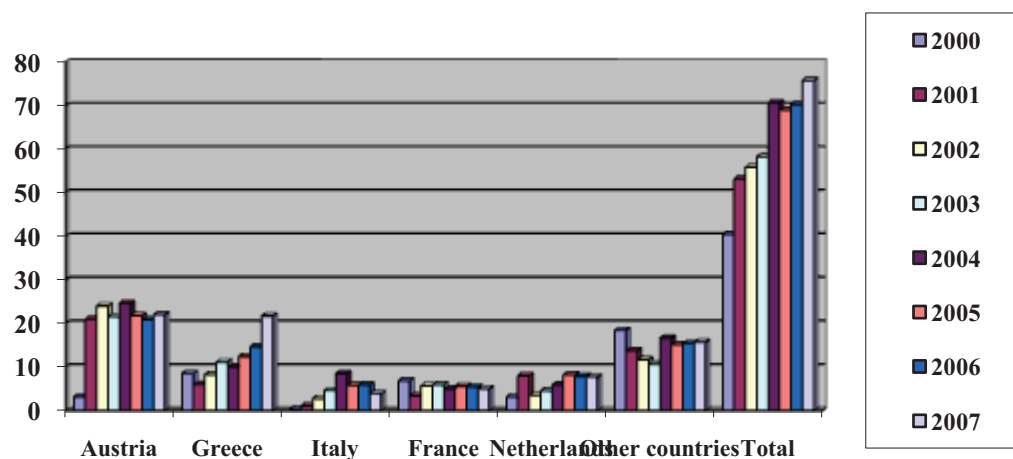


Chart 2. The foreign capital share in total capital of the Romanian bank system, by main countries and overall, 2000-2007, in %

Source: NBR Annual Reports, 2002-2007

The openness of the Romanian bank market, and also the privatisation of the bank sector resulted in a considerably growth of the share of the foreign capital in the last years, trend to be continued in the next period.

It is remarkable the absence of some traditional players from the Western capital: KBC Group from Belgium (with a pre-eminent presence in region), Credit Lyonnais, Banca Intesa from Italy. Most of the players in the other countries from CEE are present in Romania, too: Erste Bank,

Raiffeisen Zentralbank (Austria), UniCredit (Italia), Citibank (USA), Société Générale (France), ING (Netherlands) etc.

2.2. Main foreign banks in Romania

The most important presence belongs to the Austrian capital, with 22% of the total bank capital, represented by Erste (BCR), Raiffeisen, Volksbank.

Entered on the Romanian market as a subsidiary of the parent bank from Austria, Raiffeisen took over in 2001 the ex-Banca Agricola. Raiffeisen Bank România is a subsidiary of Raiffeisen International Bank-Holding AG (Raiffeisen International), a consolidated unit of Raiffeisen Zentralbank Österreich AG (RZB), which is one of the main banks in region, with involvement in Hungary, Slovakia, Poland, Czech Republic, Bulgaria, Croatia, Russia, Ukraine, Bosnia-Herzegovina, Serbia, Montenegro, Slovenia, Belarus and Albania²⁶³. Volksbank is an Austrian bank with significant involvement in leasing activities. Volksbank is a powerful regional player in CEE, with subsidiaries in 10 countries: Bosnia-Herzegovina, Croatia, Czech Republic, Hungary, Malta, Serbia, Montenegro, Slovakia, Slovenia and Romania²⁶⁴, with a network of over 180 bank units²⁶⁵. The presence of Erste Bank on the local market, after the take over of BCR, enforced the Austrian banks' position. With a history from 1819, Erste Bank is one of the most active and important players in CEE²⁶⁶, the biggest company in Austria, according to Forbes Global 2000, as assets' value and the biggest financial group in Central Europe, in terms of number of clients and assets. The bank holds the first position on the retail market in Czech Republic and Slovakia (27%, respectively 35%), second in Hungary (10%) and third in Croatia (10%). The bank management considers Eastern European economies as markets with the most growing potential in Europe, so Erste Bank operated in the last years a number of acquisitions in Hungary, Croatia, Czech Republic, Slovakia and, more recently, in Serbia and Romania²⁶⁷.

An important presence, and also an example of regional expansion, based on a familiar approach of the South Eastern Europe region, is the presence of Greek banks. Greece is the second country in terms of share in the total capital of the Romanian bank system (22%), share in significant growth in the last years. Alpha Bank, Piraeus, EFG Eurobank, Egnatia, National Bank of Greece (NBG) and Emporiki are all present in Romania since several years. Alpha Bank entered Romanian market in 1993, when settled, with EBRD and a small number of other Greek investors, Banca București SA, as commercial bank. Alpha Bank is the second bank as size in Greece, present also in Romania, Serbia, Cyprus, Bulgaria, Albania etc.²⁶⁸. Other Greek presence is EFG Eurobank, group involved in other countries in region (Bulgaria, Serbia, Montenegro, Poland and Turkey)²⁶⁹. In Romania, EFG Eurobank is the majority shareholder (77.5% of the shares) of Bancpost, the first bank fully privatised in Romania (2002). Piraeus Bank Romania, present also in Bulgaria, Serbia, Montenegro and Albania²⁷⁰, entered Romania by acquiring Banca de credit Pater S.A. National Bank of Greece (NBG) is the biggest financial group in Greece, with 905 bank units in and outside the country²⁷¹. The Group is in full expansion in South-Eastern Europe, after acquiring the main bank in Serbia-Montenegro and the second bank by size in Bulgaria²⁷². Entered in Romania in 1996 by setting a branch, National Bank of Greece extended its operation by the acquisition of a package of over 80% of the share of Banca

263 cf. Annual Report Raiffeisen Bank, 2003-2007

264 see Banks - the Driving Force, in "InvestRomania", January 2005

265 <http://www.volksbankromania.ro/ro/>

266 <http://www.sparkasse.at/erstebank/group>

267 Prime Transaction December 23, 2005, www.primet.ro

268 http://www.alphabank.ro/ro/despre_noi/domenii_de_activitate.htm

269 <http://www.eurobank.gr/online/home/generic.aspx?id=3&mid=333&lang=en>

270 <http://www.piraeusbank.gr/ecPage.asp?id=242383&lang=2&nt=96&sid=>

271 <http://www.banca-romaneasca.ro/main.php>

272 http://www.nbg.gr/en/investor.asp?P_ID=554

Românească. In 2007, ATE Bank Romania (Agricultural Bank of Greece) acquired Mindbank. Other Greek banks, of a less importance, present in Romania are Egnatia Bank and Emporiki Bank.

Until Erste entered in the Romanian bank market, the first and most important investors were the French investors, with the presence of Société Générale Group. The Group is the 7th French company and one of the most powerful financial groups in the euro area, according to stock capitalisation, with activity on all continents. In CEE the group is also active in Russia, Czech Republic and Serbia²⁷³. Majority held by Société Générale since 1998 (now 58.32% of the BRD-GSG shares), Banca Română pentru Dezvoltare - Groupe Société Générale was the biggest private bank in Romania, until BCR was privatised.

Although strongly involved in Romanian industrial sector, the Italian presence in bank market is not as aggressive as, for example, in other neighbour states, in order to take advantage from the growing potential of the market. It is to be mentioned UniCredit, after acquiring the former bank HVB Tiriac. UniCredit has a good experience in regional and substantial resources²⁷⁴. In CEE, UniCredit Group controls the first private bank in Poland (Bank Pekao), the main banks in Croatia (Zagrebacka Banka) and Bulgaria (Bulbank), the 5th bank in Slovakia (Unibanka), one of the main commercial banks in Czech Republic (Zivnostenska banka)²⁷⁵. Another example of “small giant” is the Romanian subsidiary of the Italian bank group San Paolo IMI, the 3rd one in Italy, by size, physically present in 34 countries. The Group also has, at regional level, majority participations in banks in Slovenia, Hungary and Albania²⁷⁶. In Romania, the Group acquired, by two transactions, starting with 2001, the local bank West Bank²⁷⁷; now, the Group holds almost 99% of the shares. Remarkable is also the entrance on the market of the Italian Group Veneto Banca, as result of the acquisition of the majority package of Banca Italo-Romena from BCR in 2001. Banca Italo-Romena is a branch of the parent bank in Italy, with a small market share, located only in Bucharest and a few big cities²⁷⁸. A discrete presence on the market in the Romanian branch of the big Italian bank Banca di Roma, member of Capitalia bank group²⁷⁹, entered in Romania in 2000. C.R. Firenze Romania Bank, former Daewoo Bank, become part of the Group with the same name in March 2006, after the transfer Banca C.R. Firenze from Italy of the majority share package (56.23% of the social capital). Now, the network is still limited, planning extension in the near future²⁸⁰.

-A situation somehow similar, as discrepancy between the commercial transaction volume, the number of settled banks and, respectively, the presence on bank market, is the situation of the bank capital from Turkey. In the context of the internal problems of the bank system in Turkey, a number of bank active in Romania disappeared or were sold (Banca Turco-Română, Daewoo Bank, Demirbank), now being still present only two: Credit Europe Bank (former FinansBank) and GarantiBank International-Unlike the Greek or Italian penetration, assessed especially by acquiring local banks or foreign banks branches, the Dutch capital chooses the Greenfield investment. It was preferred the construction from zero the network in Romania, operating as subsidiary – ABN Amro (settled in 1995, now RBS), or as foreign branch – ING Bank (entered in 1994). This option comes mainly from the force of these banks (among the top 10 European banks), but also from their initial intention: focus on big multinational companies, state companies, government projects financing etc. Of course, later these banks reconsidered the retail

273 <http://www.socgen.com/indexen.htm>

274 UniCredit is present in 9 countries in Central and Eastern Europe, with the biggest number of units (see Banks - the Driving Force, in “InvestRomania”, January 2005)

275 <http://www.unicredit.ro/unicredit.nsf/index?>

276 http://www.grupposanpaoloimi.com/scriptItr/investor/eng/gruppo/eng_presenza_internazionale.jsp

277 Banks - the Driving Force, in “InvestRomania”, January 2005

278 <http://www.italo-romena.ro/>

279 http://www.capitalia.it:80/capwww/pages_en/inv01a_en.htm

280 <http://www.bancacrfirenze.ro/>

market, but maintaining the priority to private banking and selective clients.-A mention has to be made about the expansion on Romanian market of Hungarian OTP Bank, the biggest bank in Hungary. The Group has operations in countries like Hungary, Slovakia, Croatia, Bulgaria and Romania, with the stated intention to become an important player in region and follow the regional development strategy by acquiring financial institutions from Central Europe countries. In Romania, OTP Bank acquired Robank, re-branded as OTP Bank Romania.

-The single representative of the American capital, Citibank Romania, is the subsidiary of the American group with the same name. Citigroup is a pre-eminent financial services provider, with more than 120 million clients in over 100 countries, involved in banks, investment, insurance, brokerage etc. Since 1996, the year when it entered Romania, the bank was involved only in major operations: syndicalised loans, government loans and grantees, bonds issues, the first transaction with interest rate derivatives (in 2000) etc.

-Other foreign banks operational on the Romanian market, with small market shares and, generally, settled after market opportunities or niche banks, are: MKB Romexterra Bank, acquired by a German land bank through its Hungarian subsidiary (former Romexterra Bank), Leumi Bank (former Eurom Bank, former Dacia Felix), Blom Bank France S.A. Paris, Romania Branch (former Blom Bank Egypt, which acquired MISR Romanian Bank), Libra Bank – member of the American investment group New Century Holdings, Porsche Bank, ProCredit Bank – held by ProCredit Holding AG, a microfinance bank in Germany, Romanian International Bank – held by an American citizen²⁸¹. In 2007 were authorised to operate in Romania Millenium Bank from Portugal (former competitor to buy BCR), Fortis Bank – Romania branch, La Caixa Bank (Spain) – Romania branch, Romanian branch of the Portuguese group Finibanco (Finicredito IFC SA) etc. The simple nomination of these banks reveals the internationalisation and globalisation of the Romanian bank sector. Indeed, at the end of 2007, 79.4% of the aggregate capital belongs to banks with majority foreign equity (including foreign banks branches).

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²⁸¹ internet sites of the respective banks